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MARXIAN ECONOMICS AS ECONOMICS

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Genius or Crank?

This coming year Marx's *Das Kapital* celebrates its hundredth anniversary. At such a birthday party, only the Good Fairies should be invited. Those who cannot find anything at all nice to say should decline the invitation. On the other hand a great scholar deserves the compliment of being judged seriously; and truth does have its claims, on holidays as well as working days.

The "contradictions of capitalism," which Karl Marx saw everywhere, are as nothing compared to the contradictions of Marx himself. Marx was a gentle father and husband; he was also a prickly, brusque, egotistical boor. (Even Engels, his ever faithful friend, found it too much when Marx greeted the news of the death of Engels' working-class mistress with the callous response that now more work could be got done.) Although Marx was a learned man, he shows all the signs of a self-taught amateur: overelaboration of trivial points, errors in logic and inference, and a megalomaniac's belief in the superiority of his own innovations. He introduced into scholarly literature manners not seen since the polemics of the renaissance. Too bad Marx could not have done systematic graduate work at Harvard under John Stuart Mill, and then been given a good chair at Columbia!

Evaluations of Marx show the same pattern of contradictions. Professor Bronfenbrenner, my colleague on today's platform, deems Karl Marx "the greatest social scientist of all times." Keynes consistently refers to the "turbid rubbish of the Red book stores" and dismisses the book we commemorate today as a "bible, above and beyond criticism, an obsolete textbook which I know to be not only scientifically erroneous but without interest or application for the modern world." This attitude Joan Robinson regards as rather a pity, saying: "Keynes could never make head or tail of Marx. . . . But starting from Marx would have saved him a lot of trouble [as it did Kalecki]." In my Presidential Address, I find Marx referred to as "from the viewpoint of pure economic theory, . . . a minor post-Ricardian . . . a not-uninteresting precursor of Leontief's input-output."

There you have a spread of opinion—from the greatest social scientist to purveyor of rubbish. To ask what view is right is like asking whether the box in an optical illusion is inside-out or outside-in. There is no test-of-truth by which bets could be settled about the correctness of one view rather than another. Let me, therefore, turn my microscope onto aspects of Marxian economics that can be fruitfully discussed. But not before mentioning a reason why, beyond his scientific merits, we find a man like Karl Marx worth discussing.

For better or worse, Marx is an important figure in the history of ideas. And much is known about him—his fugitive letters, juvenile manuscripts, I dare say even his laundry lists. When a sizable audience knows much about a man—whether he be Dr. Samuel Johnson, Sherlock Holmes, or Karl Marx—the facts about him become subject to the law of increasing marginal utility. Frederick the Great's flute compositions would not sell as well under any other name. Most of Samuel Johnson's ideas were really pedestrian; but after we have pored much over his countenance, his face becomes like that of one of the family and each wrinkle takes on an interest all its own. Many a newly published fragment by Marx would be of no interest at all if known to be the work of some 1844 John Doe; the whole becomes greater than the sum of its parts—not because the Bronfenbrenner quotation from Veblen about the organic coherence of the Marxian system is really true, and not even because each fragment contributes something to the grand symphony of his thought, but merely because of an antiquarian interest that becomes like a detective-story game. Camp is a new word for an old—and, I may add, defensible—preoccupation.

But back to my microscope.

Tableaux of Expanded Reproduction

First, we can make a deposition—as the lawyers say—that Marx did, in his posthumous Volume II, innovate two-sector models of reproduction and growth. These are useful anticipations of work done in our day by Harrod, Domar, Leontief, Solow, Robinson, Uzawa, Pasinetti, Kaldor, Findlay, and many others. I do not honestly think that modern developments were much influenced, directly or indirectly, by Marxian writings; instead they grew naturally out of a marriage of the Clark-Bickerdike accelerator and the Keynes multiplier, and out of earlier works by Von Neumann and Frank Ramsey that show no Marxian influence. But still we all might well have benefited earlier from study of the Marx tableaux.

Second, there is a point made by Leontief himself. Many of these same Marxian models stressed the role of fixed capital in a way that the Austrian School generally did not. Because Böhm-Bawerk tied himself to simple arithmetic examples, his *Positive Theory of Capital* is almost always expressed in terms of circulating-capital models of goods-in-process. For Böhm, labor alone produces goods in the earliest stage of production—say wheat. Then labor and wheat produce dough. Then labor and dough produce bread. There is no explicit need for durable capital goods in this "hierarchical" structure of Austrian production. (In terms of Leontief input-output, the a_{ij} matrix is not only "triangular," permitting classification of goods into "earlier" and "later"; also, each good depends only on one earlier good, with all a's zero except, $a_{i-1, i}$.)

