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Value and price: A critique of neo-Ricardian claims

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Introduction

Michel Husson originally published this landmark article in French (Perez, 1980) under the name Manuel Perez, 35 years ago. This translation provides an Anglophone audience with a historic contribution to our understanding of Marx's theory of value. It offers a new generation of Marx scholars a resource which academic Marxism has rejected, except for a minority tradition in which this article played a foundational role: the opportunity to understand, and grapple with, Marx's own economics.

My aim in this introduction is to explain, to such new readers, the key role which Husson's article played. It appeared 9 years after Paul Samuelson (1971) pronounced Marx's value theory a failure, and 3 years after English Marxist Ian Steedman (1977) formally endorsed this verdict. Husson set out one of the first and in many ways the most comprehensive concise rebuttal of these claims.[1]

Several authors, at the time working independently, came to similar conclusions and in 1995 joined together to formalize them. Andrew Kliman proposed the term *Temporal Single System* interpretation (TSSI) of Marx to describe this school of thought, using the term 'Simultaneous Dual-System' interpretation (SDSI) to describe the interpretation employed by Samuelson, Steedman and most academic Marxists.

Husson's work was known to most early TSSI scholars, in particular the authors of *Marx, Ricardo, Sraffa* (Mandel and Freeman 1984) and those who subsequently wrote *Marx and Non-Equilibrium Economics* (Freeman and Carchedi 1996), the first definitive collaborative statement of TSSI. We regularly exchanged material in French, Italian and Spanish and were familiar with Husson's article. Yet unlike the above works, Husson's article remained unavailable in English and virtually unknown outside this circle.

Husson's pioneering critique engages the standpoint then known as 'Neoricardian'. This view, which still dominates academic Marxism (Freeman, 2010), had led most of its supporters by 1980 to conclude that Marx's economic arguments do not stand up to

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critical examination. Their judgement however stemmed from a particular reading, or *interpretation*, of Marx – the SDSI.

The distinction between a theory and an interpretation is critical, yet poorly understood. The confusion begins with the work of Tugan Baranowsky (1905) proposing a stationary equilibrium method for calculating values and prices of production upon which Bortkiewicz ([1906–1907] 1952, [1907] 1949) offered what he termed a 'correction' of Marx. Marx's mistake, says Von Bortkiewicz, is to suppose that value and price are formed in a 'succession' of periods. Famously, 'output' prices and values at the end of each period constitute the 'input' prices of the next period. This corresponds to the normal relations of market exchange, since sellers then receive the same money that the buyers pay.

Bortkiewicz, however, argued that the 'output' price of every commodity, that is the price it possesses when production is over, should be set equal to its price at the beginning of the *same* period, that is, before being produced. If value is treated in the same way, this yields two sets of simultaneous equations from which values, prices and the rate of profit are 'mutually' instead of 'successively' determined:

> Alfred Marshall said once of Ricardo: 'He does not state clearly, and in some cases he perhaps did not fully and clearly perceive how, in the problem of normal value, the various elements govern one another mutually, not successively, in a long chain of causation'. This description applies even more to Marx … [who] held firmly to the view that the elements concerned must be regarded as a kind of causal chain, in which each link is determined, in its composition and its magnitude, only by the preceding links … Modern economics is beginning to free itself gradually from the successivist prejudice, the chief merit being due to the mathematical school led by Léon Walras. (Von Bortkiewicz 1952: 23–24)

As Husson explains, this reformulation requires us to presuppose the economy to be in equilibrium, and this can only actually occur if prices and values are constant. 'Presuppose' is not an idle word. If we do not hold prices constant during each period, we cannot write down von Bortkiewicz's equations and can calculate neither the profit rate, nor prices, nor values. In short, we don't even know what they are. The assumption is not a simplification, a first approximation, or an option. If you don't make it, you have no theory.

