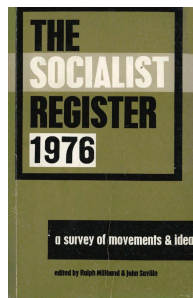


CONTROVERSIAL ISSUES IN MARXIST ECONOMIC THEORY

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This article surveys critically the theoretical debates that have occupied Marxist economists in Britain during recent years.* In order to understand the debates it is necessary to clarify two things: how Marx saw the structure of the capitalist economy, and what is the structure of **Marx's Capital**. These will give us a benchmark for evaluating the contributions of the new Marxist economists.

1. *Marx's Economics*

In *Capital* (and, in particular, in Volume II) Marx repeatedly uses the concept of the circuit of capital to characterise the **structure** of the capitalist economy. In this circuit capital moves through several different forms. If we begin with *money capital*, M , this is exchanged for commodities C which consist of means of production MP and labour power LP —inputs into the productive process. These commodities are set to work under capitalist relations of production and at this stage of the circuit capital has assumed the form of *productive capital*. As a result of this setting to work new commodities C^1 are produced and owned by the capitalist, and in taking this form capital becomes *commodity capital*. The value of these new commodities is greater than the value of the commodities which enter as inputs into the production process; it is greater by the amount of surplus value which is produced in the production process. Finally, these commodities are sold for money (i.e. exchanged or realised) so that capital re-assumes the form of money capital, M^1 . Since this money capital is greater than the money capital with which the circuit began, the surplus can either be consumed by capitalists (in which case simple reproduction occurs since the circuit merely repeats itself without expanding) or it can be accumulated by capitalists and the **circuit** of capital begins again on a larger scale (expanded reproduction). Marx divided this circuit into two spheres of

*As is apparent from the bibliography, the debates surveyed in this paper have been stimulated by the existence of the Conference of Socialist Economists and its *Bulletin*. Details of the CSE may be obtained from the authors at Birkbeck College, Economics Dept., 7-15 Gresse St., London W.1.

activity. The activity of setting to work means of production and labour power to produce new commodities, that is the activity from $C(MP,LP) \dots P \dots C^1$ on the circuit, takes place in the *sphere of production*. It is only here that surplus value is produced. The activity of selling the commodities for money and buying commodities as inputs, the activity from $C^1 \text{---} M^1 \text{---} C(MP,LP)$ takes place in the *sphere of exchange*. Although the two spheres are distinguished, the circuit of capital implies a unity of the two spheres so that capital can only be understood in terms of the circuit as a whole. (In mere symbols, the end of the sphere of production, C^1 , is the start of the sphere of exchange, and the end of the latter, $C(MP,LP)$ is the start of the former.) The specific features of this unity are that surplus value is only produced in the sphere of production, not in the sphere of exchange, and that the unity of the two spheres in the circuit is a complex unity with its own dialectical contradictions. These features are relevant to several of the issues we discuss in the following sections.

An understanding of the spheres of production and exchange and their relationship is not sufficient for understanding the structure of the capitalist economy. In addition Marx introduces the concept of *distribution*. The distribution of values between the classes in the capitalist mode of production is a process which encompasses both the spheres of production and exchange. It can only be understood in terms of the unity of production and exchange.

The relation between production, exchange, and distribution is complex. As Marx states in the *Grundrisse* his conclusion is 'not that production, distribution, exchange and consumption are identical, but that they all form the members of a totality, distinctions within a unity. Production predominates not only over itself. . . but over the other moments as well. . . A definite production thus determines a definite consumption, distribution and exchange as well as *definite relations between these different moments*. Admittedly, however, *in its one sided form* production is itself determined by the other moments. . . Mutual interaction takes place between the different moments. Thus, to use language currently in vogue, production, exchange and distribution are to be seen as members of a structured whole. Production is determinant in the last instance, but the other spheres have a relative autonomy and each sphere has an effect on each other. We shall see that a fault common to many of the modern Marxist economists is an inability to grasp this complex structure as a whole.

