

# ZOMBIE MARX AND MODERN ECONOMICS, OR HOW I LEARNED TO STOP WORRYING AND FORGET THE TRANSFORMATION PROBLEM

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In 2009, UC Berkeley Economics Professor and former Clinton adviser Brad DeLong took a pot shot at David Harvey on his blog. Headlined ‘Department of “Huh”?’ and beginning ‘Why neoclassical economics is an absolutely wonderful thing’, the post quotes eleven straight paragraphs from a Harvey essay, which DeLong proceeds to ridicule.

For DeLong, the essay is contentless waffle. It strings together economic concepts without making an economic argument. He would call it ‘intellectual masturbation’, he writes, except that it ‘does not feel good at all’. Only in the eleventh paragraph does he find ‘the suggestion of a shadow of an argument’. Here Harvey argues that the US stimulus package is bound to fail because the deficit needs to be financed by foreign powers, and the amount of Treasury bonds it will be able to sell to the likes of the Chinese central bank will not fund a big enough stimulus. DeLong responds that this is a question that requires a theory of the bond market and interest rates, which Harvey does not provide: ‘The question is thus not can government deficit spending be financed... the question is *at what interest rate* will financial markets finance that deficit spending’ (DeLong, 2009).

Harvey responded with some anger at the arrogance of neoclassical economists:

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I would have thought that in a profession dominated by neoclassical and increasingly neoliberal theory these last thirty years, that there might have appeared at least some sliver of humility. They have collectively provided us with no guidance on how to avoid the current mess and now, when faced with a crisis, they can only say, as Marx long ago presciently noted, that things would not be so if the economy only performed according to their textbooks. Maybe it is time to revise if not change the textbooks (Harvey, 2009).

He goes on to bring up Sraffa and the ‘Cambridge capital controversies’ of the 1960s, which, he argues, showed that ‘all of neoclassical theory is based on a tautology’. DeLong’s argument was ‘a bit of casual empiricism about the current low and seemingly stable rate of return on long-term treasuries’. ‘Why bother’ with neoclassical economics at all, he asks.

DeLong’s attack was unfair and indeed arrogant, and deserved a forthright response. Unfortunately, Harvey missed the opportunity. DeLong would have welcomed his dismissive response, because it reinforced his image of the otherworldly nature of Marxian economics. It would have convinced no-one not already well-disposed to Harvey’s way of thinking. Criticism of the incoherence or unrealistic assumptions of neoclassical economics rolls off like water from a duck’s back – most economists will freely admit they are simply heuristics and would be quite happy to be considered pragmatic ‘casual empiricists’.

Here I argue that there is much for Marxists to learn from modern economics, even neoclassical economics. Further, I argue that there are aspects of Marx’s *Capital* widely seen to be at its theoretical core that should not survive this engagement. Yet, I think, the project Marx undertook in his own time is still as relevant today – in fact it is only by jettisoning much of the content of ‘Marxian economics’ that the form will survive.

I take for granted here that economic theory is a worthwhile pursuit for Marxists and socialists more broadly, and that the more scientifically valid the theory the better. There are those who argue that by subtitling *Capital* ‘a critique of political economy’ Marx had only negative criticism in mind – that economic theory of any kind is misguided because it reifies historically-bound social relationships. But it is hard to read *Capital* and not find it full of positive economic theory alongside

the ruthless criticism of everything existing. By ‘critique’ Marx meant essentially what Kant did *vis-à-vis* pure, practical and aesthetic reason – not to dismiss political economy, but to enquire as to what makes it possible, and what these conditions of its existence mean for how it should proceed. The historically, socially contingent nature of capitalism has profound implications for the validity of various approaches to studying it, but it can still be studied. Positive (but not positivist!) economic theory is important both because there is value in understanding the economic dimension of social life so as better to change it, and because it is politically useful to present persuasive explanations for economic phenomena.

There is nothing new in my basic message – what I propose is already standard practice for many people. Generations of economists who would call themselves Marxists, or at least admit Marx as a major influence, have engaged with other strands of economic thought and folded them into their worldview, have worried little about dropping from their analyses those aspects of Marx’s argument they believed to be wrong or unhelpful, and have felt no need to pepper their writing with appeals to authority in the form of biblical quotations. But in each generation, others have defended an orthodox Marxian economics, as they see it, as a separate and superior paradigm, which can only be diluted or contaminated by absorbing ideas from elsewhere. The pugnacious Andrew Kliman (2007: xiii), for example, opens his book *Reclaiming Marx’s Capital* with the epigram ‘The economists have changed Marx, in various ways; the point is to interpret him – correctly’. Accordingly, he unabashedly spends a chapter on hermeneutic method, and the book is devoted to proving the internal logical consistency of a method for transforming the values of Volume I into the production prices of Volume III.