As Husson explains, if Marx thought like Bortkiewicz, he would have had to presuppose the economy was in a stasis so perfect that nothing could disturb it: the classical formulation of general equilibrium theory. This flatly contradicts Marx's energetic, repeated and comprehensive rejection of any such idea. The very fact that Bortkiewicz terms it a 'correction' shows he understood Marx did not actually think this way.

The scene for 70 years of Marxist scholarship was however set by Paul Sweezy (1942), who in an influential endorsement of Bortkiewicz's work made a further change: he explicitly reinterpreted Marx as a general equilibrium theorist. He thus claimed that, actually, Marx did think in the way that Bortkiewicz recognized he did not:

> To use a modern expression, the law of value is essentially a theory of general equilibrium developed in the first instance with reference to simple commodity production and later on adapted to capitalism. (Sweezy, 1968:53)

The contradiction with Marx's explicit rejection of equilibrium is serious enough, but its consequences even more so. Sweezy's reading provided a cloak of respectability for Marx, but contained a poison pill: Marx's theory, thus reinterpreted, cannot work. His conclusions do not follow from it, making his theory 'logically inconsistent'. Thus was born the myth that 'Marx is inconsistent because he forgot to transform inputs'.

When Husson wrote, the consequence that most preoccupied Marxists was the infamous 'transformation problem'. Despite the mathematical complexity of the literature, the underlying issue is quite simple:[2] Is labour the only source of value and profit? Bortkiewicz's modification imposes one of two conclusions, represented by his two 'equalities':

> *Conclusion 1* follows if we suppose that the total value of all the goods produced in a single 'period'[3] is equal to their total price. In this case, total surplus value does not equal total profit, which means there is an additional source of profit, other than labour: Marx's theory of exploitation cannot hold.
>
> *Conclusion 2* follows if we hold total surplus value equal to total profit. In this case, total value is not equal to total price. There is thus a source of value other than labour, and Marx's theory of value cannot hold.

To unlock this conundrum, one further issue must be addressed. As Ramos-Martinez and Rodríguez-Herrera (1996) explain, a consistent reading of Marx shows that when a commodity's value is formed, the value transferred to it by consumed constant capital ('inputs') is the *transformed* value of this capital after circulation.[4] In this sense, price enters the determination of value, and value in turn enters the determination of price.[5] This is the origin of the term 'single system' in 'TSSI'.

But in neo-Ricardian systems, there is no such relation. One set of equations determines values, and the other determines prices. This is the origin of the term 'dual system' in 'SDSI'. The outcome is Samuelson's 'eraser' charge: that Marx writes down the value system, wipes it out and then writes down the price system. But it is Samuelson who wields the eraser, when he wipes out Marx's own solution. The problem is clearly explained by Husson:

> as Napoleoni (1972), cited by Benetti (1974) insists: 'Instead of the transformation of values into prices, we obtain a scheme which determines prices independently from values'. The prices of production are not transformed values and, a fortiori, the theory of value cannot claim to account for the determination of the rate of profit … [t]here does not exist – except in special cases – any way to get from values to prices of production, that is to say, any relation between the relevant variables or rates. In particular total profit, expressed in prices of production, cannot be connected to the mass of surplus-value produced during the period. The Marxist theory of surplus-value as source of profit is not only unnecessary, but also wrong.[6]

'In view of these results', he goes on to note,

> it is perfectly legitimate to conclude as do the collective authors of 'Value, Price and Realization' (*Auteur collectif*, 1976–1977) that: 'Consequently, if by "law of value" we understand a law according to which the prices of production of the commodities and social profit are directly

> or indirectly determined by the labour content of these commodities, then we are asserting a nonsense'.

Technically, the issue thus arises from the 'dual system' hypothesis, not from simultaneism as such, even though the dual system only came into being with the simultaneous interpretation. In consequence, a branch of theory has emerged which TSSI theorists refer to as the 'Simultaneous Single-System Interpretation' (SSSI), found most notably in the works of Moseley (1993) and Wolff et al. (1982), an intermediate approach termed the 'New Solution' being developed independently by Foley (1982), Duménil (1980) and others.

