

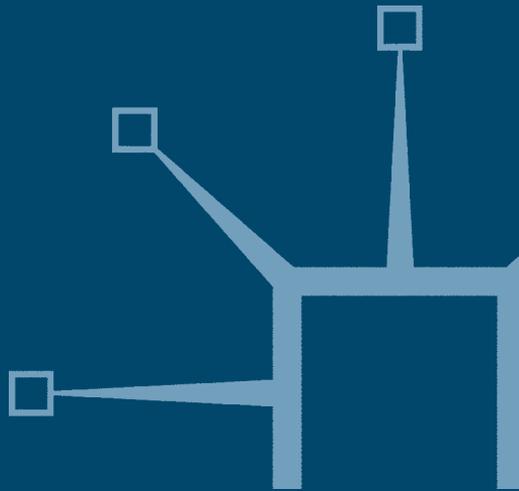
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# Value and the World Economy Today

Production, Finance and Globalization

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Edited by  
Richard Westra and Alan Zuege



# Value and the World Economy Today

*Also by Richard Westra and Alan Zuege*

PHASES OF CAPITALIST DEVELOPMENT (co-edited with Robert Albritton and Makoto Itoh)

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**Production, Finance and Globalization**

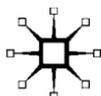
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# Introduction

*Richard Westra and Alan Zuege*

The aim of this collection is to advance and encourage cross-fertilization between two literatures: the conceptual debate over the foundations of political economy and concrete research on the world economy today. In meeting this challenge, the volume assembles original and innovative work from leading scholars who have written on both topics. The contributors hail from eight countries – Australia, Canada, France, India, Japan, South Korea, the UK and USA – and represent important schools of thought in political economy. Together, they bring a rich variety of intellectual traditions and critical perspectives to bear on this historical turning point in the global system.

The seeds of the modern debate over the theory of political economy lie in the development of capitalism in the eighteenth and nineteenth centuries. The political and social ferment of this period generated a variety of intellectual responses seeking to comprehend this radical social transformation and to explain the basic workings of the capitalist market which had emerged. The theories of Adam Smith and David Ricardo, as well as the fundamental ‘critique of political economy’ developed by Karl Marx, advanced alternative frameworks which, for all their differences, shared the assumption that beneath the surface of everyday market exchange lies a process of determination which had to be revealed by theory. The debate over the theory of ‘value’ however, both then and now, has encompassed more than just the determination of market prices of commodities. Rather, the controversy goes to the very heart of our understanding of the historical modalities of the distribution of power and production of wealth in society.

The evolution of the first ‘value debate’ was thus closely bound up with the flux of social relations in which it was embedded. The sharpening of class struggles and the appropriation of Ricardo’s labor theory of value by the socialist movement soon generated a broad challenge to classical political economy, one which would lay the basis for modern day neo-classical economics.<sup>1</sup> What the ‘Marginalist Revolution’ of the 1870s accomplished, in one sleight of hand, was to shift the terms of debate from the concern with the social relations of the production of wealth – the source and distribution of value – to the narrow question of the optimal allocation of resources under conditions of scarcity. The centerpiece of the ascendant neo-classical school was a theory of relative prices which purports to explain the allocation process based on the ‘opportunity cost’ of market participants. The broad applicability of this price theory and its ideological role

in rationalizing the capitalist system in terms of free and voluntary market exchange secured for neo-classicals a central place in the discipline they redefined as a 'separate science' of Economics, pushing the theory of value and critical political economy to the margins of debate.

