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In Defence of Nothing?

One consequence of the period of change through which the the universities are passing is the disorientation (we will call it that) of conservative ideologues.

The root of their problem lies in a belief that it is still sensible to represent the normal state of the university as one where abstract truths are pursued in scholarly calm by distinguished persons who extend to students the privilege of clinging to the nether end of a master-servant relationship. Student protest is seen as destructive to this particular ideal — as tending "to convert the university from a seat of scholarship into a privileged sanctuary for the prosecution of guerilla warfare against the community and the government". (James McAuley, *Quadrant*, No. 57, 1969, p. 50). In the face of this onslaught the task is to defend the university against the violation of that 'moral contract' into which every person enters when he associates himself with an established institution.

Effective defence requires a certain subtlety. The first thing to remember is that one cannot fully rely on the authority structure of the university. This is because occupants of key roles "do not really know what constitutes the integrity of the institutions they serve, or where and how resolute defence must be mounted". (p. 49). One should remember, too, that it is a last resort to call on state power. This is "a clumsy and excessively large weapon: it may fail if misused, and at best can succeed only at grave cost to the autonomy and normal functioning of the universities". (p. 50).

When the internal leadership is seen to be unreliable and the use of state power undesirable Professor McAuley's options are somewhat reduced. Slipping past the staff without noting their presence he opts for a student

reviews

New Marxist Economics

The contemporary revival of interest in Marx's philosophy and political theory (including the controversy about the "young" versus the "mature" Marx, and the rejection of dialectics as applying to the laws of nature) has not been paralleled quite so dramatically in the sphere of Marxian economic theory. Nevertheless, there has been something of a renewed interest in two aspects: the influence of Hegel on Marx's economic method and the theory of economic growth ("macrodynamics") developed in the second volume of *Capital.*

Over the last ten years the leading Western marxist economists (Joan Robinson, Maurice Dobb, Oscar Lange) have pointed to the usefulness of the labour theory of value for explaining relationships between whole sectors or whole industries and the uselessness of a labour theory when applied merely to *individual* commodities. These same economists, however, have warmly welcomed the revived interest in Marx's theories of economic growth. Maurice Dobb said of Volume 2 of *Capital:* "it can scarcely be disputed that in these comparatively neglected sections much of what has been written by economists about capital and about investment is anticipated or even surpassed." Or, as Joan Robinson said, in relation to the fashionable economic growth theories of Harrod and Domar: "Mr. Harrod was rather taken aback when I drew attention to the fact that his theory was in *Capital* Vol. 2. After the shock had worn off, he realized how right I was." E. D. Domar in the celebrated final chapter of his *Essays in The Theory of Economic Growth* has also acknowleged Marx's analysis of the conditions under which capital accumulation takes place, and its connection with fluctuations in the rate of economic growth. He also shows how this analysis has found its way into modern economic literature through the Russian economists Feldman and Kovalevsky.

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The following discussion centres on three new books dealing with marxian economics: M. Wolfson, *A Re-appraisal of Marxian Economics* (Columbia U.P. 1966, Paperback 1968); B. Horvart, *Towards a Theory of Planned Economy,* (English ed. Yugoslav Institute of Economic Research, 1966); and Ernest Mandel, *Treatise on Marxian Economics* (English ed. 1968). My account will be highly condensed; a fuller reading list is appended.

1. Marx's Economic Method:

Wolfson's 're-appraisal' of Marx's method (Chapter 1) is merely a re-hash of all the criticisms made by the logical-positivist school since 1945. A 'strawman' Marx is constructed for criticism:

> "Marx wanted to show that capitalism must destroy itself — the destructive forces arise from within the system itself and operate through the proletariat as a class of non-owners of means of production. This class, Marx argued, would be driven to social revolution by the inability of a capitalist — directed economy to continue to produce." (p. 11); "while Marx recognised the fantastic nature of rationalist solutions he agreed with the demand for causal explanation in terms of some sort of monistic universal" (p. 18), "the justification which Marx advances for value as a necessary economic variable involves its place in the dialectical explanation of history" (p. 16).

Let us examine each of these in turn.