This is more sophisticated than what we might call Frankenstein Marx – the stitching together of an argument from authority by stringing together famous quotations torn out of context. Criticising Frankenstein Marxism is like campaigning for motherhood and apple pie – no-one will disagree. What I call Zombie Marx is different – it is the reanimation of a corpse which still holds organically together in some way. This is the reconstruction of Marxist economics as a coherent body of thought, not a collection of quotations. It is not my point that this work is dogmatic. As Thomas Kuhn (1962) suggested, a little dogmatism is important to most science, maintaining the coherence of a community of researchers and

organizing its research agenda. Imre Lakatos (1970) argued that the defense of a hard core of unquestionable propositions is precisely what spurs the creativity of progressive research programs. Mainstream academic economics is very dogmatic about its core – methodological individualism and the general equilibrium apparatus. It is unfair to single out Marxists for dogmatism. Rather, it is the scholasticism that is the problem – the apparent need to ground everything in a 140-year-old text. The likes of Kliman are not dogmatic in the sense that they demand unthinking acceptance of everything in *Capital* – it is obviously a lot of intellectual hard work to ‘interpret Marx correctly’. It cannot be taken for granted that Marx was right; it must be proven anew with each generation, and proven against rival interpretations, and against the accretion of alterations the previous generation had found necessary to make.

It would be a mistake to contrast two paradigms only in terms of their intellectual content. Just as important to the constitution of a paradigm are the social structures of its reproduction and development. Modern neoclassical economics and Marxian economics could not be more different in this respect. The former is the overwhelmingly dominant paradigm in a mature, prestigious academic discipline. Students are introduced into a system of thought as a physics student might be, proceeding through textbooks, with exercises at the end of each chapter, with each section building on the ones before, and with each year’s textbooks adding complications and refinements to what was learned the previous year. The history of the received wisdom leaves traces only in the names attached to various concepts: ‘Pareto optimality’, ‘the Slutsky equation’, ‘Okun’s law’.

In contrast, Marxian economics is united mainly through shared adherence to a political tradition – a very fractious political tradition. It is academically marginal, with few institutional supports – its theorists tend to lead isolated scholarly existences, in a pocket of like-minded thinkers at best. It has never developed a mainstream of accumulating theory. Howard and King’s (1989; 1992) history of Marxian economics shows instead a succession of writers, occasionally coalescing for a time into schools, who have developed in one direction or another, only to be ignored or rejected by those who came after. There is a tendency for productive debates, which drive analysis forward, to peter out and be forgotten as the tradition repeatedly circles back to its founding text, its only common ground. Though it may not be the intention of anyone in

particular, interpretation of a text has repeatedly trumped interpretation of the world as each generation clears away what seems like accumulated clutter to read *Capital* anew for themselves.

There is of course a lot to be said for reading *Capital*. When we do, it is easy to see why the temptation to clean the slate and return to it is so strong: the received interpretations we have absorbed seem so distorted: some elements blown way out of their proportion in the text – like the tendency of the profit rate to fall – and many others largely forgotten – like the treatments of competition and of the banking system in Volume III. The writing is richer than most interpreters can hope to match. The powerful charm of the book is clear to anyone who reads it.

But there is a problem in taking *Capital* as a fully-formed alternative to modern economics – the political economy Marx engaged with in his critique was a very different beast. *Capital* is a work of the 1860s, through and through. No matter how fundamental the critique, both form and content are shaped by the object of criticism. Classical political economy leaves its traces in *Capital* both in the questions Marx believed needed answers and in his approaches to answering them – even though these were of course novel in many respects. More than 140 years down the track, reading *Capital* without much knowledge of its intellectual context, it is easy to misidentify what exactly the novelties were. Holding a fundamentalist reading of *Capital* against modern economics often involves anachronistically defending the concerns and framing of mid-Victorian political economy rather than any particularly radical criticism of economics past or present. Marx himself, with his insistence on historicising ideas, would be appalled.

It is not only that we can we learn a lot from engaging seriously with modern economics – within which I include both neoclassical and Keynesian frameworks, as well as minority strands like the Swedish tradition of monetary theory and post-Keynesian analysis. It is also that these traditions have developed new and sometimes stronger arguments for propositions we would still reject, but which Marx's treatment gives no adequate answer to. I will outline two examples, very briefly, which illustrate both sides of this coin: Marx's rejection of supply-and-demand explanations of value, and his rejection of the quantity theory of money.

