The American Economic Review, Vol. 28, No. 1, Supplement,
Papers and Proceedings of the Fiftieth Annual Meeting
of the American Economic Association (Mar.,1938)

THE SIGNIFICANCE OF MARXIAN ECONOMICS FOR PRESENT-DAY ECONOMIC THEORY

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The subject of this discussion can be conveniently approached under three separate headings. First, I will say a few words about the significance of Marxian economics for the modern theory of value. Next, I propose to to advance toward the frontier line of contemporary theoretical discussion—the problems of business cycles and of progressive economy in general. I shall conclude this survey by raising certain issues connected with the methodological aspect of Marxian economics.

The modern theory of prices does not owe anything to the Marxian version of the classical labor theory of value nor can it in my opinion profit from any attempts towards reconciliation or mediation between the two types of approach. A number of economists who consider themselves as belonging to the Marxist school of thought have taken a similar stand, so that in stressing this point further I could be rightfully accused of trying to break into an open door.

There exists, however, in the value controversy one point which apparently did not attract sufficient attention. In the very first pages of the first volume of *Capital,* Marx raised against the "vulgar" (I guess he would call them today "orthodox" or "neo-classical") economists the accusation of "fetishism." Instead of looking for the ultimate deep-lying price-determinants, they operate, according to Marx, with superficial, imaginary concepts of supply and demand, money costs, etc., all of which refer to purely fictitious relations. Although these subjective concepts acquire in the mind of acting economic individuals the quality of independent, tyrannically dominating forces, actually they are nothing but the products of deliberate actions of the same individuals.

This typically Hegelian observation is strikingly correct. Is, however, the theoretical conclusion which Marx seems to draw from it actually justified? If it were, his criticism would indict modern price theory even in a greater degree than any of the theories of his contemporaries, John Stuart Mill, Senior, or Malthus.

Is not it a pure and simple fetishism to construct a theory of duopoly in terms of evaluation by Mr. Jones of Mr. Smith's expectations concerning Mr. Robinson's probable actions?

The procedure of the modern value theory comprises two clearly separable and fundamentally different types of analysis. First, it considers the behavior of individual entrepreneurs and householders in terms of their own economic motivations and explains this behavior in terms of their own notions—in terms of individual demand schedules as they appear to

them, of the monetary cost curves as they appear to them, and so on. Next, the modern theory shows how the actions of these individuals determine independently of their rational will and, using the famous Marxian expression, "behind their consciousness," the shape and position of the very same imaginary demand and cost curve.

In the first stage of his analysis, the modern theorist simply reproduces the rational considerations of entrepreneurs engaged in the business of maximizing their profits, and describes the reactions of consumers seeking the best possible satisfactions of their wants. In principle, at least, each individual knows this part of economic theory and acts accordingly. For the theorist, it would be inadmissible to introduce at this stage of his analysis any other concepts but those which dominate the mind of actual producers and consumers. He explains their actions in terms of their own beliefs and fetishes.

The opposite is true of the second part of economic theory, which could be called the theory of external interdependence. Here we analyze certain objective repercussions of individual economic activities entirely independently of the subjective attitude of the individual actors. As a matter of fact, and this has been repeatedly pointed out, a large part of theoretical analysis at this stage of argument is based on the assumption that the economic individuals concerned are ignorant of any such objective repercussions of their own activities. If they were to taste the apple of knowledge their behavior would become fundamentally different and our theoretical system would turn false the very moment it became the property of manufacturers, workers, or consumers.

At this level of the argument, the theorist actually removes the veil of subjective appearances and, instead of interpreting actions of economic individuals in terms of subjective motivations and beliefs, he explains these very beliefs and motivations in terms of objective actions and reactions.

What did Marx mean exactly in accusing the bourgeois economist of fetishism? If he simply wanted to intimate that the second stage of theoretical explanation constituted a necessary complement to the first, the modern theorist will heartily agree with him and point to the Walrasian theory of general equilibrium or the recently developed theory of monopolistic competition as two outstanding examples of this type of analysis. It must have been the guardian angel of Marx, the prophet, who made some of the modern theorists introduce expectations, anticipations, and various other *ex ante* concepts, thus justifying *ex post* some of the most vitriolic pages of the first volume of *Capital*. But I prefer to let these modern theorists settle their own account with Marx.

Should, however, the Marxian theory of fetishism be understood as a forthright condemnation of the first stage of our theoretical analysis—the stage which deals with conscious reactions of individual entrepreneurs

and householders—his objection must simply be turned down as fundamentally erroneous.