Marx on the other hand considered bread as being produced by labor and ovens; and ovens as being produced by labor and ovens. In Leontief's 1937 A.E.A. address on Marx, this is rightfully hailed as an important innovation. As Adolph Lowe and the late Frank Burchardt have stressed, the Leontief flow of circular interdependence is more Marx-like than Austrian.

Leontief refers to the "rather paradoxical situation. The dean of the bourgeois economists [Böhm] insisted on theoretical reduction of all capital goods to pure labor; he was opposed by the formidable proponent of the labor theory of value [Marx] in the role of a defender of the independent, primary function of fixed capital."

Leontief is calling attention here to a deeper paradox than that involved in the spectacle of a French Marxist advising the Indian government that labor is a redundantly free factor and capital alone is scarce—all having to be couched in terms of the concepts of the labor theory of value, a Yoga-like feat worthy of Hercules. Leontief goes on to claim superiority for the Marx model to handle the problem of high-wage-induced-substitution-of-machinery-for-labor. But is Leontief right in this contrast? In 1937 Leontief had not yet had the chance to remember the 1949 Nonsubstitution Theorem for the Leontief system. According to it, if the rate of interest or profit stays the same, that money wage increase which raises all prices proportionately in the Austrian wheat-dough-bread system will also raise all prices proportionately in the Leontief-Marx nontriangular system. Long-run substitution comes in either system only if the equilibrium interest rate changes.

Marx's model of expanded reproduction is perhaps the first example of those golden-age paths of compound interest which Cassel, D. H. Robertson, Von Neumann, Harrod, Domar, and all the rest have made so fashionable in modern economics. Before leaving it, let us note that it could lend substance to Marx's jest: "I am not a Marxian." Using it, he could say, "I'm not a post-Marxian of the Luxemburg underconsumptionist type." With historians Marx is able to have his cake and eat it too. On the one hand, he is the Ricardian critic of Malthusian underconsumptionist notions held by contemporary socialists like Rodbertus; on the other hand, he is hailed as a precursor of Keynes (and Major Douglas, Gesell, Hobson, Foster, etc.). Can a scholar have it both ways? In this respect, how can you be a precursor of Keynes without being a postcursor of Malthus? Perhaps being confused helps.

In any case, the compound interest rates of growth of the reproduction tableaux can provide the way out of some dilemmas of ultimate underconsumption that bothered Rosa Luxemburg and later Marxists. (See Paul Sweezy's valuable *Theory of Capitalist Development*, particularly Chap. X and its Appendix.) If accumulation of profits can just suffice to keep all magnitudes growing in balance with smoothly growing labor supply for a few periods, compound interest says it can continue to do so forever. Many of the demonstrations to the contrary foundered on linear rather than exponential examples. (Yet, remember that saving and accelerator coefficients must be right in the beginning if the "warranted" growth rate is to just match the "natural" growth rate of labor so that the same behavior relations can be assumed to hold indefinitely; unless, as in bourgeois economics, there is a mechanism that causes such saving-accelerator coefficients to adjust to the requirements of equilibrium, it is an improbable razor's edge case in which the Marxian tableaux can step off in equilibrium.)

The Labor Theory of Value

As every encyclopedia reader knows, Marx believed in the labor theory of value. One might expect me at this stage of the birthday party to examine its demerits. But the many economists speaking on these platforms of the American Economic Association have examined its demerits far beyond my poor powers to add or detract. Let me therefore be dogmatically terse.

Proposition 1. Adam Smith held a labor theory of value for about as long as it takes a grown man to turn two pages of his book. David Ricardo never shook himself free of this incubus, but no reader of Sraffa's edition can fail to be persuaded that only some of the simplified numerical examples in the Ricardian system need have any reliance on such a theory.

Proposition 2. From the standpoint of science, the labor theory of value breaks down even before complications of capital enter into the model. With land scarce and different goods varying in their labor-land intensity, already goods will exchange at relative prices that are not proportional to socially-necessary labor content. Ricardo nodded and thought that by going out to the external margin of no-rent land, he could "get rid of the complication" of land costing. Why should we, or the Soviet planners, nod with him? (This point is obvious and appears in the first pages of the new edition of my *Economics;* yet when I searched the literature of the labor theory of value for it years ago, I could turn up only one reference to Lionel Robbins.)