It is true that in the audacious *Communist Manifesto* published in 1848, Marx presents a very simplified two-class model in which labour and capital make no concessions to each other — the classes polarize in Hegelian fashion, contradictions grow, the capitalist integument bursts asunder. In *Capital,* however, Marx shows that it is not so simple, that his Hegelian leap of faith in the *Manifesto* may have underestimated capitalism's survival powers in the short run. The *Manifesto* does not contain any real theory of employment, capitalist accumulation, or even of surplus value. On that basis it is easy to portray Marx's approach in the way Wolfson does. However, in *Capital,* the mass of economic surplus is shown to grow under the impact of incessant technical progress; some concessions are made to wage demands; 'immiserisation' which involves the worker living at subsistence is shown to include an 'historical' element (so that yesterday's luxuries become part of today's subsistence); the sharpness of class conflict is cushioned by the growth of middle and professional classes which can absorb petty-producers destroyed by large-scale production techniques. This contrasts with the simpler political economy of the *Manifesto* on which Wolfson seizes, in which wages are driven down because of capitalist competition, while large scale industry leads to the revolt of the proletariat.

In relation to Wolfson's charges about 'monism' in Marx's theory of social change, it is sufficient to re-iterate that not only did Marx insist that man makes his own history, but in opposition to the notion of an unchanging human nature as an independent historical factor, Marx stated (*Capital,* Vol. 1, 157) that "by acting on the external world and changing it, man at the same time changes his own nature". Because Marx's method of historical materialism tends to emphasize the derivation of ideas from a given social environment, there is no reason for identifying it with a doctrine of historical relativism or with the view that men move like lifeless puppets on the moving staircase of history. There is a 'feedback' effect in which the superstructure (government, culture, science and technology) certainly influences economic relations between groups in society. In discussion of capitalist economic growth, for example, such marxist economists as M. Kalecki and O. Lange have shown how random factors affect the capitalist economic cycle, leading not to a stable growth path, but to a system continuously subject to wild swings — a system which is not viable unless it undergoes some institutional transformation which will put an end to instability. A majority of marxist economists clearly hold that dislocation of economic development in capitalist societies can come about from fairly small random changes in the superstructure of society. Moreover, marxist economists tend to leave open the question of whether contradictions between 'productive relations' and the 'superstructure' will result in violent transformations or end in a reform which is much less far-reaching and spreads over a longer period.

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Branko Horvart, now Vice-President of the Yugoslav Planning Commission, took a Ph.D. in economics at Manchester University. I have said elsewhere *(Socialist Register, 1966)* that he is a bourgeois economist — an adherent of the welfare economics school, and not a marxist. However, the verbal marxism he uses, and the wide distribution of his book in left circles in Europe means that a review is desirable. For Horvart, 'communism' is a society with commodity production, a market economy in full bloom — it is not just a feature of the transition period between capitalism and socialist society. 'Equality' will exist side by side with a generalized money economy. This involves Horvart in a distortion and revision of Marx's theory of distribution as set out in the *Critique of the Gotha Program* (see p. 132). Moreover, under conditions of money economy and market — communism, according to Horvart, the alienation of labour could disappear: Marx, by contrast believed that commodity production is precisely one of the main roots of alienation.

Horvart makes great play of the distinction between 'Marxism' and "Marx's theoretical heritage", quoting approvingly the Right-wing Oxford Economist P. Wiles, for his statement, in *Encounter* of December 1957, that marxism means "the holding of silly views on a number of subjects". Marxism is then identified with the ideology prevailing in the U.S.S.R., while "Marx's theoretical heritage" is apparently the Yugo-centric view of the world in which the pure competition model of Western textbooks is taken to be the main operational model to be sought after! Naturally, for this purpose marxian economics is of little use to Horvart as it deals with quite different questions: determining the value of consumption and investment goods as a whole, the derivation of surplus value from value. However, according to Horvart (13n) the marxian theory of value is not adequate to explain exploitation relations in capitalist society. He prefers the bourgeois textbook theory of 'monopolistic pricing', or H. D. Dickinson's *Institutional Revenue* (1933). This is a very significant comment, coming as it does from someone who is an official Party economist in contemporary Yugoslavia. For Marx's method precisely rejects the idea that exploitation of workers arises from monopolistic price fixing, by cheating or by *force majeure*. On the contrary, Marx stressed that **we must start from the proposition that commodities are bought and sold at their value.** (From this assumption we deduce the marxist theorem that when *groups of commodities* exchange the ratio of socially necessary labour time involved in their production to their prices, will tend to be equalized.)

