# ECONOMIC THEORY

DAVID P. LEVINE

Volume II The System of Economic Relations as a Whole

# Economic Theory

## VOLUME TWO

*The system of economic relations as a whole*

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# *Preface*

The preface to the first volume of this work, out of some peculiar logic all its own, transformed itself into an essay on method. Sensing this, or perhaps noticing that its length exceeded the proper limits of a preface, the editor turned it into a prologue. On reflection, it seems that the preface, now a prologue, should have been chapter 1. Turning it into a chapter would have confused the numbering of the remaining chapters, and this undoubtedly discouraged the editor from taking so drastic a step. In the end, the essay seems well contented as a prologue, but the change still leaves the work without a proper preface.

It may be too late now to try to rectify this failing, but the reader deserves to be provided with some informal comment indicating something about why the book was written, and what the author thinks about it.

My original intention was to write an introduction to Marxian economics aimed at an audience without much background, but with some dedication to thinking through difficult conceptual problems, once they were explained in a simple and straightforward manner. The reader who has gotten this far by working his way through Volume One will no doubt be justified in finding this somewhat amusing. I am not, however, under any illusion that the material in these volumes is either simple or straightforward. Dissatisfaction with the theory, which I had intended only to present and explain, developed rapidly, and soon overwhelmed the project. I became convinced that Marxian ideas were not sufficiently coherent and decisive to be presented in this manner. Also, I discovered that many of the most basic notions became quite problematic, once subject to careful scrutiny (even, as in this case, sympathetic scrutiny).

My task now became one of reconstruction, rather than exposition. In order to reconstruct a theory, you must first dig out its foundations in order to have a good look at the entire structure. Having attacked the foundations, you must rebuild from the bottom up. At each stage, it is necessary to decide whether a piece of the new structure can or cannot be formed out of a corresponding piece of the old (at least in those cases in which there exist corresponding elements in the old structure). There is always a temptation to borrow in this way, because it is easier to put together a pre-fabricated idea, than to construct a new one for the specific purpose at hand. But, when you take the easy way out, you also risk introducing the structural defects of the old into the new.

No doubt this has happened at points (use of the idea of a labor process in Volume One now strikes me as such a point). Furthermore, basic ideas in social science are in any case rarely new, and my work bears the mark of the classical theory (and especially its Marxian variant) very clearly. Indeed, my approach could rightly be thought of as classical. Nonetheless, I see it as very much a modern assault on the issues first clearly identified by Adam Smith and Karl Marx, rather than a truly classical theory.

In any case, the difficulty associated with the redefinition of the project away from exposition, and in the direction of a fresh attempt at theorizing, seemed to have relegated the virtue of simplicity to the status of a secondary concern. I am still convinced that a rigorous argument cannot be made straightforward (especially at a time when scientists are rarely trained to think abstractly about their subject-matter). However, I have also come to feel that simplicity of exposition and explanation could have been joined to rigor in a more satisfactory way. The exposition in both volumes could certainly be clearer than it is without loss of meaning, and I regret any unnecessary difficulties which I have thrown in the path of the dedicated reader.

If we are to make any progress toward a systematic understanding of economic affairs, we must open our minds to new ideas, and subject our ideas to the test of reasoned argument. I hope that I have done all of these things in this work, that it will be of use to others who share these objectives, and that they will point out the places where I have closed my mind, or based my ideas on unreasonable argument, or upon no argument at all.

# *Acknowledgments*

I am greatly indebted to Rona Wilensky for working with me in the preparation of the final draft of the present volume. Her criticisms of my earlier formulations, and suggestions for revision affected the whole of the exposition which, in its present form, incorporates many of her contributions.

The development of my ideas over the past several years has benefited considerably from numerous discussions with Duncan Foley and David Weiman, particularly regarding issues related to the treatment of monetary circulation, but also bearing upon the way in which certain of the basic ideas presented here have been formulated. I am very much indebted to them both for this, and have freely appropriated ideas which came out of those discussions.

Chapter 6 borrows heavily from work which I have done jointly with Nai Pew Ong, and yet hardly captures the extent to which discussions we have had over the past years have contributed to the formulation of the ideas in this book. This holds equally for Carol Heim, who seemed never to tire of forcing me to acknowledge confusions of formulation in earlier drafts.

I would like to thank Nina Shapiro for her detailed criticisms of an earlier draft of the entire manuscript. Michael Bernstein, Donald Harris and Ross Thomson contributed ideas to particular sections, and I am grateful for their efforts.

The final chapter in this volume incorporates ideas which developed out of discussions with Lynn Levine. As it stands, it is both the end of a project, and the first formulation of ideas which we hope to develop in joint work over the next several years.