## The ‘Labour Theory of Value’ and Supply-and-Demand Analysis

It is often said or implied that Marx proposed a ‘labour theory of value’, and that it is an alternative explanation of value, superior to something called ‘supply-and-demand analysis’. (Of course, for Marx ‘value’ referred to much more than relative price, but it is this aspect I deal with here.) Marx never used the phrase ‘labour theory of value’ and he is quite explicit in *Capital* that commodities do not even *tend* to trade at prices proportional to the labour time socially necessary to produce them, because of different compositions of capital. Still, it is not entirely ridiculous to call his theory a labour theory of value, since early in the first volume he describes abstract labour time as the ‘substance’ of value, and presents the modifications to relative ‘prices-of-production’ due to different compositions of capital as transformations of an analytically prior system of labour values.

It is easy to find passages in Marx’s writing where he dismisses supply-and-demand theories of value, on the grounds that imbalances in supply and demand explain fluctuations of market price around prices-of-production, but cannot explain the point at which supply and demand balance. For example:

If two forces act in opposing directions and cancel one another out, they have no external impact whatsoever, and phenomena that appear under these conditions must be explained otherwise than by the operation of these two forces. If demand and supply cancel one another out, they cease to explain anything, have no effect on market value and leave us completely in the dark as to why this market value is expressed in precisely such a sum of money and no other (Marx, 1981: 291).

This seems very clear-cut, and is quoted in many places as Marx’s knockdown argument against neoclassical theories of value (see, e.g., Harvey 2006: 9-10). But it is not, because the marginalists who inaugurated neoclassical analysis meant something quite different by ‘supply and demand’. They thought in terms of supply and demand *schedules* or curves – this is precisely what constitutes the marginalist revolution and separates the neoclassicals from the classicals. Supply and demand were no longer conceived as ‘forces’, as Marx puts it, but as complexes of counterfactuals stating what quantity of a commodity

would be offered or purchased at different prices, given certain other factors like income and the prices of other related goods. Schumpeter writes in his *History of Economic Analysis*:

The concepts, so familiar to every beginner of our own days, of demand *schedules*, or curves of willingness to buy (under certain general conditions) proved unbelievably hard to discover and to distinguish from the concepts – quantity demanded and quantity supplied (1954: 602).

It is the latter that most classicals meant by supply and demand, and in this context it makes perfect sense for Marx to complain that ‘supply and demand’ settled nothing, and that the real question was what determined the levels of supply and demand. But the marginalists’ apparatus of supply and demand schedules was a framework for answering this question. Marx could not be expected to have engaged with this literature in the 1860s, for the simple reason that it did not appear widely until the 1870s (the inevitable isolated forerunners aside).

However, ironically for those who quote the above passage from *Capital* against marginalist analysis, it appears in the middle of a section of Volume III in which Marx develops arguments which look distinctly like the neoclassical concept of the elasticity of demand with respect to income and price. For example:

It appears, therefore, that there is a certain quantitatively defined social need on the demand side, which requires for its fulfilment a definite quantity of an article on the market. In fact, however, the quantitative determination of this need is completely elastic and fluctuating. Its fixed character is mere illusion. If means of subsistence were cheaper or money wages higher, the workers would buy more of them, and a greater ‘social need’ for these kinds of commodity would appear... (Marx, 1981: 290).

Elsewhere in the same volume, he writes:

It is evident ... that the expansion and contraction of the market depends on the price of the individual commodity and stands in inverse relationship to the rise or fall in this price. It happens in fact, therefore, that a rise in the price of raw material does not lead the price of the manufactured product to rise in the same proportion, or to fall in the same proportion when the price of the raw material falls (*ibid.*: 203).

You can practically see the demand and (flat) supply curves. And here he edges towards the concept of price *inelasticity*:

At a given price, a species of commodity can only take up a certain area of the market; this area remains the same through changes in price only if the higher price coincides with a smaller quantity of commodities and a lower price with a greater quantity. If the demand is so strong, however, that it does not contract when price is determined by the value of commodities produced in the worst conditions, then it is these that determine market value (*ibid.*: 279).

My point here is not to say ‘aha – Marx anticipated Alfred Marshall’. These are scattered fragments not developed into a coherent statement<sup>1</sup>. Neoclassical concepts could actually be a tool to deal more systematically with this kind of problem, which Marx evidently felt was worth engaging with. But more broadly, my point is that there is perhaps not such a gulf between Marx and certain aspects of neoclassical analysis as is often implied. Marx believed Ricardo’s labour theory of value was a great advance over Adam Smith’s eclectic ‘adding-up’ theory of value, which neglected the interdependence of wages, profits and rent. But the labour theory of value had problems of its own, most prominently the awkwardness involved in modifying labour values to take account of differences in capital intensity. Both Ricardo and Marx were well aware of the problem, but it is hard to avoid seeing Marx’s ‘transformation’ solution as ad hoc in the manner of Ptolemy’s epicycles, even if put in a logically coherent form.

