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Review for Oeconomia

On the book by Lefteris Tsoulfidis and Persefoni Tsaliki

Classical Political Economics and Modern Capitalism. Theories of value, competition, trade and long cycles. Springer Nature 2019, XII+456pp, ISBN 978-3-030-17966-3

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The revival of Classical Political Economy (CPE) has multiple origins in the history of economic thought since the 19th century. It originated in discussions about Marxian economics in Germany, France, England, Russia, the United States and elsewhere since the Communist Manifesto, in Keynesian and Postkeynesian economics, especially in Cambridge since the 1930´s and, probably most important for the academic recognition of this subject, in Sraffa´s publication of Ricardo´s works and his own book of 1960. Rather diverse currents exist today like Neoricardianism, Postkeynesianism and rivalling interpretations of Marx. Lefteris Tsoulfidis and Persefoni Tsaliki are related to the teaching of the New School for Social Research in New York and particularly indebted to Anwar Shaikh. This school adopts the Marxian scheme of analysis by means of the labour theory of value for theoretical reconstruction and for empirical applications. They use the theoretical techniques and the mathematical instruments, which are also used by Neoricardians and Postkeynesians, to show that the Marxian theoretical apparatus is still applicable to modern capitalism and can help to understand its dynamics. Formal solutions are proposed to critical problems such as the measurement of abstract labour time or the transformation of values into prices. They do not believe in value free science, but they nonetheless stress objectivity and try to work towards the solution of problems of development. The present book stands out in this literature as a textbook for students, which covers the main themes of the reconstruction of CPE, but they also hope to extend the research. The text has been used in lecture courses. It is in part based on published articles, but the whole has been integrated into a fairly coherent monograph.

It begins with a chapter on the classical theory of value and distribution, followed by a discussion of the circular flow, the transformation problem and the critique of the theory of capital. Typical for the Shaikh school, labour values are then measured empirically and prices of production and wage curves in function of the rate of profit are derived from input-output systems. A chapter on the opposition of classical and neoclassical analyses of competition concludes the first part. Part two then is concerned with applications such as a demonstration of the empirical convergence of rates of profit in industry, unequal exchange in international trade as measured in terms of labour values and three chapters on economic growth and cycles, with the rate of profit as the key variable according to the Marxian theory of its tendency to fall. A falling rate of profit leads to stagnation, but Marx´s expectations of increasing concentration, growing antagonism and peaceful or violent revolution are not even mentioned. There is the theory of long waves; one has to wait for the next upswing.

There has been much debate about the foundations of the theory of value. The authors resolutely opt for Garegnani´s approach: normal prices are centres of gravitation of market prices. No theory of market prices is offered, except that gravitation may be expected in competitive conditions, but there is a hierarchy of these centres of gravitation. Under simple conditions, exchange takes place according to labour embodied, then there are prices of production and finally modifications of this notion according to competitive conditions. The approach is pragmatic. There is not much time lost with reflections on the Marxian theory of the forms of value and the nature of abstract labour or the reduction of complex to simple labour. Both labour values and prices are derived from the input-output structure of the economy, therefore from the structure of the production of use values. They do not seem to be aware that Marx was critical of this approach, to the extent that it could be perceived in the corn model, much prior to the modern formalisations.

It is characteristic for the revival of CPE that old ideas like Quesnay´s Tableau Économique, modern analytical schemes like input-output analysis and the schemes of reproduction can

fruitfully be compared. The argument then turns to the transformation problem. On the one hand, the emphasis on this conundrum is justified, because of the intensity, with which it has been discussed by academic economists, because of the importance it has for the Marxian system from a logical point of view and because its analysis is simply fascinating. On the other hand, one should not confuse the history of the reception of the transformation problem with the history of Marxism. Far more important were Marx´s historical materialism, his theory of history, his solution of historical problems of development such as that of primitive accumulation. The discussion of these challenges to early 19th century thought began with Marx´s and Engel´s early publications and culminated with the publication of the first volume of *Das Kapital*. It is misleading to represent the third volume as the centrepiece in the reception of Marx even for economists, since the second and the third volume appeared after the neoclassical revolution. It is true, however, that Böhm-Bawerk´s intervention carried the discussion to a higher level, even if followers of the CPE approach like myself think that he was wrong. He was a man of high integrity and preferred to return to his chair in Vienna, rather than to pursue his career as minister and head of the central bank of the Austrian empire.

