

Ben Fine

Theories of the Capitalist Economy

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Introduction

The purpose of this book is to examine different ways in which theories of the capitalist economy have been constructed and to assess the merits and limitations of these various ways. As a result, its contents are intimately related to the history of economic thought since economists past and present are the most immediate breeding ground of economic theory.

The book is not intended, however, to be a contribution to the history of economic thought even over the limited scope of topics that it covers. For the history of economic thought, as part of the discipline of economics, has shown in general very little interest in discovering and questioning different methods of theorizing the economy. At times, the history of economic thought seems to be seen simply as an empirical exercise of intellectual investigation. The attempt is made to discover the extent to which a current theory or conceptualization is to be found in the past. It can be done with a greater or lesser degree of sophistication and rigour. To employ an exaggerated metaphor, at one extreme the archaeologists of economics reconstruct systems of thought in the light of modern theory. At the other extreme, letters, early versions of lectures and the ideas that they contain correspond to the cracked pieces of pottery that are to be dug up and restored. The history of economic thought becomes a test of 'primitive' economic theory for its conformity with modern economics. Those theories that fail the test are rejected, or more exactly, placed in the storerooms of the museum of academia. Those that do conform are exhibited in a place of prominence. Nothing may be learnt from such histories of economic thought about different theories of the economy, and by the same token nothing can be added to an understanding of the economy itself. The histories merely serve to confirm what is already deemed to be correct.

One of the main conclusions that we draw is that there have been very few, if any, new ideas in economic theory since the time of Adam Smith. We find that it is not so much discoveries that distinguish schools of thought as a differing organization of and emphasis on a recurring set of ideas, and sometimes the ideas excluded from a theory are quite as important as those included. In chapter 1 we attempt to analyse the ways in which

ideas are incorporated into an economic theory by abstractions that have a social, historical, empirical and causative content that should be revealed in any assessment of the theory. In chapter 2, we examine the views of Smith and Marx on the division of labour. The division of labour as an object of economic analysis has become almost extinct and this is related to the simultaneous disappearance of a dynamic element in theory that is an intimate part of both Smith's and Marx's economics even if they do themselves differ. The significance of this element for Smith's value theory is taken up in chapter 5 and for Marx's theory it is implicitly reconsidered in chapter 8. Chapter 3 discusses Ricardo's theory of value and takes up Marx's critique of it. This is important since it is often assumed that Marx and Ricardo shared a labour theory of value in common. Also, in this chapter, a criticism is made of Sraffian interpretations of Ricardo's value theory. Sraffian critiques of neo-classical and Marxist value theory are well-documented (and contested), but the associated interpretation of Ricardo has remained relatively sacrosanct. We have attempted to question this sanctity. Chapters 4 and 5 complete the presentation of the value and distribution theories of Ricardo and Smith with each containing a critical evaluation of their implications. Ricardo's rent theory is confronted by Marx's critique and his alternative theory in which he shows the possibility of an absolute rent as a component part of price. This is itself shown in chapters 5 and 7 to be inadequately theorized by Smith.

The last three chapters are more concerned with modern economics. Chapter 6 contrasts the neo-classical with the classical school and attempts to explain the content of and reasons for the reaction against general equilibrium analysis during the early days of the marginalist revolution. Chapters 7 and 8 are concerned with topics that have become esoteric and are almost absent from orthodox economics today; that they have become so represents an important exclusion of ideas. In chapter 7 the decline of rent theory is examined and in chapter 8 the debate over the falling rate of profit is seen to correspond to the way in which dynamics are introduced into economic theory. In both of these chapters, the recent lack of orthodox contributions to the literature is significant and makes it necessary to make reference to less familiar sources. What literature does exist shows the difficulties that recent theory has in dealing with the problems and this is seen to be necessarily so by examining the contributions themselves. Finally the last chapter brings together the results of the previous chapters and examines their relevance for modern economics and modern economies.

The order of presentation within the book posed certain problems because of the possible use of two criteria for determining it. These are the views of particular writers or schools of thought to be set against views on particular subjects, such as value or rent. The first of these criteria has dominated but not exclusively. In particular, the presentation of Smith's value theory has been postponed to chapter 5 and is separated, by two

chapters on Ricardo and Marx, from the chapter dealing with Smith on the division of labour. I felt this essential in order to demonstrate Smith's ability to construct an absolute component of rent and to contrast the role of competition in Ricardo and Smith.

