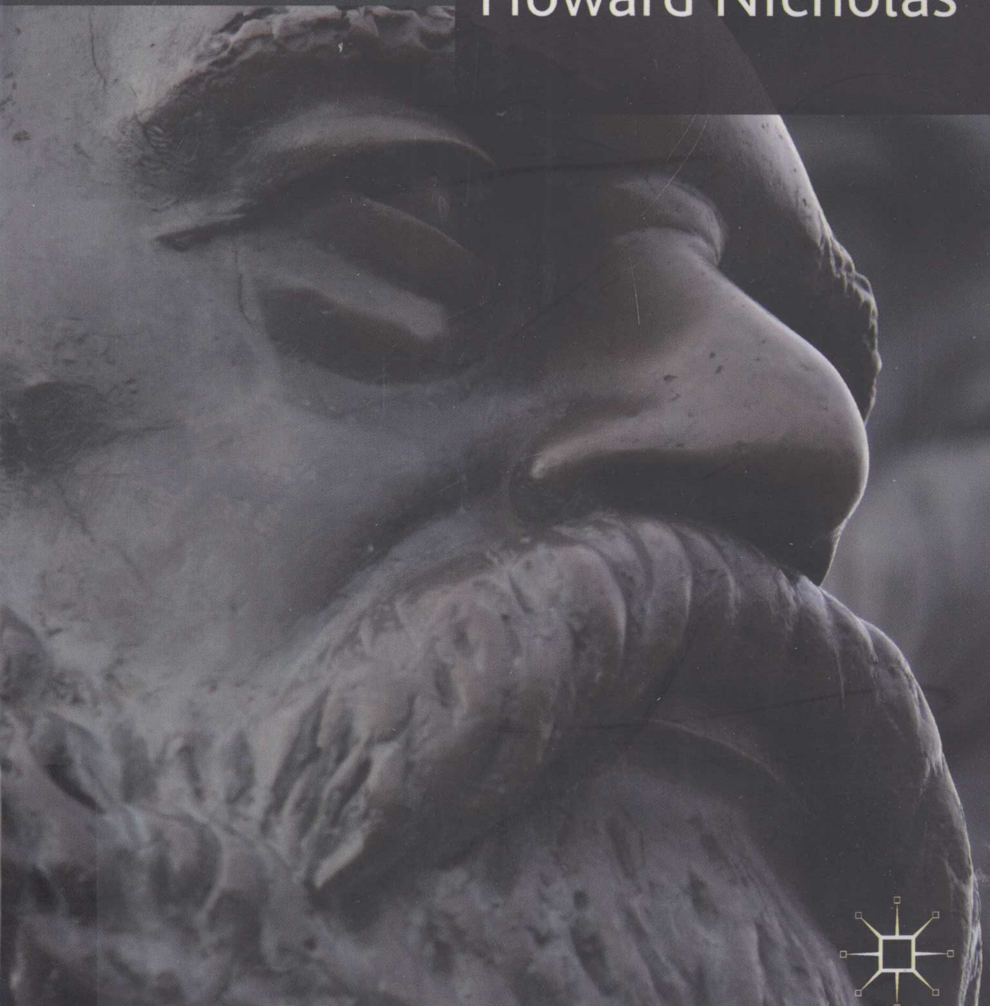
Marx's Theory of Price and its Modern Rivals

Howard Nicholas



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Preface

The present work has had a very long gestation. It was born out of my PhD studies in the late 1970s and early 1980s in which I attempted to understand Marx's theory of money and the role it plays in his explanation of business cycles. As with so many who have undertaken PhDs, once completing this study it dawned on me how little I really understood of the subject. With hindsight this should not have been surprising given the sheer scope of the endeavour, my own ignorance of the subject matter at the time, and the relative paucity of writings in this area, including those by Marx. Perhaps the real benefit of the study for me was the questions it raised in my mind rather than the answers it provided me with. In attempting to answer some of these questions in my post-doctoral research work, I kept being drawn to the theory of price, Marx's theory of price, as the necessary point of departure for a fuller understanding of not only his theory of money and role it played for him in the cyclical movement of the capitalist system but, more fundamentally, its importance for his general explanation of the latter. Hence, the present work.

Once I settled on this point of departure I soon came to realise that a comprehensive understanding of Marx's theory of price would require me to: address certain of the major criticisms of this theory from those within and without the Marxist school of thought, certainly if I was to convince anyone, including myself, of its scientific rigour; assess other interpretations of it, mostly to ascertain whether I was saying anything different; and, compare Marx's explanation of prices with other explanations, both Classical and modern, to demonstrate the specificity and pre-eminence of Marx's explanation. To be perfectly frank, in the early phases of my post-doctoral studies I was not entirely certain of either the scientific rigour or superiority of Marx's theory of price, or that I had much to add to what had already been said about this theory. I was even inclined towards the view that many of the criticisms levelled against Marx's theory of price, particularly those emanating from the Sraffian school, were more than justified. However, as I delved deeper into Marx's own writings, and reflected on these, not only did my doubts dissipate, but I became increasingly convinced that many traditional and modern interpretations of Marx's theory of price, by friends and foes alike, seriously misrepresented it.