These authors reject dualism, but use equilibrium systems. Unlike SDSI authors, who offer almost no evidence to support their reading of Marx, and indeed see no reason to do so, SSSI authors usually supply a certain amount of hermeneutic evidence.

Can we know what Marx 'really meant'? As Kliman (2007) notes, when social scientists seek to determine what a theorist really means, they turn to the evidence of the writing itself, applying the objective criterion 'does our interpretation make sense of the theory?' Husson provides a detailed exegesis of Marx's own derivation of prices of production, meeting Bortkiewicz's charges and showing the 'correction' is not at all necessary.

As he points out, in Marx's temporalism, the number of variables is much greater than the number equations, unlike in simultaneous systems in which the wage is the only independent variable. Marx's theory of value supports an entire family of theories of the economy, depending on the further causal relations introduced. This should be expected of any general scientific system.

Behind this lies more than a mere method of calculation; the issue is the concept of determination. In temporal systems, relative prices are only fully determined in circulation, with all its complexities. Marx's theory merely defines those general aggregate laws which apply regardless of the outcome, and does not even begin to pretend to predict each individual price: They are a *result*, not a prediction. In contrast, simultaneous equation systems – including SDSI, SSSI, New Solution and Neoclassical General Equilibrium – allow, and completely fix, prices which must sustain a completely static system. This is more than a severe restriction: it guarantees these prices will never actually be realized. For example, all profit rates have to be equal. This never happens, and the differences, which Marx terms 'surplus profit', explain such fundamental features of a capitalist economy as unequal exchange, technical change and inequality.

Marx's value theory thus satisfies the minimum requirement of any scientific theory: it can represent all possible states of reality. Simultaneous methods are not only incapable of this but even predict magnitudes which cannot possibly happen. As Husson explains,

> Insofar as a mathematical formalization is used, the implications of such a property cannot be understated. The neo-Ricardian model must therefore answer to the most absurd of them. For sure, they demonstrate irrefutably that Marxist theory is entirely wrong (and also superfluous) – but by using a model in which blast furnaces exist for all eternity, whilst prefabricated houses have been built with the same methods of production for millennia.

Where does theory now stand? The wheel has turned another notch, as mainstream theory becomes increasingly incapable of explaining the current long depression, and a

new generation returns to Marx for answers. The difficulty they face is that 'Marxism without Marx' is incapable of providing a theoretically rigorous, or even plausible, explanation of what most people can plainly see.

No theory which presupposes equilibrium can explain crisis for the simple reason that they must *begin* by assuming the economy reproduces perfectly. Capitalist crisis is thus by definition impossible: to be precise, it may only occur if provoked by some factor external to the capitalist economy itself.

The first presentiment of this impasse came from the work of the Japanese Marxist Nobuo Okishio (1961) concerning the Law of the Tendency of the Rate of Profit to Fall (LTRPF).[7] Okishio's logic showed that if one interprets Marx's theory of value as the solution to a set of simultaneous equations, the LTRPF cannot be deduced from this theory.

This leads directly back to the question of interpretation. Okishio only proves Marx wrong if it is also proven that Marx's theory should be interpreted as a set of simultaneous equations. If we interpret Marx's theory in this way, we find that the rate of profit cannot fall, money is irrelevant (the famous 'veil' of the classics) and crisis is impossible. This makes nonsense of the remainder of Marx's theory. If on the other hand we interpret it as Husson proposes, as a set of difference equations producing a trajectory over time, we find all his major conclusions flow in a simple but mathematically rigorous way from the theory thus interpreted. Scientific, logical and hermeneutic criteria which have been developed over many decades tell us that Husson's interpretation is far more likely to be valid.