The structure of *Marx's Capital* is closely related to his view of the structure of the capitalist economy. But there is not a simple identity between the two structures. *Capital* is best understood as the articulation of two structures. First, it is structured in terms related to the hierarchical relationships between the real world's production, exchange, and distribu-

tion. Thus Volume I, entitled *Capitalist Production*, is concerned with the sphere of production; Volume II, *The Process of Circulation of Capital*, is concerned with analysing the sphere of exchange on the basis of the already developed analysis of production (it is concerned with the circulation of capital through the two spheres); and Volume III, *Capitalist Production as a Whole*, is concerned with distribution as a moment of the articulated spheres of production and exchange. But it must be understood that this is a schematic view of the three volumes. Even in Volume I exchange must be present. Indeed, in the very first chapter, the fundamental concept of the commodity is predicated on the existence of exchange. In Volume II, similarly, distribution is present, but it is distribution considered only at a relatively high level of abstraction. The fact that no volume can simply exclude the other moments simply reflects the unity of the different spheres in reality. Moreover, it is to be noted that Marx's first volume is on production since this sphere is fundamental and the other two volumes can only be understood on the basis of it. Second, Marx's *Capital* is structured according to the level of abstraction of the argument. Marx elucidates in the *Grundrisse* his concept of scientific method wherein thought 'appropriates' reality in all its complexity, constructs out of this complexity the essential abstract concepts (corresponding to real abstractions) such as 'labour', and then takes the extremely significant step of reconstructing from these relatively 'simple' abstract concepts the complex concepts which parallel the complex phenomena of reality. This structure, from the simple abstract to increasingly complex abstract concepts, is found in *Capital*. Thus, Marx does not begin with 'capital' even though it is 'the all-dominating economic power of bourgeois society', he begins with commodities because in capitalist societies they are the form in which the most 'simple' abstract category, labour, is expressed. Note, however, that although Marx's *Capital* is structured according to levels of abstraction, it is by no means a simple structure following a unilinear development from simple abstract to complex abstract. For example, the relatively complex concept of the reserve army of labour (the general law of capitalist accumulation) enters well before the basis of the general law, the tendency of the rate of profit to fall, is constructed.

Thus, *Capital* must be understood as a structure of concepts or arguments which is itself an articulation of two structures: a structure according to the hierarchical relationship between production, exchange, and distribution, and a structure according to levels of abstraction. The two structures are not identical but they do overlap. Thus the relatively 'simple' concept of value is indispensable for the analysis of production so that both enter in Volume I while the 'complex' (hence observable) category of interest must primarily be considered from the point of view of distribution and therefore both are considered in Volume III. In what

follows we shall employ this view of **Marx's** method as a standard of comparison for modern writers.

The protagonists in the debates can be classified into two schools of thought, **neo-Ricardian** and Fundamentalist, with some writers falling in between. Here we outline the distinctions between the schools and in Sections 2 and 3 we examine the specific issues which have been the object of debate.

For neo-Ricardians all analysis of the capitalist economy takes place in the spheres of exchange and distribution. Since both are only examined in isolation from the sphere of production the result is the antithesis of **Marx's** analysis, for the latter emphasises the dependence of exchange and distribution on production and the impossibility of understanding capital except in the complex unity of the three spheres. Moreover, and related to this one-sidedness, neo-Ricardians develop their conclusions only in terms of categories such as prices of production and market prices which exist at a relatively low level of abstraction. The ultimate theoretical justification for this approach is found in neo-Ricardianism's treatment of the transformation problem which **Marx** attempted (and failed) to solve in Volume III of *Capital*. Neo-Ricardians see the problem as one of deriving commodities' prices of production from the labour embodied in them and, concluding that prices of production can be quantified directly without quantifying values, they consider value theory to be an irrelevant diversion. Concomitantly, analysis of the sphere of production, for which value theory is necessary, is rejected. From this follows a rejection by neo-Ricardians of **Marx's** distinction between productive and unproductive labour, for the distinction between these categories is central to **Marx's** concept of the fundamental determining role of the sphere of production and it is only relevant within a view which takes as central the relations between the three spheres. There follows their conclusion that economic crises are to be explained solely in terms of class struggle over distribution in the sphere of exchange (but there is also an implicit denial of the concept of economic class struggle and economic crises as such and an identification of economic activity with political activity).