Despite its diminished position, Marxist and radical political economy developed and transformed throughout the twentieth century.<sup>2</sup> But the last 25 years in particular have seen an international resurgence of work in critical economic theory and a reopening of the value debate, culminating most recently in a remarkable diversification of research on quantitative and qualitative aspects of political economy. A genuine plurality of positions – some old, some new – have emerged. Included among these are various attempts to defend, develop or critique Marx's conceptual and mathematical framework connecting values and prices.<sup>3</sup> New approaches to the philosophy and method of political economy have also been proposed, with particularly intense debate focusing on the role of dialectical logic and the value form in Marx's *Capital*.<sup>4</sup> Meanwhile, others have sought to reconstruct or strengthen central pillars of political economy, such as the theories of exploitation, money, competition and 'unproductive' labor.<sup>5</sup> Collectively, these contributions at the theoretical, methodological and empirical frontiers of political economy have helped to rejuvenate interest in heterodox approaches, especially in the rediscovery and development of Marx's project, and to establish firmer foundations for progressive research. To this extent the contemporary value debate – prominent contributors to which are featured in the present volume – has arguably produced some of the most original and sophisticated advancements in critical economic theory to appear for almost a century, developments that bring a new level of analytical rigor to the challenge to mainstream economics.

The revitalization of debate in political economy may have expanded and deepened the critique of conventional economic thought, but it has also yielded a number of *competing* theories of value – theories which offer alternative conceptions of capitalism and diverging explanations of the observable movements of actually existing capitalist societies. The controversies in value theory include but are by no means limited to textual disputes, philosophical controversies and mathematical formalizations. While the value debate retains a focus on the consistency and rigor of rival conceptions of value, a crucial challenge for the new approaches remains to demonstrate their explanatory potential against real world developments. The essays in this collection represent a development of the debate on both of these fronts.

The contributors to this volume articulate and develop a number of unique approaches which have staked out key positions in recent value-theoretic debate. In the course of doing so, the distinctions between different interpretations come into sharper focus, and these distinctions can be seen to inform different readings of the tendencies of contemporary

capitalism: the changing technical and social organization of production, the process of capitalist globalization and international competition, the development of global finance, the anatomy of market breakdown and mechanisms of economic crisis, and the impact of consumerism on human subjectivity, among other themes discussed. These dramatic structural transformations of the past two decades are not mere objects of analysis for the new thinking in political economy. The growth of economic instability and social polarization, and the upheavals which follow in their wake, place new demands on theory to make sense of a changing reality. The renewal of critical political economy as such is more than just an 'internal' debate or ongoing dispute with orthodox economic theory; it gives intellectual expression to a growing chorus of resistance to the concrete policies and practices inspired by that orthodoxy.

The interest in the role of value theory in economic explanation has grown amidst rising dissatisfaction with the ability of neo-classical economics and mainstream perspectives to account for changes in the global economy. The propensity for crises that beset the advanced capitalist economies throughout the last three decades; the wild policy swings by capitalist states (administered by political parties of both right and left) initially committed to full employment and massive social expenditure, now defending neo-liberal austerity programs and attrition against workers; the emergence of international financial markets that operate more like global casinos than providers of liquidity for investment or trade; the growing international balance-of-payments asymmetries and global polarization of wealth – all of this is far removed from the mathematically 'elegant' models of orthodox economics with its fossilized assumptions of perfect competition, static equilibrium, factor price equalization, and so forth. Consequently, even economists in the mainstream academy have struggled to adapt, revising neo-classical methodology and extending the scope of their work to encompass areas, such as corporate governance, the global financial architecture, and various dimensions of institutional change and 'economic sociology,' that were previously the domain of critical traditions and research at the fringes.<sup>6</sup>

This volume hopes to contribute to the advancement and relevance of political economy in a number of ways: to present side-by-side a number of developed schools of thought emerging from recent theoretical, methodological and empirical debates; to relate them more explicitly to analysis of the inner workings of capitalism today; and to promote further dialogue across perspectival and disciplinary boundaries.<sup>7</sup> The contributors demonstrate how across complex and topical spheres of research – the impact of new financial instruments such as 'derivatives'; the relationship between money, global finance and economic crises; the role of managerial labor in corporate governance; globalization and neo-liberal economic policy; the precise dynamics of capitalist crisis and economic cycles; the limits of

freedom and equality in the age of consumerism; and the lessons and relevance of the theory of value for today – critical economics can be a key which opens the door to rich and elucidative analysis. And it is hoped that, by bringing closer together the intertwined projects of honing political economists' conceptions of capitalism in theory and drawing out their implications for the current conjuncture, this volume will play an under-laboring role for debate in political economy for years to come.