All of the chapters in this book are my sole responsibility with the exception of chapter 8 which incorporates a shortened and slightly modified version of a paper written jointly with John Weeks. The majority of the book was written during the summer of 1980 whilst I was visiting the American University in Washington and is based on a course that I taught there and subsequently at Birkbeck College. I am deeply grateful and indebted to all those involved. Viv Brown, Martin Fransman and Laurence Harris commented on the first manuscript and this led to considerable improvements in the revised version.

Preparatory Reading

This book does presume a certain knowledge of economic theory, that may be obtained during a normal degree course. For a critical presentation of such material, the reader is referred to the two books edited by Green and Nore: *Economics: An Anti-Text* (1977) and *Issues in Political Economy* (1979). It also requires a limited knowledge of the history of economic thought including Marxist economics. The best source for this is the 'classics' themselves. To some extent this book can be considered a sequel to my earlier work *Marx's 'Capital'* (1975), which gives a simple introduction to '*Capital*', *Rereading 'Capital'* (with Laurence Harris 1979), which reviews debates within Marxist economics, and *Economic Theory and Ideology* (1980), which contains an account of Sraffian economics, the labour theory of value and certain economic theories not covered in this book such as Keynesian and inflation theory.

Ben Fine

July, 1981

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Towards a History of Economic Thought

On Method

There are different ways of approaching the history of economic thought. Perhaps the most popular is to assess the extent to which a theory anticipates the propositions of a current orthodoxy. Praise can be lavished on the doctrines of the past to the extent that they anticipate those of the present. Revolutions in economic thought can be seen as sharp breaks in a theoretical evolution, breaks that may or may not represent progress towards the current state of knowledge. Such an approach has serious limitations. It presumes the validity of the current orthodoxy and severely constrains the analysis of different schools of thought by this. The praise mentioned earlier is more by way of self-congratulation than critical evaluation. Further, by pursuing this method, the history of economic thought loses what is its most important function: to shed its critical light on modern economics rather than vice versa. Without this function it merely becomes an arid account of who said what and when, viewed through the filter of what is deemed to be important now.

Schools of thought in the past posed different problems, employed different methods and constructed different concepts than those used now. An assessment of them in an evolutionary retrospect is liable to devalue and distort their specific contributions by attempting to squeeze out of them what is not there (the elements of a theory of which they are not composed) and by neglecting what is there (the elements of a theory of which they are composed).

That different schools employ different methods does not imply that all theories are equally valid since they are all equally different. Nor that the historian of economic thought must adopt a pose of agnosticism to permit each school of thought a fair crack at the analytical whip. What is clear is that the historian of economic thought cannot confine himself to a narrowly defined economics since, quite apart from the philosophical basis of his economic method, economics as a discipline has included a social, political and moral content. A position must be taken on these if only to exclude them, as modern economic theory has frequently attempted to do.

In addition, agnosticism does not allow a debate with the economic theory under consideration, only a contrast and comparison. At best the agnostic could attempt to become a reincarnated Adam Smith for the course of a chapter or two and attempt to develop or reconstruct his theory by donning Adam Smith's thinking cap. He could even reconstruct a debate between a resurrected Smith and Ricardo. As an intellectual game this exercise might bear some fruit, but it could only be a disguised form of imposing the historian's head on Adam Smith's and Ricardo's.

The conclusion to be drawn is that the historian of economic thought cannot adopt a neutral posture and assess what are alternative theories as if he were an innocent bystander. The attempt to be neutral almost inevitably leads to an uncritical and unaware acceptance of standards by which economists are being judged.

What has to be recognized is that the historian of economic thought does adopt a theoretical position and that this can itself be debated as much as the theories under consideration and through the criticism of these theories. Thus the elements that we propose in the next section, that should be extracted from the various schools of economic theory as a means of understanding and criticizing them, are not to be accepted uncritically themselves. They have not been selected on the basis of arbitrariness and bias but with the justification that they will allow different economic theories to be comprehended in a way that adds to our own understanding of the economy.

The Elements of Economic Theory

In this section, we intend to discuss elements which will be present in all economic theories. However, how they are present and how they are combined with each other will differ and give rise to the differences between theories. We begin with the process of abstraction. All theory necessarily utilizes abstract concepts. This is not because the real world is so complex that more or less accurate assumptions have to be made as approximations although some theorists do look at abstraction in this way, as a making of approximately accurate assumptions. A prior consideration is that thought and its concepts are separate from the objects of the real world to be analysed. Theory can only reproduce the real world in thought. The concept of employment, for example, is not employment itself. So there is always a distance between the concept used and the part of reality it attempts to capture. This distance exists quite apart from how complicated a concept is. How this distance is to be bridged is a major philosophical question of some controversy and consequently how it is bridged in particular schools of economic thought is of considerable importance.