For Fundamentalists, the sphere of production is determinant. Indeed, it is the only sphere of economic activity that they analyse in a consistent manner. In doing so the Fundamentalists emphasize the significance of value theory, assert that the conclusions drawn by neo-Ricardianism from the transformation problem are invalid, consider important the distinction between productive and unproductive labour and locate the source of crises in the tendency of the rate of profit to fall. The source of this tendency is itself located in the nature of capital-in-general and it is treated as the development of capital's contradictions with the fundamental contradiction located in the sphere of production.

An understanding of the positions taken by these two schools and by

the several writers who are identified neither with one nor the other, can only be gained by examining the specific issues over which debates have taken place. We make an heuristic division between the issues. In Section 2 we examine the essentially 'static' issues of the transformation problem and the **productive/unproductive** labour distinction. These bring to the fore the differences over the significance of the concept of value, over the relationship between values and prices of production, and over the relationship between production, exchange and circulation. In Section 3 we show how these differences are reflected in differences over 'dynamic' issues, the economic laws of motion of capitalism. We examine the disputes over the law of the tendency of the rate of profit to fall, over the concept of crises and over the role of the state in economic crises. Finally, in Section 4, we give a summary appraisal of the state of debate. Throughout, we discuss the methodological issues and the political implications involved in the debate.

2. Categorization and the concept of capital Value, price and transformation problems

At the centre of controversies in Marxist economics has been the so-called transformation problem. Certainly, whilst it has been the object of the most frequent area of disagreement in Marxist economic theory, the disputes over the transformation problem have wider implications. Any treatment of the transformation problem embodies, at least implicitly, fundamental aspects of method, and it is differences in these that have to be recognised. For these differences in method, not surprisingly, are the source of further theoretical differences which appear to bear little or no relation to the transformation problem as such.

Marx's own treatment of the transformation of values into prices of production depends upon the formation of what we shall call the value rate of profit and label r . It equals the ratio of total surplus value produced

S to total capital advanced $C + V$, $r = \frac{S}{(C + V)}$. Clearly this category r is calculated numerically in terms of **the** abstract production category of value, rather than the complex exchange category of price. However, **Marx's** motive for employing this average rate of profit was to develop the relationship by which surplus value becomes distributed to individual capitalists through exchange. The category r and the principle of distribution are not some ideal abstraction but reflect the real forces of competition that tend to equalise each individual capitalist's rate of profit to the average rate. The principle of distribution between capitalists is that each receives surplus value according to capital advanced. Each capitalist can be considered an individual share-holder in the joint-stock company that is the aggregate social capital. The significance of this is that the amount of surplus value appropriated by each capitalist does not depend solely upon

the amount of surplus value produced in his individual enterprise. For, if social capital comprises two individual and equal capitals (each 100 say), they must, according to the principle of distribution, appropriate an equal quantity of surplus value. But, if each uses constant and variable capital in different ratios (say **60:40** and **40:60** respectively) then the one capital yields a different quantity of surplus value from the other. For example, if the rate of surplus value, $\frac{s}{v}$, is **100%**, then the capitals individually yield 40 and 60 surplus value. This means that the average rate of profit $r = \frac{40+60}{60+40+40+60} = 50\%$, and the principle of distribution would yield 50 surplus value to each capital.

This is incompatible with the exchange of commodities at their values, for the respective values of the commodities are 140 (**60+40+40**) and 160 (**40+60+60**) and their respective costs of production (**c + v**) are both 100 so that if the commodities exchanged at their values one would yield a profit of 40% and the other 60% instead of both yielding the **average** rate of 50%. Marx integrated this theory of distribution with a theory of exchange (values) based on what he called modified values or prices of production. These were defined by marking up each individual cost of production by *r*. In our example, this would result in each having a price of production, or exchange value, of 150, and this conforms to the principle of distribution of surplus value according to capital advanced. But individual surplus value appropriated diverges from individual surplus value produced, and it appears in the qualitatively distinct form of profit. The distinction arises because distribution (profit) does and can only take place through exchange.