We are bombarded today with a new and expanding 'common sense' economic vocabulary: international competitiveness, flexibility, the new economy, financial 'flu,' market 'correction,' downsizing, cutbacks, claw-backs and deregulation (to name but a few buzzwords) are bandied about in academic circles and the popular press with reckless abandon. To assess the inner connections and implicit claims that underlie this vocabulary it requires a proper theory. The contributors to this volume share the view that the gateway to rendering intelligible the complex and often hidden workings of the world economy today is critical political economy.

## Notes

1. See for example Dasgupta (1985: Chapter 6).
2. Howard and King (1992) provide a detailed history.
3. Surveys from various perspectives may be found in: Fine (1986; and his contribution to this volume); Freeman and Carchedi (1996), Callari, Roberts and Wolff (1998), Foley (2000a), and Saad-Filho (2002).
4. For a tiny sampling of this voluminous literature, consult the following sources: Reuten and Williams (1988), Mohun (1994a), Moseley (1993a), Moseley and Campbell (1997), Albritton (1999), Albritton and Simoulidis (2002), Brown *et al.* (2002), Arthur (1998, 2002: Chapter 1), and Saad-Filho (2002: Chapters 1, 2).
5. Just a few examples of the diverse efforts which have opened up new vistas in value analysis and empirical research include: the disparate approaches – from Roemer's (1986) earlier work to Saad-Filho's (2002) recent writings – taking up the concept of exploitation; the growing literature on value and the theory of money (for recent surveys and discussions see Itoh and Lapavitsas 1998; Nelson 1999; Williams 1999; Freeman 2001a); applications of a developed Marxist theory of competition by Bryan (1985, 1986, 1995a), Botwinick (1993) and others; and the systematic empirical work by Moseley (1991), and Shaikh and Tonak (1994) incorporating the distinction between productive and non-productive labor.
6. On these developments, see Fine (1997).
7. In this sense, the present collection follows upon a previous volume (Albritton *et al.* 2001) in the effort to bring various schools of critical political economy into dialogue over the central questions of applied and theoretical political economy.

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# **Part I**

## **A Retrospective on the Value Debate**

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# 1

## Value Theory and the Study of Contemporary Capitalism: A Continuing Commitment

*Ben Fine*

### **The dialectics of debate**

Controversy has raged over Marx's labor theory of value from the time that it was first put forward. The debate has had two closely related aspects. One has concerned how value should be interpreted. For example does Marx's theory differ from Ricardo's and, if so, how and why? Is it a matter of definition or method? On the other hand, assuming agreement on the nature of Marx's value theory, there is the question of whether it is valid or not.

Here the debate has exhibited a paradox. For those who reject the labor theory of value often do so by appealing to exactly the same factors that endear it to its supporters. This is most notable in the so-called transformation problem. Critics of Marx suggest that the divergence between value and price, in the presence of wages and profits (and differing compositions of capital) undermines the labor theory of value. But supporters argue that it is the very divergence between value and price that makes value theory essential. Not surprisingly, these differences reflect methodological and theoretical issues. But the paradox in the realm of debate is not accidental for the reason that the economy, and society more generally, evolve on a contradictory basis. As society becomes more developed and complex, does this undermine the validity and necessity for value theory, or does the latter remain essential as the abstract basis on which to reconstruct and comprehend complex outcomes?

It is important to recognize that two separate, but closely related, methodological factors are involved here. The first is whether the features of the capitalist economy that are common across all of its history are amenable to explanation by reference to value theory – do we need the labor theory of value to explain wages and profits, or the course of economic growth and crises? The second issue is whether particular periods of capitalism, especially the more developed, reinforce or undermine the validity of value theory – as in monopolization, for example, or the growth of unproductive labor in the

'service' and other sectors. Whilst contributors to political economy and the value debate have always confronted each other across these analytical divides, it has meant that value theory has always been on the defensive. On the one hand, it is subject to continuing assaults for what are taken to be its underlying weaknesses. On the other hand, it is perceived to be inflexible in responding to historically new features of capitalism, both analytically and empirically. In short, is value theory, for example, appropriate at all as the basis for a theory of price and, if so, does it remain appropriate for monopoly pricing?