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PART ONE

# *Introduction*

CHAPTER ONE

# *The conception of the system of economic relations*

## I Economic structure and economic process

The object of the present volume is to develop a conception of the structure of economic relations taken as a whole. The determinacy of this structure derives from its connection to the idea of wealth, and specifically to the idea of a process through which wealth sustains and expands itself. In this sense, capital (the process of the ongoing self-expansion of value) is the animating principle of the structure of economic relations constituted as an organic whole. Capital builds a system of economic relations which sustains it, and then subsists within that system as a component, and determining, element. The conception considers both the system of relations and the subsistence of capital within it.

Since capital subsists within this structure, which is of its own making, it is also determined by that structure. The process of determination within a structure, built through the interaction of its elements, is a process of self-determination. This self-determination of capital within a structure of wealth developed explicitly as the arena for the realization of capital is its *particularization*. Particularization, as we will see, connotes the fixing of capital to a location in economic space and time. This particularization also differentiates capitals according to their locations, and establishes them as distinguishable temporal and spatial unities. Such unities endure through time, and trace out spatially and temporally specific paths. Such paths are the life processes, the biographies, of particular firms or units of capital.

Thus, a system of particular capitals lives within a structure of economic relations which is engendered by their own interactions. The interplay between the particularization of capital, and the structure as a whole, sets in motion a determinate process of economic growth and development. The conception of the essential logic of this process is the primary objective of the analytical treatment of the economic totality. Thus, in Part Two below, we consider the particularization of capitals and the nature of the market structure within which they subsist, and, in Part Three, we consider the form of movement of the system of capitals taken as a whole.

The system of economic relations is a unity of movement and structure. Since the principle which governs the building of the structure of economic relations is that of expansion, that structure must embody the idea of expansion as one of its determining principles. The market organized by the principle of value expansion is not simply a structure which grows; it is a structure whose integrity is predicated on its growth, a structure which exists and endures only so long as it grows and develops. We will term such an organism, which unites structure and process according to the principle of growth, a *structure of expansion*.

The changes which such a structure undergoes are brought about by the working out of its own internal processes. In this sense, change in the structure is a determinant of its nature. Since such development gives form to the economic structure, a logical and coherent conception of the economy could not be articulated by abstracting from such change. This unity of development and structure is a central theme of the theory of the economic system.*

It is for this reason that the idea of equilibrium has no proper role to play in the theoretical treatment of the system of economic organization rooted in capital. The idea of an equilibrium (no matter

* 'Capitalism, then, is by its nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action.... The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumer goods, the new methods of production and transportation, the new markets, and the new forms of industrial organization that capitalist enterprise creates.... This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.' J. A. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper & Row, 1942), pp. 82–3.

what the specific terms of its construction) is antithetical to the idea of capital as the organizing principle of the market. Within an equilibrium system, capitals would not survive.

The determination of a price at the equilibrium state of the system, and the associated idea that prices are involved in the equilibrating process of a system of allocation, is equivalent to the determination of price upon the basis of its conformity to a fixed structure. The fixing of the economic structure is logically equivalent to its removal from the context of temporally determined economic processes. Equilibrium determination is determination outside of time.

The idea of time connotes an ordered sequence of events. This sequence is a process of repeated displacement within which each event is defined by its relation to events displaced by it, and others by which it will itself be displaced. Time, then, is not a framework within which events take place; it is a logical unity of events.

Different sequences of events determine different temporal flows. The structure of physical (or 'clock') time is no less a structure of events (no matter how elementary those events may be) than is economic time. To the extent that economic and physical time are distinct, economic events may be thought of as taking place within, but not constituting, physical time precisely because of their indifference to physical time.

The idea of time, then, is connected to the idea of *process*. A conception which incorporates the temporal determination of economic activity is a conception of the economy as a process. A conception (e.g. of equilibrium) which seeks to determine economic activity outside of time is a conception of the economy as a *state*. Process and state are not two aspects of an empirically existing economic structure; they are radically different structures. What is distinctive about determination within a state is that the structure of economic relations, which defines the state, cannot be accounted for. Needs, technology, resources, etc. must all be given for the system of prices to be determinate. As a result of the necessity that the structure of the economic relations be given, changes in that structure cannot be the proper concern of economic analysis. Economic development may provide a changing framework for the determination of prices, but the development process is not determined. A theory of economic development is necessarily one of the determination of economic relations within a process and not a state.

The limitations of the equilibrium method of determination cannot be overcome by connecting the equilibrium state to an equilibrating process. The failure of an economy to be directly *in* equilibrium does not mean that it can be thought to be either in a disequilibrium state or in an equilibrating process. The idea of disequilibrium dynamics links process to state in such a way as to maintain the primacy of the state over the process. The process is defined first by its deviation from the state, then by its striving to reestablish the reality (to realize) the state. This method, in effect, determines what is in time (the process) by what is outside of time (the state). As a result, no real determinacy can be attributed to the economy existing in time.