I have suggested that there are elements in *Capital* that point beyond the labour theory of value and towards supply-and-demand analysis, and I believe that any adequate theory of value needs to do this. It is not such a challenge to the basic results of the labour-value analysis as it may seem, either. Alfred Marshall himself argued that his marginalist analysis did not undermine Ricardo’s theory of long-run value, because in the long run producers shift between sectors chasing abnormally high and fleeing

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1 Hollander’s (2008) study of Marx’s economics emphasises the supply-and-demand aspects in *Capital*. See especially 13-17. Working in the 1920s, Issak Rubin noticed these passages also and devotes one of his ‘essays on Marx’s theory of value’ to the relationship between Marx’s theory of value and neoclassical theories of price, explicitly translating Marx into supply and demand curves (Rubin, 1972: 185-221).

abnormally low returns to their investments, so that supply conditions determine price. Demand matters in the long run only to the extent that the quantity produced and sold affects the cost of production, due to economies of scale, inputs whose supply can be increased only at increasing cost, *etc.* (Marshall, 1920: 302-15; 670-76).

That demand or ‘social need’ could influence socially-necessary labour time and therefore value, Marx was fully aware.

There seems little for Marxists to fear from importing the concepts of supply and demand schedules. The critical importance of labour time does not disappear, but can actually be put on a firmer footing, because it makes possible (1) a more elegant treatment of relative prices than the classical multi-stage analysis in which the impact of labour, capital and land are dealt with sequentially; and (2) a framework for dealing with relative prices in both the short and long run, and the relationship between them, whereas the classical analysis generally neglects the short run or leaves it indeterminate.

## **Critique of the Quantity Theory of Money**

My second example is Marx’s criticism of the quantity theory of money. Again, it is easy to find quotations to throw at modern monetarism, though monetarism is already a dead horse these days. He reverses the quantity theory’s direction of causality: given output and the velocity of circulating money, instead of the quantity of money in circulation determining the price level, the price level determines the quantity of money in circulation. The price level, which is the inverse of the value of money, is simply determined by the cost of extracting gold, or whatever the money commodity happens to be. Any excess money will be held in hoards: ‘The reserves created by hoarding serve as channels through which money may flow in and out of circulation, so that the circulation itself never overflows its banks’ (Marx, 1976: 232, and see Marx, 1970, for his most sustained critique of the quantity theory). When Marx introduces the banking system and credit-money into his analysis, the reflux of surplus banknotes plays a similar role to hoarding.

There are several problems with applying Marx’s critique of the quantity theory today. First, and most obviously, it assumes circulating money is a commodity or convertible at a fixed rate into a particular money-commodity. Where non-convertible fiat money circulates, Marx argues

that it is not hoarded and its value is determined along quantity theory lines. Even in the gold standard case, the money-commodity only acts as an anchor for the price level over the long run: as Marx well knew, the price level could depart for years at a time from the official value of gold in terms of the currency.

Finally, and most importantly, Marx does not adequately explain how micro-level hoarding and banking decisions are co-ordinated to leave just that quantity of money in circulation necessary to circulate commodities at the given price level. He treats the volume of commodities circulated in a period as exogenous, and hoarding as endogenous. But it is not clear how this can be sustained without some version of Say's Law holding output to be exogenous to circulation, which Marx repudiates elsewhere. When Marx introduces hoarding into his analysis, he states that (under developed commodity production) it occurs because producers need to accumulate reserves to cover 'the continual purchase of other people's commodities, whereas the production and sale of his own commodity costs time and is subject to various accidents' (Marx, 1976: 228). This corresponds to Keynes' (1936; 1937) transactions, precautionary and finance demands for money (at least, that of producers). But there is no reason why the hoarding motivated by the possibility of 'various accidents' should correspond to the level of hoarding necessary to keep the quantity of circulating money in line with some exogenous value of circulating commodities, given the velocity of circulation.

Likitikijsoomboon (2005: 163-64) notes that Marx's analysis of hoarding/banknote-reflux seems to be in conflict with his analysis of the credit cycle. In the latter, the rate of interest affects profit and thereby capitalist investment and ultimately commodity sales and production. In the former, the interest rate does not figure at all – neither by influencing hoarding nor the total value of commodities circulated. For Likitikijsoomboon, Marx made a mistake in siding with Tooke and Fullarton against the quantity theory, and a more consistent theory could be derived along the lines of Ricardo (*ibid.*: 172-73).