Proposition 3. If Marx had intended to use the labor theory of value to lay bare the laws of motion of capitalism and if he had been barking up the right tree, then the inadequacies of the labor theory of value as exposited in Volume I of *Capital* would not really have mattered.

Let me explain what I mean. Most of Volume I would stand up if Marx stipulated, purely for expository simplicity, that the organic composition of capital (or as we would say, labor's fractional share of value added) were the same in all industries. By fiat the contradiction between equal rates of surplus value and equal rates of profit would disappear. (And make no mistake about it, Böhm-Bawerk is perfectly right in insisting that Volume III of *Capital* never does make good the promise to reconcile the fabricated contradictions. When Paul Sweezy says that Rudolf Hilferding, in refuting Böhm's specific critiques of Marx, "gives a good account of himself and shows that even at the age of twenty-five he could stand up and trade punches with so experienced and inveterate a polemicist as Böhm-Bawerk," I have to pinch myself to remember that relative prices of goods do really change as demand changes even when their socially-necessary labor contents do not change—which is all the dispute is really about.)

In 1865, when Marx was at the height of his powers and had to boil down the message of his masterwork for a workers' audience, he introduced into the pamphlet, *Value, Price and Profit,* the simplifying notion that prices are proportionate to labor values—saying "apart from the effect of monopolies and some other modifications I now pass over." I suggest that much ink and blood would have been spared if he had done likewise in *Capital.* When a modern theorist assumes equal factor intensities in a two-sector Ramsey-Solow model, he does not defend the oversimplification: he is content to know that anything interesting turned up in it is likely to be of relevance for a more complicated model.

In summary, if labor-theory-of-value reasoning, as applied to an impeccable model of equal factor intensities, turned up new light on exploitation in an existing system or if it turned up new light on the laws of development of capitalism, it would be an invaluable tool even though not defensible as a general theory of markets.

If, and if. Let us see whether Marx was at all barking up the right tree.

Laws of Motion of Capitalism?

The usual claim for superiority of Marx's system is not that he beats the vulgar economists at their own game of describing equilibrium pricing, but that their game is not worth the playing: whereas Wicksell, Walras, and Chamberlin give a good enough description of the economic system as it is, we must turn to the Marxian system for insight into the laws of development of the capitalistic system. Its inferior statics can be forgiven considering its much superior dynamics. Such a claim, if it can be sustained, is indeed a weighty one.

Let us review the authorities. Leontief, in that same 1937 address, makes heavy weather of finding much to praise in Marx besides his anticipations of input-output. But Leontief is able to say:

> However important these technical contributions to the progress of economic theory, in the present-day appraisal of Marxian achievements they are overshadowed by his brilliant analysis of the long-run tendencies of the capitalistic system. The record is indeed impressive: increasing concentration of wealth, rapid elimination of small and medium sized enterprise, progressive limitation of competition, incessant technological progress accompanied by the ever growing importance of fixed capital, and, last but not least, the undiminishing amplitude of recurrent business cycles—an unsurpassed series of prognostications fulfilled, against which modern economic theory with all its refinements has little to show indeed.
>
> Neither his analytical accomplishments nor the purported methodological superiority can explain the Marxian record of correct prognostications. His strength lies in realistic, empirical knowledge of the capitalist system. (*A.E.R.*, Mar. sup., 1938, pp. 5, 8.)

Here Leontief is referring to the then recent work by Oskar Lange, whose death we have so recently mourned. The years 1934 to 1944 constituted Lange's wonder decade, during which he turned out brilliant articles in capital theory, welfare economics, Keynesian model building, and much else. In the 1935 *Review of Economic Studies,* Lange compares the merits of Marxian and modern economics and finds Marxian economics superior in specifying the institutional data out of which can be formed a theory of capitalistic development. Despite its outdated concepts, Marxian economics is believed by Lange to be able to explain what bourgeois economics has utterly failed to explain: "the fundamental tendencies of the development of the Capitalistic system—the constant increase of scale of production leading to the present monopolistic (or rather oligopolistic) Capitalism; the substitution of . . . 'planning' for *laissez faire;* . . . free trade to protectionism; . . . imperialist rivalry among the principal capitalist powers; increase of economic instability leading to rebellion (Socialism or Fascism)."