Unlike the modern theory of prices the present-day business cycle analysis is clearly indebted to Marxian economics. Without raising the question of priority it would hardly be an exaggeration to say that the three volumes of *Capital* helped more than any other single work to bring the whole problem into the forefront of economic discussion.

It is rather difficult to say how much Marx actually contributed to the solution of the problem. After years of intensive controversy, there is still no solution. I expect that this statement will not elicit any open contradiction, although I do not remember having read or heard a business cycle theorist admit that he was unable to solve this or that problem; the nearest he comes to such an admission is when he declares that the particular problem is insolvable, which implies that not only he but that also no one else will be able to solve it.

The two principal variants of the Marxian explanation of business cycles, or rather "economic crises," are well known. One is the theory of underinvestment based on the famous law of the falling rate of profits, the other is the theory of underconsumption. Both might contain some grain of truth. Which business cycle theory does not?

Scanning the pages of Marxian writings it is easy to find numerous hints and suggestions which can be interpreted as anticipating any and every of the modern theoretical constructions. Here is a curious example of this kind—an excerpt from a letter to Friedrich Engels, dated May 31, 1875:

> I communicated to Moor a story (*Geschichte*) with which I wrangled privately for a long time. He thinks, however, that the problem is insolvable or at least insolvable at the present time because it involves many factors which must be yet determined. The issue is the following one: You know the tables representing prices, discount rates, etc., in the form of zigzags fluctuating up and down. I have tried repeatedly to compute these "ups and downs" [the English expression is used by Marx]—for the purpose of business cycle analysis—as irregular curves and thus to calculate the principal laws of economic crises mathematically. I still believe that the task can be accomplished on the basis of a critically sifted statistical material.

Thus it appears that toward the end of his life Marx actually anticipated the statistical, mathematical approach to the business cycle analysis. An approach which, incidentally, only recently was declared by an authoritative Soviet Russian textbook on mathematical statistics to be nothing else but an insidious invention of the Intelligence Division of the French General Staff.

The significance of Marxian economics for the modern business cycle theory lies, however, not in such indecisive direct attempts toward the final solution of the problem but rather in the preparatory work contained mainly in the second and partly in the third volume of *Capital*. I have in mind the famous Marxian schemes of capital reproduction.

Whatever the ultimate clue to the final theoretical solution might be, an intelligent discussion, not to say explanation, of economic fluctuations must be based on some kind of a theoretical model revealing the fundamental structural characteristic of the existing economic system. In this field the original contributions of post-Marxian economics are rather uncertain. On the one hand, we have the Walrasian scheme of *m* householders and *n* individuals, each one buying from and selling to the other. It is pretty certain that in terms of a schematic picture of such extreme generality it would be hardly possible to give an adequate realistic description of the process of economic fluctuations.

On the other hand, there is the well-known Böhm-Bawerkian model of a simple linear flow of commodities and services, originating in some distant point where only land and labor are being applied and emptying itself, after a greater or smaller number of intermediate stages, into the final reservoir of finished consumers goods. The picture certainly does not lack concreteness. Unfortunately its concreteness is utterly misplaced.

The actual structure of the present-day economic system is anything but linear. The mutual interrelation of industries is anything but that of simple vertical succession and—what is particularly important—that initial stage characterized by exclusive application of the "original factors of production" is nonexistent. If Böhm-Bawerk did actually set out in search of this hypothetical first stage, he would find himself now still on the road.

The controversial issue is not of mean importance. It affects even such relatively simple problems as, for example, the question of substitution of machinery for labor. If approached without preconceived notions, the matter is a rather simple one. Should, let us say, the price of "horse labor" increase in relation to the costs connected with the operation of a tractor, the farmer would substitute tractors for horses. The demand for horses would decrease. If horses were able and willing to exist on smaller hay rations the postulated price discrepancy would disappear and they would find complete employment at a lower level of "forage rates." Otherwise serious unemployment appears to be inevitable. Put the word "workers" instead of "horses," "wage rates" instead of "forage rates," and "entrepreneur" instead of "farmer" and you have a fairly accurate statement of the problem and its solution.

Now comes the compensation theorist and objects. According to him, the price of tractors could not fall in relation to the price of horses in the first place. Referring to the vertical structure of the Böhm-Bawerkian scheme he substantiates his objection but points out that "in the last instance"—in the famous first stage—all mechanical instruments are produced by labor and land alone and concludes that an increase in the price of labor would necessarily cause an equivalent rise in the tractor price.

If a faulty structural picture of our economic system can produce con-

fusion even in the discussion of a relatively simple theoretical problem, it is bound to raise havoc with the incomparably more complicated analysis of cyclical business fluctuations.