In writing this book I have sought to present what I understand to be Marx's theory of price in as intelligible and accessible a manner as possible. However, I have to admit, and apologise in advance for the fact, that the end product still presumes a certain familiarity with Marxist and non-Marxist theories of price on the part of the reader. I consider this to be unavoidable since the purpose of the book is to interpret and expand on Marx's own writings on price in a way which allows it to be compared with other, particularly modern, theories, and not simply to regurgitate these writings. Accordingly, I see this book as being particularly useful for Master's and PhD level students, teachers of economics, researchers, and those with a keen interest in the foundations of economic thinking.

A book with such a long gestation period such as the present one could not have been written without considerable support and encouragement. In this regard I would like to thank my parents, Heloise and Brian, my wife, Nicolien, and my children, Jeske, Bram and Kasper. In one way or another, and to different degrees, they have all made sacrifices over considerable periods of time to allow me to bring this work to fruition. I would also like to thank all my past students, colleagues, and friends, who have in one way or another contributed to the development of my knowledge and understanding, and the countless authors whose work I have explicitly and implicitly drawn from. And last, but not least, I would like to thank Eri for her painstaking archival and referencing work.

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1
Introduction

This book focuses on Marx's theory of price. Its aim is to provide an interpretation of this theory which is consistent with the logic, if not the written word, of Marx's analysis in *Capital*, his most developed work in political economy, or 'economics', as the subject matter of much of this work is now referred to. The motivation for doing so is twofold. Firstly, to contribute to the recent revival in interest in Marx's economic analysis of capitalism, noting in passing that any theory purporting to explain the dynamics of the capitalist system, as Marx's does, requires most fundamentally a theory of price. The theory of price, it needs emphasising, both reflects and conditions general theories of the economic system. Secondly, to shift the focus of economic debate back to its foundations, there being nothing more foundational than the theory of price. Presently, the focus of economic debate is the alleged causes of, and required policy responses to, the recent severe crisis of the global capitalist system. What is apparent is that much of this debate is poorly informed, if at all, by any coherent theoretical analysis, causing a growing number of economists to argue for a reconsideration of the foundations.[1] It is in this context that the present work can be argued to have a particular significance.

The hostility to Marx's work has, needless to say, a long history, with many of the most concerted attacks directed at his theory of price – seen as a sort of 'Achilles heel' of his analysis of capitalism. It has been argued, *inter alia*, that Marx's theory of price is little more than a **repetition** of that of the Classical economist David Ricardo, that it is **unintelligible**, and, perhaps most damaging of all, that it is **inconsistent**. The view that Marx's theory of price is little more than a repetition of Ricardo's is a long-standing one, and taken as a veritable matter of fact in non-Marxist circles. One of the high priests of economic orthodoxy in the last century, Paul Samuelson, famously referred to Marx as 'a minor Post-Ricardian' (1957, p. 911). The intelligibility criticism was made most trenchantly by Joan Robinson in her withering indictment of Marx's labour theory of value, which she dismissed as a 'rigmarole of words' (1964, p. 39). The inconsistency criticism refers to the so-called 'transformation problem' in *Capital*. Beginning with Böhm-Bawerk (1975)[1896], the problem is deemed to be that Marx did not show, and, indeed, could not show, that values determine prices in a capitalist system when the values of all commodities, including inputs, are transformed into prices. More recently, in the wake of the work of Piero Sraffa (1960), a charge of **redundancy** has been added to the preceding list of criticisms. It is contended that the journey from value to price is **unnecessary** since price can be calculated far more simply and consistently by reference to the technical conditions of production and distribution of net product between wages and profits.[2]

It is not just those hostile to Marx's work who have cast doubt on the validity of his explanation of prices. Even those who might be considered to be sympathetic to the bulk of his economic analysis in *Capital* express certain reservations when it comes to his theory of price. One cause for doubt is the above-mentioned transformation problem. It is perhaps fair to say that many, if not the majority, of those sympathetic to Marx's economic analysis accept that it contains a transformation problem as argued by his critics, and a considerable proportion of these accept that the problem is an intractable one. Another cause for doubt is the phenomenon of monopoly. Beginning with Hilferding (1981)[1910], and continuing with Baran (1957), Baran and Sweezy (1966), Sweezy (1968), Meek (1973), Howard and King (1975), etc., the argument advanced is that the tendency towards an increasing concentration and centralisation of capital has caused competitive capitalism to give way to a very different form of capitalism, namely monopoly capitalism. Most importantly, it is argued that in this phase of capitalism there are various artificial and natural barriers to the free movement of capital thereby negating the operation of the law of value and invalidating much of Marx's analysis of capitalism, particularly his explanation of prices.[3]

Needless to say, the literature is replete with defences of Marx against these criticisms. A great many expositions of his theory of price have sought to distinguish it from that of Ricardo in an attempt to avoid it being tarred with the same brush so to speak (e.g., Meek, 1973; Fine, 1982; Pilling, 1986). However, it is probably fair to say that no consensus has emerged regarding precisely how the two theories differ. The reason, as will be argued below, appears to be a failure to agree on

Marx's explanation of price and in particular his understanding of **value**.

