Background paper for: Statics and Dynamics in Economic Theory

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(Note from organizers: this was originally printed as a review of: Alan Freeman and Guglielmo Carchedi, editors, Marx and Non-Equilibrium Economics (Cheltenham, UK and Brookfield, VT, Edward Elgar, 1996) and appeared in the *Journal of Economic Behaviour and Organization* ). It is reprinted here as background to the discussion.

The collapse of the Soviet bloc and the demise of its socialist economic system has triggered a variety of responses among economists. Among vigorously anti-Marxist Austrians and their allies it was seen as the ultimate proof of the correctness of their critique of both Marx's economics and of socialism more generally. Böhm-Bawerk was right that the labor theory of value is wrong because it denies the value-creating role of capital and subjective marginal utility, ad von Mises and Hayek were right that rational economic calculation under socialism is impossible because of the lack of incentives when there is no private ownership of capital and the inevitable lack of adequate information for any central planner.

Although generally more willing to grant a larger economic role to the state than the Austrians, mainstream neo-classical economists by and large accept the Austrian critique of socialism as it existed, especially in light of the events of 1989-91. They also agree with most of the Austrian criticisms of Marx's own economics, although perhaps seeing in Marx an early and simplified general equilibrium model, along with some useful ideas regarding growth theory and some other odds and ends.

Nevertheless, Marx is seen essentially as a failed eccentric off the main path of the grand progress of economics, a "minor Post-Ricardian". Indeed, he is ultimately accorded less attention than is given by the Austrians who continue to view him as a central bête noire to be defeated in combat, rather than as someone to be simply ignored.

Among those more favorable towards Marx the breakup of the Soviet bloc has had very mixed and complex impacts. A significant number have followed he 'god that failed' tradition of the 1950s anti-communists and have recanted their former views, although in many cases retaining leftist political positions or pushing such ideas as workers' management and ownership as quasi-socialist alternatives to standard market capitalism. Such recantations have been made easier by a vein of criticism among leftist economists coming from the Sraffian/neo-Ricardian school of Marx's theory of value.

The most dramatic expression of this view came with Ian Steedman's *Marx After Sraffa* (1997) that in effect turned the Cambridge theoretic critique against Marx that had been leveled against standard neoclassical economics earlier. But Steedman's arguments, although couched in Sraffian garb (Sraffa, 1960), really were just an updating of an argument that had been going on since the time of the publication of Marx's own Volume III of *Capital* in 1894, namely the so-called 'transformation problem'. This was the problem that when the organic composition of capital (correlated to the standard capital-labor ratio) is not equal across all sectors of the economy, then if the rate of profit is equalized in equilibrium across all sectors one cannot directly transform in a on-to-one mapping Marxian labor values into competitive market prices. One cannot have surplus value equaling profit and labor values equaling prices. In the Sraffa/Steedman version this was for formulated as the problem of transforming labor values into "prices of production" derived from the technical coefficients of an input-output system. Steedman essentially accepted the argument of Samuelson (1971) that if one is interested in market prices and one must cook up a complicated formula to transform labor values into them, then worrying about labor values is merely a metaphysical waste of time.

But another group of Marxist economists has reacted to all of this as a challenge to seek out what is right in Marx, to seek new solutions to the transformation problem, and to provide a foundation for Marxist economics free from the detritus of the failed socialist experiments of the twentieth century. The volume under review here, edited by Alan Freeman of the University of Greenwich and Guglielmo Carchedi of the University of Amsterdam, is the clearest and most articulate such effort of this group. Rare for an edited volume it presents a fairly coherent argument with most contributions sticking to the main line of argument. Besides the editors, who author several of the chapters singly or together, the other authors are Ted McGlone, Andrew Kliman, Alejandro Ramos-Martinez, Adolfo Rodriguez-Herrera, Michele I Naples, Alfredo Saad-Filho, Werner de Haan, and Paolo Giussani. Besides the papers by the editors, those presenting the most central arguments are one by McGlone and Kliman and one by Naples.

Curiously enough, the main thrust of their argument is one that many readers of *JEBO* would find sympathy with, even if they are resolutely non-Marxist. The authors reject the analysis of the Marxian model from an equilibrium perspective and insist on a dynamic disequilibrium approach. They see the insistence on trying to stuff Marx into a Walrasian (or neo-Ricardian) general equilibrium strait jacket as being the root of the transformation problem and of many other problems as well. Furthermore, the argue vigorously, and quite successfully in the opinion of this reviewer, that Marx's own writing support their dynamic disequilibrium interpretation of his theory.