Marx's transformation of values into prices of production is situated towards the beginning of Volume **III** of *Capital*. The analysis of the earlier volumes of *Capital* is conducted at that level of abstraction for which commodities exchange at their values and this is so even though Volume **II** deals with the aggregate circulation of capital and commodities and consequently the articulation between production and exchange. What is clear from Volume **III** (and is universally agreed) is that Marx is concerned with moving to a lower level of abstraction for which commodities do not exchange at their values. But it would be an error to conclude that, in the context of the transformation problem, Marx was solely concerned with 'correcting' his earlier abstraction of the equality of exchange value with value. For he is also developing, against the background of Volume **II's** integration of production with exchange, a theory of distribution. This involves considering how surplus value created in production is distributed to capitalists through exchange. This is not simply a quantitative question (a question of the numerical relationship between values and prices) but requires an understanding of the qualitative distinctions between price

exchange) and value (production) categories and in particular between profit and surplus value.

These remarks confirm the view that levels of abstraction do not correspond to some neat **uni-dimensional** scheme that constructs a stair-climbing process from the abstract at the bottom of the concrete at the top. In particular the articulation of production with exchange can be analysed on the basis that commodities exchange at their values. On the other hand, the articulation of production with distribution cannot proceed without being linked to a reconstitution of the articulation between production and exchange at a lower level of abstraction, where commodities do not exchange at their values. Second, and related to the first point, the transformation problem involves an analysis of the unity of production, exchange and distribution: Any treatment of it that fails to recognise this is bound to be one-sided and incomplete. This gives us a framework in which to analyse the various 'solutions' to the transformation problem.

Within this framework, **Marx's** transformation cannot be considered one-sided—neglecting one or the other of production, exchange or distribution in their unity. Nevertheless, Marx does make an inadequate integration of exchange with production and distribution. For, whilst values are modified to form prices of production in the movement from production to exchange, no such modification takes place for the movement from exchange into production. Values are transformed into exchange values in modifying costs ($c + v$) into prices of production $(c + v)(1 + r)$, but no consideration is given to the transformation of exchange values into values as capital advanced in exchange becomes capital in production. Marx takes capital advanced in the form of value $(c + v)$, and has not transformed it from exchange value despite its movement from exchange into production. It follows that **Marx's** integration of production (and distribution) with exchange is one-sided, because production is united with exchange at one point in the circuit of capital but not at the other. This Marx recognises, for he observes that the value of capital advanced may diverge from the price of production of that capital, but he makes no effort to correct this discrepancy.

This omission on **Marx's** part has bred considerable controversy. It has led the **neo-Ricardian** school to reject value analysis altogether (see for example articles by Hodgson and Steedman). As we shall see this is not simply a conclusion of their theory but also their very starting point. For neo-Ricardianism bases its analysis on the technical relations of production. These comprise the physical and labour inputs necessary to produce any given set of commodities. For example, to produce a given commodity, quantities x_1, x_2, \dots, x_n of certain raw materials (physical means of production) may be necessary as well as a quantity l of labour-time (not labour-power). Now if we impose on these technical conditions

of production a system of exchange relations, in which every input has a price, then the cost of producing the commodity in question is simply $p_1 x_1 + p_2 x_2 + \dots + p_n x_n + w$ where $p_1, p_2, \dots, p_i, \dots, p_n$ are the prices of the first, second, ..., *i*th, ..., inputs and w is the wage-payment. In so far as this cost is less than the price of the commodity produced, there is room for profit, and this implies the existence of a rate of profit on costs advanced so that $p = (p_1 x_1 + p_2 x_2, \dots + p_n x_n + w) (1 + r^1)$ where p is the price of the commodity and r^1 the price rate of profit. Clearly r^1 is a different concept from r , the value rate of profit. Later we shall see that it is also numerically different.

If we assume that the economy is competitive in the sense that the price paid for any input (including labour) is the same for any purchaser and that the rate of profit is the same for the production of any output, then it follows that we can write down similar equations as the one above for the production of every commodity. That is, the price of a commodity is determined by marking up costs of production since each input in the economy (except labour) is considered to be the output of some production process. This means that our technical relations of production generate a system of simultaneous equations. In these, prices in the economy are related to the wage rate and the profit rate. It is the solution of this set of equations which has been the major theoretical object of the neo-Ricardian school.