When a 'marxist' economist makes this elementary error, it is not surprising that he should go on to argue that "neither Marx's method nor his theory of value are meant for or applicable to a socialist economy" (p. 14), and two guesses as to what is the method and theory "applicable to a socialist economy"? Why the Economics II course of any Western bourgeois university! It is not, of course, surprising that there is a formal similarity between some parts of Marx's work (notably Vol. 3 of *Capital*) and parts of modern economic theory; to the extent that academic economists attempt to deal with reality they will discern some of the tendencies and contradictions of the capitalist market. But the formal similarities are less important than the differences. For marxist political economy is above all a revolutionary critique not only of capitalist society but also its 'scientific' ideology. In our era, this is precisely 'welfare economics' and 'Keynesian' economics. To pursue these theories as a model is to state openly that your ideal society is state capitalism, or (as in Yugoslavia), a system of bourgeois co-operatives in which the anarchy of the market, and not production for human needs, is the determinant of the allocation of resources.

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Ernest Mandel has written a most important *Treatise on Marxian Economics.* The main feature of his application of the marxist method lies in his discussion of the development of economic institutions. Mandel traces out the beginnings of a market economy in the peasant-craftsman stage of "simple commodity production", the growth of pre-industrial credit and commerce and the development of capitalist production, and finally the stage of monopoly capitalism and imperialism. These are the most successful parts of the book, combining economic history and a dialectical materialist approach, without too much scholasticism or quotations from Marx and Lenin. He also makes good use of the idea — also developed by Paul A. Baran — of a social surplus arising from the difference between output and consumption. This surplus product — or rather the *mode of its utilisation* is the key to social evolution: it can be applied for the satisfaction of the pomp and luxury of a ruling class (feudalism), for promoting social and economic growth, or for promoting war and waste. Mandel shows how this economic tool can be used by marxists when it is allied to history and anthropology — in the manner of V. G. Childe.

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2. The Theory of Value:

Economic theory, marxist or otherwise, is concerned with two aspects of economic systems: with the 'micro' or detailed adjustment of small units (individuals and firms) to the market and with the inter-relations of large aggregates such as consumption, investment, exports, imports ('macroeconomics').

Marx's Labour Theory of Value has both a 'micro' and 'macro' function — and the latter has become more important than the former.

Joan Robinson has remarked that supply and demand analysis boils down to explaining the price of a cup of tea. As a theory for explaining its cause of the value of *particular* commodities, the labour theory is inadequate and Marx's elaboration of it is metaphysical. Wolfson is correct when he points out (p. 42) that when Marx says "the valid exchange of values of a given commodity expresses something contained in it, yet distinguished from it", that this is the key statement — "there is a single substance which inheres in commodities and governs their exchange!" This is where Marx's "flirtation with Hegelian terminology" to which he admits in the introduction to *Capital* is most apparent, and the non-materialist method creeps in. The first four chapters of *Capital* are literally soaked in Hegelian ideas about 'essence' and 'appearance'. Traditionally these chapters have 'scared off' many students trying to get to grips with marxian economics. (After the first four chapters, *Capital* changes profoundly in its form and method. So abrupt is the change that

one is tempted to the conclusion that the earlier chapters are unpublished sections of the *Critique of Political Economy* or of the *Grundrisse,* written ten years earlier.)

To return to the Hegelian character of Marx's exposition of the value of *individual* commodities. Hegel continually distinguishes 'essence' and 'appearance'. He defines 'essence' to mean what transcends the perceptible, or, "the inner world of things". By 'appearance' he means the world of sense-experience and perception. He speaks continually of 'immanence', by which he means "the nature of the universe hidden and shut up in itself as it is at first", and which "must at last open itself up". More important, Hegel speaks of isolated substances which have an existence of their own and which change only because they are brought into relation with each other. Commodities then, are substances with 'immanent values' already contained in them.