On the question of intelligibility, it is agreed by all except the most devout defenders of Marx that his presentation in *Capital* is certainly impenetrable to any but the most persevering reader. Francis Wheen suggests that it was sheer incomprehension rather than political enmity that explains the muted reaction to Volume 1 of *Capital* following its publication in 1867 (2006, p. 84). Subsequent to the publication of *Capital*, there have been numerous attempts to *précis* and interpret this work in a way that makes it more **intelligible**.[4] However, at least partly because of considerable divergences in such interpretations, but, ironically, also partly because of the impenetrable nature of many of the interpretations themselves, it would appear that the intelligibility criticism is still far from being satisfactorily addressed.

Most attention has unquestionably been paid by defenders of Marx's price theory to the **consistency** criticism. To some extent, this is because it has been the main focus of critics of Marx's theory of price, but also because a large number of other criticisms of this theory are seen as in one way or another bound up with this one. Up to the 1980s it was common for most Marxists to accept that Marx's transformation procedure was indeed inconsistent in the state in which he left it, but that it could be made consistent following one or another of a number of transformation procedures involving solutions of sets of simultaneous equations. It was also accepted that these solutions required the sacrifice of one of two fundamental equalities postulated by Marx; the equalities of, on the one hand, aggregate values and prices, and, on the other hand, aggregate surplus value and profits. The reason for the sacrifice was the assumed need for an invariance condition to make the solution to the simultaneous equations determinate.[5] A majority of Marxists favoured sacrificing the aggregate values and prices equality, arguing that the real purpose of Marx's value theory was an explanation of profit not prices *per se*.[6] This view of Marx's price theory naturally opened the door for an acceptance of the above-mentioned redundancy criticism, and with it an alternate explanation of price offered by either Post Keynesians in general or Sraffa in particular (see Chapters 7 and 8 for a discussion of these explanations). From the early 1980s onwards, by way of a reaction to what was seen as a capitulation to the critics of Marx, there has been a growing tendency in the Marxist camp to posit solutions to the transformation problem which do not require sacrifice of either of the equality postulates. The best-known among these are the so-called New Interpretation (NI) and the Temporal Single

System Interpretation (TSSI). However, and as will be argued in greater detail in Chapter 5, these interpretations have in the process of defending Marx tended either to deny the relevance of his value theory for an explanation of price, or to interpret Marx as having what amounts to a trivial explanation of the latter.

Somewhat less attention has been paid by defenders of Marx's theory of price to the monopoly criticism; that Marx's theory is premised on the existence of competition whereas the economic reality of today is the prevalence of all manner of artificial and natural monopolies. The main reason for this inattention is no doubt the somewhat muted nature of the criticisms in this regard. Orthodox (Neoclassical) economists are naturally reluctant to pursue this line of criticism since most of their explanations of price similarly presume the existence of a competitive environment. Within the Marxist school the criticisms have become more muted as a result of, on the one hand, the migration of many of the critics to the Post Keynesian school, and, on the other hand, a growing awareness that the process of concentration and centralisation of capital has not resulted in the elimination of the competitive process, certainly not as caricatured by Marx. As Meek noted in his critical remarks on the relevance of Marx's labour theory of value to the explanation of price in present-day capitalism:

> One must be careful, however, not to exaggerate the extent to which the coming of monopoly capitalism has invalidated the traditional analyses based on the assumption of free competition. Monopoly does not mean the end of competition, and may even at times (e.g., during periods of price war) mean an intensification of competition. (1973, p. 286)

Which means, as Meek also notes, that the theory of monopoly price should be regarded as a supplement and not an alternative to the theory of competitive price (*Ibid.*, p. 287).

My intention in this book is to argue that: a) Marx has an intelligible, logical and consistent theory of price; b) his concept of value is at the very heart of this explanation; c) his theory of price is neither a mere repetition of Ricardo's theory, nor has it been made redundant by Sraffa's or Post Keynesian contributions; d) it has not been invalidated by tendencies towards concentration and centralisation in capitalism, and e) it warrants more serious consideration than it has hitherto been accorded by those interested in understanding the economy – whether or not they are sympathetic to Marx's purpose in the study of capitalism, *viz.* its overthrow, and especially given the growing dissatisfaction with the foundations of mainstream economic thinking.