Marx successfully combated the Böhm-Bawerkian point of view in attacking the contemporary *théorie des débouches* of Jean Baptiste Say. He also developed the fundamental scheme describing the interrelation between consumer and capital goods industries. Far from being the *ultimo ratio* of this line of analysis, the Marxian scheme still constitutes one of the few propositions concerning which there seems to exist a tolerable agreement among the majority of business cycle theories. It is interesting to note in this connection that even Professor Hayek, as can be seen from his recent articles, is busy reconstructing his own triangular investment diagram. One does not need to be a prophet to predict that sooner or later he will present to us a circular arrangement of the orthodox Marxian type.

The controversy which thus seems to be drawing toward a happy ending has incidentally put both disputing parties into a rather paradoxical situation. The dean of the bourgeois economists insisted on theoretical reduction of all capital goods to pure labor; he was opposed by the formidable proponent of the labor theory of value in the rôle of a defender of the independent, primary function of fixed capital.

However important these technical contributions to the progress of economic theory, in the present-day appraisal of Marxian achievements they are overshadowed by his brilliant analysis of the long-run tendencies of the capitalistic system. The record is indeed impressive: increasing concentration of wealth, rapid elimination of small and medium sized enterprise, progressive limitation of competition, incessant technological progress accompanied by the ever growing importance of fixed capital, and, last but not least, the undiminishing amplitude of recurrent business cycles—an unsurpassed series of prognostications fulfilled, against which modern economic theory with all its refinements has little to show indeed.

What significance has this list of successful anticipations for modern economic theory? Those who believe that Marx has said the last word on the subject invite us to quit. The attitude of other somewhat less optimistic—or should I say pessimistic—critics is well expressed by Professor Heimann: "Marx's work remains by far the most comprehensive and impressive model of what we have to do." The whole issue of the significance of Marxian economics for modern theory is thus transformed into a methodological question.

I enter this higher plane of discussion with feelings of considerable reluctance and serious apprehension. Not that Marx and his followers were sparse in their contributions to controversial methodological questions; on the contrary, it is rather the overabundance of contradictory and, at the same time, not very specific advice that makes it so difficult to find

our way through the maze of divergent interpretations and explanations. It was in the same spirit of despair that Marx himself, in one of his lighter moods, exclaimed, "I am not a Marxist."

Roughly all these methodological prescriptions can be divided into two groups. On the one side are the general considerations, which, although highly interesting from the point of view of philosophy and the sociology of knowledge, are entirely nonoperational from the point of view of practical scientific work. It might be true, for example, that a bourgeois economist, by the very virtue of his social and economic position, is essentially unable to recognize the driving forces and to discern the fundamental relations which govern the rise and fall of capitalist society. But what can he do about it? Give up teaching and investigating and join the proletarian ranks? This might render him a more useful member of society, but will anybody seriously maintain that such a change could improve his economic theory?

Into the same group of essentially nonoperational prescriptions I would also place all references to the efficiency of the dialectical method. It might be true that the concept of unity of opposites inspired Newton in his invention of infinitesimal calculus and helped Marx in his analysis of capital accumulation—at least it would be rather difficult to disprove such contentions—but it is very doubtful whether even a most careful reading of Engel's exposition of this principle could help Mr. Keynes, for example, with his solution of the unemployment problem.

On the other hand, Marxian methodology seems to contain some more concrete principles and concepts which deserve serious and detailed consideration. It is this aspect of the problem which was so ably brought to light by Dr. Lange in his brilliant article on "Marxian Economics and Modern Economic Theory."[1] Translating the Marxian slang into the vernacular of modern economics, he defines the issue at stake as the problem of data and variables in economic theory.

Admitting the superiority of the modern equilibrium theory, Dr. Lange tries to explain the marked success of Marxian prognostications by the particular attention which the author of *Capital* gave to the treatment of his data. It is an interesting thesis and it deserves a closer, critical scrutiny.

Data comprise all those elements of a theory which are used in the explanation of the variables but are not explained themselves within the system of the same theory, i.e., they are simply considered as being "given."

Among these there are first of all those general propositions which indicate whether we are going to talk about cabbages or kings and thus describe the general "universe of discourse," as the logician calls it. These data are predominately qualitative in character. The so-called institutional assumptions of economic theory belong to this first category.

[1] *Review of Economic Studies,* June, 1935.

Marx persistently derided contemporary classical economists for their failure to specify explicitly the institutional background of their theories. He was doubtless right and the same criticism applies equally well to some of the modern theorists. Fortunately enough in the process of their actual work the bourgeois economists implicitly and maybe even unconsciously framed their theories in complete accordance with the fundamental, relevant facts of the institutional background of capitalist society. Thus the subjective methodological shortcomings did not impair the objective validity of their theoretical deductions.