However, we do not wish to confront these problems directly here, but, having recognized the necessary difference between the real objects of

thought and the concepts themselves, we can admit that the concepts have different levels of complexity. To return to the level of employment, this seems to be a simple concept. Closer examination proves this might be otherwise. Who is to count as employed? There are those employed in full-time and part-time employment, those paid wages and those self-employed, there are those whose employment appears outside the economy such as housewives and students. Apart from determining who counts as employed, the complexity of employment is illustrated by its composition. The employed are distributed across skills, trades, regions, sexes, etc. We can conclude that concepts that are simple contain the potential to become much more complex.

This raises the question of the relationship between the simple and the more complex versions of the same concept. It would be possible to allow the more complex versions to replace the simpler since they are more refined and seem closer to the complexity of reality. More generally, a more complex concept and the associated theory would replace a simpler one, the latter being considered a special case of the former. Such an approach is setting the theorist up for defeat. Since it is admitted that more complex theory is to be preferred to the less complex, any theory is presumed erroneous even as it is being put forward. It is open to the criticism that it could be further refined. It might appear that this is a desirable state of affairs since theory is in a state of permanent challenge, but it is a challenge that exists as the theory unfolds. Taken to its logical conclusion, the challenge would lead to an attempt to reproduce an exact replica of the real world in thought, for otherwise the theory would contain concepts that could be further refined. Within economics, this problem creates a tension between the atomised acts of individual exchange and the recognition of social categories such as labour or prices. We examine this tension in many of the following chapters.

The problem with the method outlined in the previous paragraph, quite apart from the general destruction it brings to all theory, is that it associates complex concepts with being more realistic and hence more desirable than simpler ones. We have already argued that all concepts are necessarily abstract even if some are simpler than others so that the realism or otherwise of particular concepts cannot be derived from whether they are more complex or not. There is a necessary divergence between the concept and the real however complex the concept, since no concept can be realistic in the sense of reproducing what is real other than in thought. What this suggests is that it is both possible and necessary for concepts to exist within theory at different levels of complexity, what is called at different levels of abstraction, but that this must be done in such a way that the simpler concepts are reproduced rather than displaced by the more complex concepts to which they have a relation. For example, if we have a notion of employment as the number of wage-labourers and subsequently theorize levels of

employment in different sectors of the economy, our earlier simpler concept becomes redundant when our theory explains the level of employment as a whole by the independently determined levels of employment in each sector. It is simply a shorthand expression for numerical aggregation of employment across the different sectors of the economy.

If, on the other hand, our theory explains the overall level of employment as a whole and then argues that this determined quantity is distributed across the different sectors, then the level of employment as a whole has a different status than the sum of its constituent parts as defined in the earlier theory. It is a simpler concept than employment divided by sector but it is necessary for the explanation of the more complex concept. At the same time, we can observe that our second theory offers a different theory of aggregate employment than the first. It still requires a theory of the division of labour between sectors which does not contradict its prior proposition concerning aggregate employment. The second theory could also explain why the first theory would appear to be correct when it was not since the aggregate level of employment is formed from the sum of its individual parts although this does not necessarily cause it to be what it is.

In our view, all theory contains abstractions of the sort that we have outlined, that is the existence of concepts within the theory at different levels of complexity. As our example has brought out, this process of abstraction is related to a number of other properties of the theory. The most important is that theory develops relationships between concepts which are not simply logical in the formal or mathematical sense. The process of abstraction is one which builds up concepts quite apart from the numerical relations involved. To return to our example, the theory that explains the division of employment between sectors on the basis of a predetermined aggregate employment has started with wage-labour and would restrict the concept of employment to that wage-labour for which the theory holds, at the possible expense for example of seasonal and part-time employment.