To this end, I begin by presenting in Chapters 2 and 3 what I consider to be Marx's theory of price. In Chapter 2, I look at Marx's explanation of price in the context of the simple circulation of commodities, explaining at the outset of the chapter why he chose to begin with the explanation of price in such an economic setting. I build on this in Chapter 3 when considering his explanation of price in competitive capitalism, including his explanation of price formation in monopoly sectors. I contend that Marx chose to begin his explanation of price in capitalism with a consideration of price in the simple circulation of commodities because the latter captures the essence of the former and not because of its supposed historical antecedence. In both Chapters 2 and 3, I pay particular attention to Marx's understanding of price – its emergence, purpose, formation and nature – and the meaning he ascribes to the different concepts he uses. I argue that it is an appreciation of this understanding of price by Marx, and clarity with regard to the precise meaning of the concepts he uses, that permits one to make sense of his explanation of price magnitudes in terms of values. I then move to a consideration of Marx's views on the theories of price in the works of Adam Smith and David Ricardo in Chapter 4. My primary aim in this chapter is to show the distinctiveness of Marx's contribution in comparison with the so-called Classical theories, and notwithstanding the fact that he most certainly drew inspiration from these theories, particularly that of Ricardo. In Chapter 5, I appraise various 'traditional' and 'new' interpretations of Marx's theory of price. I argue that these interpretations attribute to Marx explanations of price which are more in keeping with those of Ricardo. In Chapters 6 to 8, I critically assess more modern theories of price – the Neoclassical, Post Keynesian and Sraffian – mostly, but not exclusively, with a view to developing further an understanding of Marx's theory. In outlining and critically appraising both the Neoclassical and Post Keynesian theories of price, I pay attention to differences within each theory where I consider these to be relevant. In the presentation and analysis of the Neoclassical theory in Chapter 6, I take the important differences among its proponents to be those between the so-called New Keynesian, Walrasian and Austrian sub-groups. I recognise that many Austrians consider their approach to the study of the economy to be at odds with the general Neoclassical approach but, as I will make clear, while they may diverge from the latter in certain respects, they share most of its fundamental principles, particularly when explaining price. When considering the Post Keynesian theory of price in Chapter 7, I take the important differences to be those between the so-called fundamentalist Keynesians and Kaleckians. In keeping with the views of many in the Post Keynesian school, I see the Sraffian theory as falling outside of the orbit of this school and, therefore, analyse it separately in Chapter 8. The analysis in Chapter 8 is limited to the work of Piero Sraffa, and in particular his *Production of Commodities by Means of Commodities* (1960), since, not surprisingly, it is this work that is generally regarded as representing the very core of the Sraffian theory of price. I consider the critical appraisal of Sraffa's work as quite possibly the most important among the critical appraisals of the modern theories of price undertaken in the present study. This is because, on the one hand, this appraisal, more than the other appraisals, serves to highlight certain key elements of Marx's theory of price, and, on the other hand, Sraffa's explanation of price is seen as representing a major advance over that of Marx, even by certain sympathisers of Marx's work. I end, in Chapter 9, by drawing together what I consider to be the important and defining aspects of Marx's theory of price, locating this theory in terms of the spectrum of theories of price, ranging from those on the demand side to those on the supply side and, finally, suggesting why the discussion of Marx's theory of price has a significance beyond simply shedding further light on it at the present historical juncture.

2
Marx's Theory of Price in the Simple Circulation of Commodities

2.1 Why Marx begins with the simple circulation of commodities

Marx's purpose in *Capital* is to study the dynamics of the capitalist system; the laws of motion that govern, and tendencies that characterise, it. To understand these dynamics he considers it necessary to understand the movement of capital as a process of value expansion or wealth augmentation. At the very heart of this process is the circulation of commodities (including services) and formation of prices. Marx takes the circulation of commodities to be the exchange of commodities for money and money for other commodities. He depicts this as C-M-C′, where C-C′ represents both a change in the form of the commodity and, as is implied by the commodity as capital, an increase in value. He sees the circulation of commodities as facilitated by the circulation of money as capital. He depicts the latter as M-C-M′, where M-M′ represents an increase in the value of money. Marx argues, that to understand the fundamental nature of this circulation of commodities and accompanying formation of prices in capitalism, one must first abstract from capital; from commodities and money as capital.[1] One must begin with the simple circulation of commodities (C-M-C′) and money (M-C-M), where C-C′ represents only a change in form of the commodity and M-M signifies that there is no increase in the money worth of the commodity in the process of circulation.

2.2 Understanding the simple commodity circulation process

There are a number of aspects of the simple commodity circulation process analysed by Marx at the beginning of Volume 1 of *Capital*