They even see this as an explanation of the failure of the actually existing socialist economies, which attempted to centrally plan according to static equilibrium models in violation of Marx's true views. In their view, the chief culprit in this was the early twentieth century Marxist economist, Ladislaus von Bortkiewicz (1952, [1906-7]), an admirer of Walras, who attempted to solve the transformation problem within the context o viewing the Marxian system as a static equilibrium one within which one would come up with a magic formula hat would effect the desired transformation of values into prices and back again as desired. Such an interpretation was carried forward later by others, eventually ending up with Steedman's critique.

The authors respond by drawing together and then modifying two distinct strands in Marxist theory, a major modification being the insistence on dynamic disequilibrium which conveniently allows profit rates not to be equalized across sectors. One strand is that of the "iterative approach" initiated by Shibata (1933) which they call *sequential*. Values are transformed into prices sequentially over time through periods of production and circulation with money playing the crucial intermediating role. The earlier sequentialists attempted to show a convergence of values on prices in equilibrium. But Naples argues that convergence need not happen at all and the system may always remain in disequilibrium, argued to be Marx's own position.

The other strand is that of *non-dualism*, initiated by Wolff, Roberts and Callari (1982). This argues that values and prices reciprocally co-determine each other rather than being separate systems that are related somehow. The key becomes the argument that today's input values are determined by yesterday's output values, as determined by how much money was required to pay for the output. This view puts money in a central position in the whole scheme, in a sense prior even to value, and the authors support this by noting that in Volume I of *Capital*, Marx discusses money before he ever discusses value.

One major competing recent effort to resolve the transformation problem is discussed with some sympathy by Saad-Filho, but is ultimately dismissed. This is the so-called "New Approach" of Lipietz (1982), Duménil (1983), and Foley (1986). It focuses upon net output rather than gross output and also seeks to operate within a disequilibrium framework. Saad-Filho argues that there is a neglect of production in favor of circulation that is un-Marxian and that there is a redefinition of variables that amounts to reducing the equality of values and prices to a "triviality". According to the editors, their approach brings out the actual dynamic of market economies in a way that is both true to Marx and is actually relevant to analyzing modern economies. A major disagreement between the two approaches is over the role of money in Marx's theory.

One paper by Andrew Kliman deals with a topic that has been a source of much controversy among Marxist economists, the Okishio Theorem. Okishio (1961) showed how within a Marxian context, Mechanization and technological change can lead to a rising profit rate in contrast to Marx's "Law of the Falling Rate of Profit". Of course, Marx himself only declared the "Law" to be a tendency, and neoclassical economists have no problem with the idea that, absent technological change, capital deepening lowers the marginal product of capital in garden variety production functions. This latter result has been questioned by the Cambridge Capital Critique, however (Sraffa 1960).

In any case, Kliman sets out to re-establish the "Law" in light of the interpretation contained within this book and does so. But, this probably just raises what may be a fundamental issue: to what extent does a demonstration of a falling rate of profit in Marxian terms have any real meaning in the economy? Data in the 1990s show accounting profit rates for US firms to be rising, although even neoclassical economists adjust accounting profits to get "economic profits". Nevertheless, it would seem that this rise has followed a wave of investment in new technologies along with a suppression of wage increases, the latter suggesting a "struggle over the surplus" neo-Ricardian/Sraffian interpretation. Presumably the motive for asserting the Law is to defend the orthodox Volume I of Capital story in which a falling rate of profit leads to rising exploitation, increasing class conflict, and the demise of capitalism. But, just as in the late nineteenth century in the advanced capitalist countries, it is not easy to buy into this as a likely scenario.

I have little doubt that most economists will not be convinced or impressed by the arguments in this book. In all likelihood, the old Samuelsonian position that "all we care about is prices, so why bother with 'values'" will continue to prevail. Nevertheless, this volume certainly shows that there is still life in the old Marxian dog yet, more life than most might think. The authors must be commended for the innovative effort, and I suspect that they are going to have considerable impact within the sphere of those interested in Marx's economics. They have shown us a Marx who is very up-to-date in a world where complex and iterative disequilibrium approaches are gaining favor over more standard static equilibrium ones.

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