The relationships built up are themselves complex. As we have seen, they involve reproducing simpler concepts at a more complex level and in doing so they produce other characteristics within the theory. One of these is the way in which explanation or causation is constructed. The existence of different levels of abstraction within a theory produces the idea that there are underlying forces at work which resolve themselves into more complex outcomes. Consequently a structure of causation is created within the theory in conjunction with the structure of abstraction. These two structures and the processes and relationships which are analysed to produce them are intimately connected but they are not identical. The most simple concept may not be the most fundamental in causation. For example, even if we accept the theory of a predetermined aggregate employment put forward above, it involves a notion of what is not

included in employment and the unemployed or non-employed will have been defined by exclusion at the same simple level at which the employed have been defined. But they have been excluded precisely because they are to be shown to have a minimum causative significance despite their elevated status in abstraction. More generally, concepts which continue to have a causative significance for the theory may have a different status in causation than they do in abstraction. Another conclusion then that can be drawn is that both abstraction and causation do not constitute simple relations within the theory. For example, in much rent theory we shall see that the abstraction is made that the system of landed property has little or no effect on the determination of the level of rents. But the ownership of land does cause rents to be paid to whomsoever receives them.

Another result of abstraction has emerged from our example. Just as different concepts are imbued with a different status so they have a relationship which can be explained within the theory, to how things appear and how they are. Employment is the sum of the levels in individual sectors and this sum may appear to determine the aggregate level whether this is true or not. This distinction between reality and appearance, in which the latter is not entirely an illusion, is again related to the other properties of abstraction such as causation and the existence of simpler and more complex concepts. Overall then the abstractions that exist within a theory are liable to be extremely complex, containing many interrelated elements.

All theories contain the process of abstraction, but there are enormous differences in the abstractions that are made and the ways in which they are made. What all economic theory appears to have in common is a wish to come to grips with the movements of the capitalist economy. To do this concepts are drawn from capitalist society itself such as wages and profit, capital and labour. This use of concepts is as common to every economic agent as it is to the economic theorist. The individual capitalist does not stop to speculate over the conceptual content of profit. It is simply a question of getting on and maximizing it. Here the notion of profit is drawn from every day empirical experience. The modern neo-classical economist often reproduces these simple reflections of the businessman. But even if a more speculative approach is taken, an empirical content to the theory remains. Most obvious evidence of this is the reliance upon terms such as wages and profit which are grounded in a more or less direct contact with empirical observation and experience.

Accordingly, abstraction contains an empirical content. This content cannot be presumed to exist independently of the theory even if the relationships upon which it is based can be presumed to exist and appear independently of the individual. The simplest fact is open to varying interpretations according to the theory in which it is interpreted and incorporated. The empirical content of a theory then cannot be considered either to be a neutral starting point as in induction, nor to be the closing moment

of verification as in positivism. The empirical content of a theory is precisely that: part of the theory.

As we have just seen, the empirical content of a theory can be introduced in many different ways and not just as a starting or closing point or both. It too will have a relationship to the abstraction within the theory and it can also be drawn from different sources. As mentioned, it can have its origins within the society under consideration, such as contemporary capitalism. Then a concept such as wages will have to be considered at different levels. Is it appropriate to analyse wages as a general average from which there are deviations to be explained or is each individual wage caused independently from the average, which is then a simple average of the individual levels with no other causative significance? Quite apart from the use of contemporary capitalism as a source of empirical material, an understanding may be drawn from historical analysis. Few would argue for example that contemporary capitalism is the same as nineteenth century capitalism because of monopoly elements. Nevertheless, it could be argued that contemporary capitalism is still best understood as if the market mechanism worked to create full employment equilibrium as suggested by the theory of competitive equilibrium. One presumption here is that nineteenth century capitalism is itself best explained by the theory of competitive equilibrium, but whether this is correct or not, the point is that contemporary capitalism is explained as if it could be identified with an earlier stage of development.

That this is possible follows from the existence in different societies of relations which appear to be the same. Prices, profits, wages, rent, labour and so on have an existence in many societies and so it becomes possible to identify them as being the same. Whether this is appropriate or not is a different matter. If feudal rent is used as a basis for explaining capitalist rent, the result is liable to be a misunderstanding of both. More generally, we can draw two conclusions. The first is that a theory will tend to bring together by abstraction from empirical material an understanding of a society or its economy by the use of concepts which have an applicability to one or more other societies. In an extreme form, this involves the use of general concepts that are applicable to all societies, concepts such as labour, production, technology and consumption. This should not be confused with the opposite process of treating a society in which a concept is inapplicable, such as profit under feudalism, as if it were applicable on the basis that feudalism has a surplus which might well be considered a profit, the form of a surplus under capitalism. In each case a conflation of different stages of development are utilized to produce the theory concerned. An example of this is given to us by neo-classical economics which is very much based on the idea that individuals are free and independent economic agents. Yet the very use of categories such as wages and profits suggests otherwise and that individuals are better understood in terms of