The second type of data comprise statements of basic interrelations which constitute the immediate point of departure for derivation and formulation of specific propositions of our theoretical system. Technical production functions, shapes of the demand curves describing the consumers choice, schedules of liquidity preferences—all these are examples of this second type of data. They are predominately quantative in character.

It is this category of data which was meant by Clapham in his famous reference to the "empty boxes of economic theory." The boxes are not much fuller now than they were twenty years ago, but the Marxian theory hardly contains the stuff which could be used to fill the vacuum.

Dr. Lange seems to be of a different opinion. He points out in this connection the concept of technological progress as the mainstay of the Marxian theory of economic evolution of the capitalist society. This progress is being made responsible for the formation of a permanent army of unemployed which in its turn is supposed to prevent the otherwise unavoidable absorption of all profit by an ever increasing national wage bill. Dr. Lange's statement of the problem suffers, however, from serious ambiguity.

As indicated before, substitution of machinery for labor can easily take place without new inventions, simply through movement from one point of a given production function to another. Reduced interest rate due to ever increasing supply of accumulated capital might easily lead to such a result. The technical datum—the technical horizon of the entrepreneur—will remain in this case as stable as for example the cost curve of a monopolist might remain stable while he is changing his position by sliding along his curve in response to some demand variations.

A quite different phenomenon takes place when an entrepreneur reduces his demand for labor not in response to changing interest or wage rates but because a previously unknown new invention makes it profitable to use less labor and more machinery, even if interest as well as wage rates were to remain the same as before. Here we are facing a genuine change in primary technological data.

Both types of adjustment mark the evolution of capitalist economics. Dr. Lange does not seem to make a clear-cut distinction between the two, but the general drift of his argument points toward the second rather than first

type of labor displacement. Neither is the position of Marx himself particularly clear. The great stress put upon the process of progressive accumulation, which the author of *Capital* considers to be a necessary condition of the very existence of the present economic system, indicates that it is rather the first type of substitution which he has in mind.

Anyway, the fact that the Marxian theory lends itself on this point to so many different interpretations, shows that in so far as the careful specifications and analysis of basic data is concerned, it is rather the Marxist who can learn from modern economists than vice versa.

Finally we come to the third and last aspect of this methodological conflict. Modern economic theory limits itself to a much narrower set of problems than that which is included in the scope of Marxian economics. Many items treated as data in the first system are considered to be in the group of dependent variables in the second. In so far as the general methodological principle is concerned any effective extension of a theoretical system beyond its old frontier represents a real scientific progress.

To avoid a misunderstanding it must be kept in mind that such extension cannot possibly result in a complete liquidation of independent data. It simply replaces one set of data by another. So, for example, if we were to include governmental action as a dependent variable within the system of economic theory, the amount of public expenditure of the height of import tariffs had to be considered as a function of some other economic variables in the same way as the output of a firm in competition is considered to be a function of the prevailing market price. It is perfectly obvious, however, that the first type of relationship is much less definite in its character than the second. This, I think, is the reason why the modern economist is reluctant to discuss both types of interrelations on the same plane. And he is right because neither part can profit from such artificial connection, which does not mean that the result of the two types of investigation could not and should not be fruitfully combined in attempts toward some kind of a wider synthesis. Occasional alliances and frequent co-operation are, however, something quite different than radical unification accompanied by complete obliteration of existing border lines.

Neither his analytical accomplishments nor the purported methodological superiority can explain the Marxian record of correct prognostications. His strength lies in realistic, empirical knowledge of the capitalist system.

Repeated experiments have shown that in their attempts to prognosticate individual behavior, professional psychologists systematically fall behind experienced laymen with a knack for "character reading." Marx was the great character reader of the capitalist system. As many individuals of this type, Marx had also his rational theories, but these theories in general do

not hold water. Their inherent weakness shows up as soon as other economists not endowed with the exceptionally realistic sense of the master try to proceed on the basis of his blueprints.

The significance of Marx for modern economic theory is that of an inexhaustible source of direct observation. Much of the present-day theorizing is purely derivative, secondhand theorizing. We often theorize not about business enterprises, wages, or business cycles but about other people's theories of profits, other people's theories of wages, and other people's theories of business cycles. If before attempting any explanation one wants to learn what profits and wages and capitalist enterprises actually are, he can obtain in the three volumes of *Capital* more realistic and relevant firsthand information than he could possibly hope to find in ten successive issues of the *United States Census,* a dozen textbooks on contemporary economic institutions, and even, may I dare to say, the collected essays of Thorstein Veblen.