Okishio himself did not accept the implication that Western Marxists were to draw from it: that Marx possessed no theory of crisis. Moreover, he identified the restrictive nature of his conclusion quite clearly, in a comment rarely cited by those who consider his theorem a conclusive proof of Marx's error:

> My theorem, the so-called Okishio Theorem, is a comparative statics result. Therefore, it has no realistic meaning if capitalists' competition does not establish a new equilibrium … Many people have criticised the Okishio Theorem (Okishio, 1961). These criticisms have not persuaded me. However, I now think my assumptions were inappropriate.

Western Marxists received 'Okishio's Theorem' differently, and it entered the literature as a 'proof' that Marx's LTRPF could not logically be true. This is the topic of a major refutation by Kliman (1988), made general by Freeman (1996) and Ramos (1997).

Husson's paper not only contains the logical reconstruction of Marx on the basis of which this refutation becomes possible but clearly reconstructs, in Marx's own framework, the essential categories required to do so: that of organic composition, rate of profit and, in fact, value itself. The service it performs in this respect, although the paper is concerned with transformation rather than the LTRPF, is every bit as important.

One final point concerns the vital question of the development of theory. The citizens of planet earth desperately need a theoretically rigorous, empirically sound explanation of what is really happening to it. This, we find with every day that passes, is possible only on the basis of the laws of political economy which Marx discovered, to which access has been blocked by the Marxists themselves. However, TSSI, precisely because it is an

interpretation and not a theory, does not itself provide this explanation. Indeed, Marx himself would never have expected to provide a complete explanation of what would be happening in 130 years' time. It is the task of today's generations to develop these theories. Precisely for this reason, TSSI writers differ as to their actual explanation of events;[8] what is involved is the development of theory, not the promulgation of a doctrine. The point is that such theoretical exploration only becomes *possible* when Marx and economic theory are prized loose from the cold dead hands of equilibrium thinking. Husson's contribution, like all TSSI scholarship, is to make theory once again possible.

Thirty-five years have passed since this article established the full viability and validity of all those elements of Marx's theory required to understand the crisis; in that time, sadly, most Marxists have learned almost nothing from it. Under the hammer blows of the present crisis, the folly of such ignorance is clearer with every day that passes. Hopefully, by making it available to a new generation, *Capital and Class* will help lift the burden of all those dead generations which still, as Marx (2008 [1852]) observed, still weigh on the brains of the living like a nightmare.

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Notes

1. Murray (1973) provides key insights for this response.
2. In this controversy, the mathematical sophistication has served a threefold obscurantist purpose: to establish unearned authority based on pretended expertise, to intimidate the reader, and to prove that Marx, the author of the *Mathematical Manuscripts* (Marx 2012), knew no math. The problem is however not 'math or no math' but 'bad math or good math'. Dynamic math explains the facts; static math does not.
3. Von Bortkiewicz makes several additional assumptions too complex to deal with in a short introduction, including the assertion, taken from Tugan Baranowsky, that all capital turns over in exactly 1 year at exactly the same time – generating an entire category of further confusion about the laws governing the accumulation of capital.
4. Money is connected to labour time through a variable which, following Ramos (1997), they designate the Monetary Expression of Labour Time (MELT).
5. This reasoning is not circular, as Joan Robinson (1942) suggests, because each determination occurs at a different point in time and by a different mechanism – just as rain enters the determination of water levels when it falls, which then enters the determination of rainfall when it evaporates.
6. Potts and Kliman (2015) reproduce and comment on the 'non-debate' in *Capital & Class* between Kliman and Freeman, and Mohun and Veneziani, over Marx's exploitation theory of profit.
7. See Heinrich 2013, Kliman et al. 2014 and Carchedi and Roberts (2013) for the most recent discussion of this hotly debated topic.
8. See, for example, Kliman (2012), Carchedi and Roberts (2013), Freeman (2014) and Potts (2011).
9.
> In summary, 'transforming' from values to prices can be described logically as the following procedure: (1) Write down the value relations; (2) take an eraser and rub them out; (3) finally write down the price relations-thus completing the so-called transformation process.

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