In this chapter, whilst highlighting this dialectic, I intend to put some emphasis on the positive case for the labor theory of value rather than, as is characteristic of most of the favorable literature, seeking to defend the theory against the mountain of criticism to which it has been subjected. Almost inevitably, the positive case for value theory has been overshadowed and influenced by the weight of argument leveled against it. As a result, the basic reasons and methods underlying Marx's value theory become inadvertently set aside or, as is to be suspected for much of the literature, scarcely consulted let alone absorbed and understood. Instead, a parody of Marx's political economy is paraded for ritual attack and defense not least on terms dictated by bourgeois economics – does Marx's value theory provide an adequate theory of equilibrium prices, for example? More constructively than going through a patient and increasingly futile exercise of responding to the idea, correct on its own terms, that Marx's value theory is poor mainstream economics, I intend to demonstrate that there are fundamentals to the labor theory of value which are internally coherent. Further, this coherence provides the basis for unraveling the increasing complexities and specificities of the capitalism mode of production as they have emerged over time – even though these complexities have induced rejection of value theory on the basis of incoherent and inaccurate understandings of it.

At a more mundane level, as a proponent of value theory, the positive account offered here will also be personal to a greater extent than intellectual modesty might otherwise reasonably allow. For I do want to illustrate the arguments offered here by showing how value theory has informed my own work and to reference it accordingly. It might, thereby, help to inform the future work of others. To this end, I have frequently only referred to my own work in the text, although these generally contain useful references to others. Further, I would here suggest some important sources, other than Marx himself, that the reader may also wish to consider.<sup>1</sup>

### **Smith, Ricardo, Marx**

Adam Smith provides an excellent starting point for interrogating the methodological and substantive basis of Marx's value theory. He argues that the labor theory of value would hold but only in that rude society, or primitive

communism as Marx called it, in which laborers simply hunted deer and beaver as required for personal consumption. Significantly, in view of the theme laid out above – does complexity undermine the labor theory of value? – as soon as the economy developed to allow for the presence of rents and, ultimately, profits, Smith argued against the labor theory of value. He replaced it with a components theory of price, with the latter naturally made up of the contributions or claims from wages, profits and rents. For Smith, once labor was no longer the sole element in price, the labor theory of value needed to be jettisoned. The addition of the simplest element of economic complexity was sufficient for Smith both to draw this conclusion and to embrace his components theory. This is despite the components approach itself either being tautological (a price, indeed anything, is necessarily made up of its constituent parts) or erroneous (since the three components are not independent of one another as they mutually exhaust net product).<sup>2</sup>

Implicitly, and explicitly from the vantage point of Marx's value theory, Smith's contribution raises two crucial methodological issues. The first concerns the status of the argument in favor of the labor theory of value when Smith deems that it does hold. For, in a rude society, there would be no exchange. Whatever you want, you go out and hunt it. This implies that there are no prices, so there is no need for a value theory at all! Quite clearly, Smith has gone through an inadvertent mental exercise. Suppose the rude society were like a capitalist society, would the labor theory of value hold? It is a totally meaningless question, and this implies there must be considerable doubts about the notion of value that Smith has constructed. Of course, it could be argued that there may be random disposal through exchange of more or less accidental surplus or specialization and skills in one activity rather than another. But this then raises the issue of who appropriates, controls and exchanges the surplus, and who gets to have one skill rather than another. The nature and terms of exchange can be addressed only on the basis of these prior questions – although I am conscious that, by posing them, I am increasingly being drawn into a more complicated version of Smith's imaginary rude society.

There is in this context considerable difference between Smith and one aspect of Marx's own materialist method, one that is highly attractive in terms of its appeal to realism. For Marx depends upon justifying the use of particular concepts by demonstrating their correspondence, even if necessarily within the theory itself, with the realities of the society under consideration. From this perspective, concepts such as value and price are invalid if applied to the rude society since the society does not systematically generate them itself. By whatever intellectual route that value has been derived as a concept, it is merely a general, mental, ahistorical and asocial construct for Smith. On his terms, it may or may not be useful in explaining exchange in the rude society (where the question is irrelevant) or more developed economies