If economic theory is to take up the task of conceptualizing the determination of the structure of economic relations (and especially its process of development), it cannot subordinate process to equilibrium. Instead, the effort must be made to articulate the determination of economic relations within a process.

Relations are determined within a process by the sequence itself, and by their location within it. The current structure (including magnitude) of economic relations is directly the product of the preceding structure, and the source of the subsequent structure. As such, it is determined by its antecedents, and by its mission, which is to give birth to its successors. In economics, this sequential determination is by no means simple. The current structure is formed both by the future and the past. Purposes and expectations associated with realizing in the future a potential created in the past determine the structure of economic relations in the present. Economic time flows forward, and yet the past is as much a product of the future as the future is a product of the past.

This complex temporal determination is of central importance to the articulation of the economic process as one of development. Determination of a structure of relations within a sequence is only meaningful if the intrinsic logic (the organizing principle) of the sequence is known. This logic unites the sequence considered as a whole, and accounts for the specific mode of interrelation of the elements, or moments, of the sequence. The power of the future to act in the present, and in that way to realize itself as a form of development suggested by, and latent within the present, provides a construction of time peculiarly appropriate to the investigation of the system of economic relations rooted in capital. As we will see, the inclusion of money as the proper measure of value plays an essential part in establishing the analysis within time.

In economic theory, primary importance must be attached to articulating the principle which animates the sequence of economic structures, and the logic of the progression from element to element. Specification of the form and magnitude of the individual elements of the sequence, taken in their particularity (e.g. this particular price), is not properly within the scope of the theory. In this respect, a theory of the economy as a process would appear to provide less determinacy than the theory of the economy as an equilibrium state.

In equilibrium, we know the magnitudes of all relevant economic variables. Indeed, the seeming power of the equilibrium method is based upon its claim to provide precisely this kind of specific determination. Such apparent determinacy is purchased, however, at a considerable price. As we have seen, in order for this determination to be effective, the economy must be taken out of the temporal flow. This removal out of time makes the structure eternal, and the magnitudes of its elements determinable. Within a temporal process, by contrast, the magnitudes of individual relations are essentially ephemeral. It is not the particular element or moment which sustains itself, but the process. In economics, it is the structure of expansion which alone endures. Because this structure is a process, it sustains itself through time. In this sense, it gives coherence to the temporal flow as an economic flow. It is, therefore, determinate. By contrast, the magnitudes which are the object of determination within a state of equilibrium are atemporal. Viewed in time, these magnitudes are essentially ephemeral. The equilibrium method provides a rigorous determination of the ephemeral.

The failure of the classical theory to conceptualize the determination of economic relations within a process helps to account for a series of faulty theoretical constructions which, taken as a group, have had the power to vitiate the classical approach as a viable way of conceptualizing economic life. The subordination of process to state in the classical theory is logically connected to the idea that the active interrelation of property owners, which constitutes the market, is determined externally by the exigencies of a primordial material condition. This subordination is manifested with special force in the theoretical treatment of value as a relation which is quantitatively distinct, both in its magnitude and in its measure, from price. In particular, the opposition between natural and market price establishes an opposition between a price determined by conditions of production and aggregate distribution, and the price determined by the condition of private property, and the active interrelation of property owners.

The market is the structure of commodity circulation taken as a whole. Market price expresses the laws of commodity circulation viewed as a real process. Market price is the price which is directly determined by the system of economic relations as a whole. It is the real price since it is determined within a process.* The classical theory of price abstracts from this process and articulates its immanent result as an atemporal state.

The determinacy of this state is argued to be independent of the primary determining conditions of market interaction (e.g. private ownership). The determination of price in accordance with primordial conditions given independently of private ownership entails the determination of price in an atemporal state, and the implied determination of the economic process as a structure of interaction governed by the work of realizing that predetermined state. The idea that value is a logically prior reality which determines price is an instance of the idea that what is outside of time (the state) determines what is within time (the process).

For the purpose of the analysis of the structure of economic relations rooted in capital, this method is essentially faulty. For capitalist economic organization only that which is in time is relevant, since the whole of the determination of the process comes out of the process itself. Indeed, capital is, in its life process, a determinate structuring of the temporal flow, and not an event taking place within an already determined temporal dimension. The determination of economic relations within a process vitiates the idea that market price is determined by natural price, and that the measure of value must be different from that of price.

Along every relevant dimension of theory, the conception of the system of economic relations as a process is decisive. Throughout the argument presented in the following chapters, our purpose is to demonstrate the power of this method, not as a way of concretizing the equilibrium notion to incorporate aspects of economic reality

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* The idea of market price connotes the process and structure of the determination of price. Only within the classical theory does this necessarily connote a price determined by supply and demand, or by the condition of *market clearance*. The ideas of market price and market clearing price are not logically equivalent once we move outside of the classical method and classical construction.