My own view is that, despite the problems, Marx rejected the quantity theory for good reasons. That he did not develop a fully coherent alternative comes, I think, from a failure to integrate the analysis of monetary income-expenditure flows with the analysis of the determination of value/production-price. These are separate questions in Marx's system: when he comes to discuss flows, he takes value for

granted, and vice versa. Elsewhere, I have discussed aspects of how this integration could take place, through an engagement with the Keynesian concept of liquidity preference and particularly post-Keynesian structuralist versions of it (Beggs, 2011: chapters 3, 10).

It is hardly surprising that Marx did not take this route himself. Given that there were few theoretical resources in the political economy of his time for dealing with income-expenditure flows, it is more remarkable that he made them as central as he did. According to Schumpeter (1954: 710), in this era only Tooke developed an ‘income theory of money’, which could have been developed in different ways, ‘one of which ends at Keynes’s *General Theory*’. Tooke was clearly influential on Marx’s theory of banking and interest, but less so on his theory of the value of money. More importantly, a theory of the value of money in the short run, during periods in which it stretches away from the gold anchor, was simply not seen as an independent phenomenon worthy of analysis, as it would become in the twentieth century when the anchor loosened and dropped away. It was enough to know that the anchor would assert itself eventually. The problem for the state or central bank was not the value of money per se, but the convertibility of particular monies. But in our world of chronic, if low-level, inflation and floating exchange rates, we need different things from our monetary theory. We have no choice but to engage with new questions Marx could not have imagined.

### **‘The Vibe of the Thing’**

If we are to engage in these ways with modern economics, what is it, if anything, that makes the analysis distinctively Marxist? Some might answer, following Lukács, that it is Marx’s *method* that is all-important, so that even if:

recent research had disproved once and for all every one of Marx’s individual theses... every serious ‘orthodox’ Marxist would still be able to accept all such modern findings without reservation and hence dismiss all of Marx’s theses in toto – without having to renounce his orthodoxy for a single moment (Lukács, 1971).

This is not my answer. It seems to me that the perennially popular quest to extract a method from *Capital* and other works runs into similar

problems as those involved in constructing a self-sufficient Marxian economics. Marx was one of the most important founders of modern social science. But much has happened in the world of social philosophy and methodology since, and to insist on a pristine Marxian methodology is to cut ourselves off from this development.

I am tempted instead to borrow a line from the lawyer in that great Australian comedy *The Castle*. When asked by the judge what specific section of the Constitution was being breached, he replied, ‘it’s the vibe of the thing, your honour’. It is the two-fold project behind *Capital* as a critique of political economy: first to demonstrate the social preconditions for the concepts of political economy, and especially their dependence on class relationships; and second, to demonstrate these social relations as historical, not eternal.

These two strands of Marx’s thought are as valid as ever. The way to apply them today is not to maintain the form and content of *Capital* as a complete, separate way to approach economics, as if we are superior because we begin from superior principles. Instead, it is to approach modern economics as we find it and ask the same kinds of critical questions: what are the social conditions that make economic phenomena appear like that? We deal not only, not even mainly, with economic high theory, but also with the applied economics produced every day in the reports and statements of central banks, Treasuries, the IMF, etc., and ask, what are the implicit class relations here? Why are these the driving issues, at this point in history? What are the deeper social contradictions lying behind them? The pursuit of a separate system of economics as something wholly other from mainstream economics isolates us from the political and ideological space where these things take place: better, instead, to fight from the inside, to make clear the social and political content of the categories.

A side effect is that we learn to think for ourselves again about how capitalism works, to be able to answer the kinds of question DeLong raised against Harvey, no longer lost without the appropriate quotation. We come to meet the challenge Joan Robinson posed to a Marxist friend in her 1953 ‘Open Letter from a Keynesian to a Marxist’:

What I mean is that I have Marx in my bones and you have him in your mouth... Again, suppose we each want to recall some tricky point in *Capital*, for instance the schema at the end of Volume II. What do you do? You take down the volume and look

it up. What do I do? I take the back of an old envelope and work it out... (Robinson, 1980).

As undead Marxes go, I would rather have the kind of Marx in Joan Robinson's bones than either a Frankenstein Marx pieced together from scraps of quotations, or a Zombie Marx, embalmed in the 1860s and reanimated whole. That is a spirit that might haunt again.

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