The book discusses some of the proposed solutions of the transformation problem, in particular that by Anwar Shaikh, and turns to the capital controversy. It is summarised well, but more care should be taken, in my opinion, to avoid double standards. Solutions to the transformation problem can only be approximations to what Marx held to be true. Some rough truth also is in Samuelson´s construction of the neoclassical production function, especially, if one takes into account, as do the authors of this book, that wage curves tend to be quasi-linear – they defend this quasi-linearity both by theoretical and empirical reasons. Marx and Samuelson each emphasized that their solutions could not be exact - Marx, because he thought that the laws of capitalist economics held only on average, Samuelson, because he had made very special assumptions and warned that a generalisation might involve difficulties.

The empirical analysis of price and wage curves is well done, and of special interest is the inclusion of fixed capital, here following Leontief´s, not Sraffa´s method. It would have been worthwhile, in my opinion, to explain in more detail how the empirical data are used for the calculation, how imports are treated, how the labour vectors of different countries can be compared etc. There are references to other papers by the authors with such information, but the book then is not self-contained. The problem with the double standard here comes up quite explicitly (187), where it is observed that wage curves cross each other at most once on the envelope; they propose to treat this as a “stylized fact”. Having proposed several arguments why this stylized fact must be broadly correct, I am pleased to read this statement, but what does it imply for the critique of the neoclassical production function, based on reswitching (131)?

The reasons for the regularities of movements of prices and wage rates in function of the rate of profit are summarised on p. 192. The list is instructive, but, in my view, not complete. The relationship in which the labour vector stands to the input-output matrix should also be discussed, for it is easy to show that relative prices may exhibit a complex movement, even if the input-output matrix is of the simplest possible form, that is, of rank one, provided the labour vector does not follow a simple pattern.

The chapter on competition is historically well informed and instructive. It is well explained how the Chicago School initiated a return to the theory of perfect competition, after the imperfect competition models had multiplied. The tranquil state of perfect competition then is

contrasted with competition as rivalry, with the equilibration of profit rates between industries as the key explanatory variable. Instead of Marshall´s “trees of the forest” we now have “regulating capitals”, and the first chapter of the second part presents observations of the process in different countries.

The chapter on international trade successfully visualises how technologically more advanced countries gain in terms of labour time, if the goods they exchange with another country, less advanced, contain less labour on account of their higher productivity. The authors argue for the theory of absolute advantage as the main explanation for the direction of trade. This is richly illustrated by means of the history of economic thought, from Ricardo to the debate between Emmanuel and Samuelson and beyond.

The last three chapters deal with the theory of growth and cycles, combining a Schumpeterian and a Marxian approach and also shorter cyclical developments, which are documented empirically. The arguments are rather complex and cannot be summarised here. They amount to replacing the traditional stylized facts of growth theory according to Kaldor by the Marxian theory that the rate of profit must fall because the organic composition of capital rises faster than the rate of surplus value, mainly as a cause of mechanisation. A distinction between productive and unproductive labour here plays an important role. The authors know how controversial it is, almost abandoned in its explicit form by modern economists, but the conventions of national and of business accounting imply similar distinctions. If labour only in production is counted, productivity may rise, while it may fall, if all labour is counted that is remunerated in the market. The conclusions here drawn therefore depend on special conventions of the theorist and the applied economist. They can be discussed only in a much wider framework and in comparison with other approaches.

Taken all in all, this is a thought-provoking and serious book, to be recommended for students as an introduction to CPE and for all economists interested in the theory of value and accumulation. It is a proof that the revival of classical economics is still on the agenda and may help to provide a focus for economic theorising at a time, when theory seems largely to disappear in many faculties because of the fragmentation of the subject.

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