For Marx, too, 'value' of a particular commodity has a purely 'ideal' existence. Value, labour and social relations are treated as the 'essence' of commodities. Prices, exchange, market relations are treated as "appearance or accident". Value then, as Wolfson correctly remarks, is treated as something actually existing in commodities independently of their price, and prior to any act of evaluation or exchange. Price becomes the distorted form in which that value "reveals itself". On occasions Marx uses the explicitly scholastic terminology. In discussing Bailey's concept of the relativity of value he states: "their relativity by no means consists only in their ratio in which (two commodities) exchange for each other, but in the ratio of both of them to this social labour which is their substance". Elsewhere he says: "value — its *immanent* measure in labour time".

It is only on this basis of value as an objective pre-existing thing that Marx's attempt to develop a theory of "price of production" (cost and depreciation plus average profit = price) in Vol. 3 of *Capital* makes any sense. Only if value is a thing set and independent of individual evaluation, for example, can there be any meaning in the concept of a uniform rate of surplus value with unequal "organic compositions of capital" (i.e. different ratios of equipment per worker) as set out in Vol. 3 in the theory of "prices of production".

Marx's micro-economic theory of value of *particular* commodities is then, quite simply, incorrect. This arises because the system of the first four chapters evolves, not as a logical development of the consequence of changes in "relations between men" (which was the stated aim), but, in truly Hegelian fashion, as the logical development of pre-existing categories which are divorced from human action.

Mandel attempts to rescue the micro-economic function of the marxist theory of value by showing that the labour theory of value is valid in societies with zero capitalist appropriation of land and no net accumulation of capital. Like Ricardo, Mandel claims the labour theory is valid for industrial societies, but like Ricardo's followers, gets into endless confusions about "labour time" as a *cause* of value and as a *measure* of value, once variations in actual conditions (such as changes in the ratio of fixed capital/circulating capital) are brought into the analysis. Moreover, Mandel revives Hilferding's attempt to reduce labour power of different skills to a common index number and falls back on the hard-line proposition that unskilled labour time is the basic unit of measurement of value since, as Hilferding put it "for the production of . . . . . skilled labour power . . . . . a number of unskilled labourers are requisite." However, this is not a satisfactory answer. The labour required to produce educated and skilled labour is itself skilled. If in Marx's day, the social character of labour could be represented by individual labour power, today it cannot — due to the blending of individual skills into a collective unit. The measure of value needs to be shifted, even in Marx's terms, from the individual to the collective plane.

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3. Marx's Theory of Expanded Reproduction or Macrodynamics:

In Volume II of *Capital,* Marx investigated how social production replaces that part of total production which serves to satisfy the individual needs of workers and capitalists, and that part which goes to form the elements of productive capacity. To do this Marx divides aggregate social product into two departments.

Department I: means of production — fixed capital (buildings, machines) and circulating capital (stocks of raw materials and semi-finished goods).

Department II: means of consumption — commodities for individual consumption of workers and capitalists.

He then goes on to set out under what conditions capital accumulation (i.e. expansion of Department I) can take place at a *constant,* and then at an *increasing* rate, without any disturbance or breakdown of the process.

Now in volume II of *Capital,* Marx had shown that the total value of capital stock can be divided into C — constant capital, V — variable capital (the wages bill) and S (surplus value or total profit).

Thus "enlarged reproduction" or dynamic growth takes place according to the formula:

$$c + v + \frac{s}{x} + s^1 \quad \text{where} \quad \frac{s}{x} \text{ is the capitalised part of surplus}$$

s^1 = new surplus value created by this increased capital.

x = total surplus value.

Marx argues, however, that definite relationships in the flows between the two departments must be kept over a determinate period or there will be a breakdown in the process of expanded reproduction. The basic 'equilibrium' relationships are: —

(a) $I(v + s) = II(c)$.
(b) $I(c + v + s) = Ic + IIc$.
(c) $II(c + v + s) = I(v + s) + II(v + s)$.

Equation (a) expresses the fact that from the original relationship $I(c + v + s = II(c + v + s)$ we can take out $v + s$ from Dept. II because capitalists are using up the whole of surplus value (by assumption) and not for accumulation — so v and s II must be consumed by capitalists and workers in that same Dept. II, because that product exists as means of consumption intended for the satisfaction of individual needs.

We can take 'c' out of Dept. I because this capital must be consumed by the capitalists in that same Dept. I; the condition that the scale of production remains unchanged means the preservation for the next year of the same capital for the 'means of production'.