Here Lange is proceeding from the 1933 *Kyoto Economic Review* article by Kei Shibata, which asserted that Marxian political economy "sets forth theories which . . . enunciate systematically the organisation of present-day capitalistic society and the laws governing its development." As I understand him, Lange is agreeing with the dynamic superiority of Marxian economics and seeking its source; but, unlike Shibata, he does not concede its superiority to explain the then current economy. For Lange points out current "problems before which Marxian economics is quite powerless. What can it say about monopoly prices? . . . monetary and credit theory? . . . incidence of a tax, or of technical innovation on wages?"

You will notice that Leontief credits Marx with great prophetic powers but is noncommital as to whether Marx's economic theories helped him to arrive at these (possibly merely lucky) guesses. Lange attempts to make stronger claims for Marxian theories. He says they deduce that "the fundamental change occurs in production and that the 'necessity' of such a change can be deduced only under the institutional set-up specific to Capitalism. Thus a 'law of development' of the Capitalist system is established . . . not a mechanical extrapolation of a purely empirical trend. . . . "

So much for the claims. But is it so? Let us be honest children and ask whether the Emperor is really wearing clothes, and whether those clothes really do follow some grand theoretical pattern.

Specifically, was Marx right as a prophet of the future of Victorian capitalism? The immiserization of the working class, which he thought to deduce from the labor theory of value and his innovational concept of surplus value, simply never took place. As a prophet Marx was collosally unlucky and his system collosally useless when it comes to this key matter. This is not to deny Joan Robinson's view that such a prophecy had a certain propagandistic value. She says, "This error, like Jesus' belief that the world was shortly coming to an end, is so central to the whole doctrine that it is hard to see how it could have been put afloat without it. . . . 'You have nothing to lose but the prospect of a suburban home and a motor car' would not have been much of a slogan [for the Communist Manifesto]." With friends like this, who has need for an enemy?

Let's now move on to the growing monopolization under capitalism. For thirty years Marx seemed to have been right in this prophecy, even though for the next seventy years he does not seem to be borne out by the most careful of researches on industrial concentration. But suppose he (and numerous non-Marxian socialists) had been right in this view. Would such an extrapolation be deducible in any way from the surplus value ratios, $S/(V + C)$, of any of the volumes of *Das Kapital?* No one has yet shown how, and I have to agree with the recent book of Paul Sweezy and Paul Barran which seeks to identify as an important explanation of the stagnation of Marxian social science the fact that "the Marxian analysis of capitalism still rests in the final analysis on the assumption of a competitive economy" (*Monopoly Capital,* 1966, p. 4).

Since time is short let us rush on to consider whether it is an inevitable law of capitalist development that the business cycle should be getting worse and worse. Shibata and Lange, writing in the 1930's, might be forgiven for thinking so, just as writers in 1929 can have been expected to celebrate the demise of economic fluctuations. Who can blame someone for not having predicted in 1867 the successful development of the Mixed Economy, in view of the fact that so astute a philosopher as Joseph Schumpeter managed to miss foreseeing it as late as 1947? I throw no stone at Marx, because I have never believed in the big-picture theories of anyone—Toynbee, Spengler, Schumpeter, Veblen, Marx, or even Rostow and Galbraith. But those who have been bewitched by a belief in the timetable of history, as deduced by theoretical laws of motion of capitalism, should taste the bitter bread of disillusionment.

Had Lange been writing in 1937, after Keynes, he might have added to the 1935 sentence "Marxian economics would be a poor basis for running a central bank or anticipating the effects of a change in the rate of discount" the sentence, "and it would be a poor basis for understanding the role of fiscal policy in maintaining high employment." What admissions! This is equivalent to saying, "Marxian economics is powerless to explain the 1937-67 developments of European and American economies."

The cash value of a doctrine is in its vulgarization. To understand the pragmatic content of Marshall, you must read Fairchild, Furniss, and Buck. To prove the Marxian pudding, only read the Soviet textbooks dealing with American and Western economic systems. Aesthetics aside, their predictive powers have been unbelievably erratic and perhaps only to be understood in terms of the dictum: Marxism has been the opiate of the Marxians.

But this is a birthday party and I approach the boundaries of good taste. Let me conclude by wishing that, like Tom Sawyer attending his own funeral, Karl Marx could be present at his own centennial. When "the Moor" rose to speak, how we would all pay for our presumptuousness!