There remains then, $I(v + s)$ and $II(c)$. The workers and capitalists in Department I consume the whole of the means of consumption, and capitalists in Dept. II require means of production to replace their constant capital (IIc).

Equation (b) expresses the condition that total production of means of production (Dept. I — capital goods) must meet the requirement for constant capital in *both* departments taken together.

Equation (c) expresses the fact that all new values (or the purchasing power of workers and capitalists) produced in both departments during one year, must be equal to the gross value of the product which exists in the form of consumer goods.

Actually there can be no 'simple reproduction' or zero capital growth, because production cannot remain on its former scale and capital accumulation takes place. Thus with accumulation, $I(v + s)$ and IIc cannot be equal because capitalists consume only a *part* of the surplus value for their individual needs; the other is converted into the element of productive capital for production on an expanded scale. $I(v + s)$ must be greater than IIc so that a part of Is may be used for accumulation and not exchanged for consumer goods.

'Normal' expanded reproduction or dynamic growth obtains when $I(v + s + s^1v) = II(c + s^1c)$. It must be stressed that this analysis rested on a number of assumptions and further, that the whole process would break down unless *certain conditions* were fulfilled. These are important to examine in view of the fact that this basic model is being used as a basis for planning in certain planned economies.

The *assumptions* upon which the above marxian 'Reproduction' model was constructed were: —

(a) that there are only two kinds of recipients of total income — workers and capitalists.
(b) no foreign trade.
(c) size of flows between departments are in *value* and there is no divergence of prices from values.
(d) that the ratio in which new investments are distributed between c and v (the "organic composition of capital") remains unchanged.
(e) that the period of turnover of circulating capital in the two departments is the same.
(f) that the 'gestation' period of fixed capital is one year.

The *conditions* that needed to be fulfilled were, under conditions of *simple reproduction,*

(i) that Savings = Investment;
(ii) that the age of composition of capital stock is such that current renewals = current amortisation funds. Further, that there should be a *steady* expenditure of funds on replacement.

The condition for *normal enlarged reproduction* (i.e. $c + v + \frac{s}{x} + s^1$) was that the additional quantity of goods representing new capital plus surplus value will have to be reconverted into monies respent without causing disproportionate development of the two departments.

These theories of Marx are well expounded by Wolfson, who shows their similarity with theories of Harrod and Domor, although he tends to give a greater place to the falling rate of profit as a cause of economic crisis under capitalism, rather than to the 'disproportions' which are always likely to arise between the two departments due to the 'anarchy' of the capitalist market. He fails to mention that Kalecki, writing three years before Keynes, adapted Marx's 'reproduction analysis' and presented a trade-cycle theory which both Lawrence Klein and Joan Robinson have shown to be an earlier (but superior) version of Keynesian under-employment theory. Mandel, however, corrects this injustice to Kalecki and gives a simple, easy-to-follow arithmetical illustration of the marxian macrodynamic theory (Book I, Chapter X).

Horvart, on the other hand, ignores this theory as well as its application to problems of economic planning at the hands of Yugoslav colleagues like Dr. J. Sirotkovic and A. Bajt. He replaces it with his own theory of a "depreciation multiplier" to describe the multiplying effect of depreciation on capital formation, and

rejects the concept of net investment as "of comparatively little value" (p. 159). Horvart does, however, produce a useful discussion of what he calls the "absorptive capacity of the economy" and makes actual economic dynamics depend on the aggregate relations between investment and output, ending with a "macro-economic welfare theory" which seeks an optimum rate of investment. As in the case of Harrod and Domar however, his refusal to use a 'departmental' analysis means that no structural picture of capital stock and of total output is given. Without this, the specific problems of structural transformation cannot be clearly elucidated — a regression compared with the analysis set out in volume II of *Capital.* ★

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Bruce McFarlane

In the Fist of the Revolution

Adam B. Ulams has observed that

No sociological surveys enable us to ascertain exactly the ideas of the French and English proletariat during the period of great economic transformation . . . the picture of the impact of industrialism is still like the proverbial iceberg; a small part is visible in the form of theories, statistics, and political and movements; the greater part of it, the feelings and thoughts of the people affected by industrialisation is submerged. We are forced to speculate about the latter from an analysis of the former.[(1)]