What they can show is that prices can be eliminated from the equations to leave an inverse relationship between the level of wages and the rate of profit. This is hardly a surprising result and corresponds to the inverse relationship between the value of labour-power and the value rate of profit, when everything else is held constant. It leads **neo-Ricardians** to conclude that distribution (in particular the rate of profit) in capitalist society is equally determined by economic class struggle for higher wages and the ability of productivity increases (*i.e.* development of the technical relations of production) to provide for higher wages (**Gough** (1975)).

This conclusion is deceptively appealing. Indeed, it has the air of tautology about it. It is further reinforced by what is considered to be a devastating criticism of **Marx's** transformation of values into prices of production. The neo-Ricardians observe quite correctly that **Marx's** value rate of profit depends upon the **sectoral** composition of output given the rate of surplus value $\frac{S}{V}$ unless either this is zero (along with r and r^1) or the organic composition of capital is the same in every sector. This is because the transfer of capital to a sector with a lower organic composition of capital (a low ratio of dead to living labour) will increase the surplus value produced as more living labour (the source of surplus value) becomes employed. In this case, r would rise because aggregate capital advanced $C + V$ has remained constant whilst aggregate surplus value produced S has

increased. An opposite movement of capital would decrease r .

In contrast, the neo-Ricardians argue that the price rate of profit r^1 is quite independent of the composition of output. It depends only upon the technical relations of production given the level of wages. It follows that Marx incorrectly calculates the price rate of profit, because he constructs the value rate of profit which can vary whilst the former remains constant. It can only be by a fortuitous composition of output that Marx calculates the rate of profit correctly, for it is only under exceptional circumstances that r and r^1 are always equal (i.e. no exploitation or equal organic compositions of capital in every sector).

However, even if Marx is lucky enough to calculate r^1 correctly by r , his subsequent calculation of prices of production is wrong. For Marx does this by marking up individual costs in value terms ($c + v$) by the rate of profit to obtain the price of production $(c + v)(1 + r)$. This is illegitimate, for as we have already observed, the costs should first be transformed into prices of production prior to the mark-up by the rate of profit. The neo-Ricardians argue that without this prior transformation, Marx's determination of prices of production diverges from their own correct calculations of market prices based on exchange costs and the price rate of profit.

The neo-Ricardian critique of Marx's transformation of values into prices of production does not simply involve the conclusion that Marx fudges the transformation. This is because they pose an alternative theory of the determination of prices and distribution based on technical relations of production. Marx's transformation is not only wrong but superfluous because prices etc. can be obtained without any reference to value whatsoever. This conclusion has at its starting point the calculation of values from the technical conditions of production. The neo-Ricardian interpretation of value is based on consideration of equations of the type

$$W = W_1 x_1 + W_2 x_2 + \dots + W_n x_n + 1$$

where W is the value of an output produced by the inputs x_1, \dots, x_n which have values W_1, \dots, W_n and 1 is the living labour input. To calculate the value of a commodity we add up the dead labour embodied in the physical inputs used to produce it (as measured by their values, W_1, W_2 etc.) together with the quantity of direct living labour. These value equations can be solved to find the labour-time necessary to produce any commodity and this constitutes the neo-Ricardian concept of value. This concept is simply a measure of labour-time embodied and bears no relation to the commodity form of production.

What is significant in this procedure is that the technical relations of production are the logical origin of their value equations, just as earlier they were the logical origin of the price equations. This leads the neo-Ricardians to the conclusion that it is quite unnecessary to proceed via values to the determination of prices. In effect the transformation of values into prices

is an irrelevant stumbling block, because prices can be calculated directly without any reference to value. Since, for neo-Ricardians, the important object is the theory of prices and since they see their concept of value as unnecessary for this, they conclude by rejecting the relevance of value theory.

Not surprisingly, given its apparently destructive implications for **Marx's** theory, the neo-Ricardian theory has been subject to extensive criticism, although this is not always directed towards a consideration of the transformation problem. Typically neo-Ricardianism is identified with bourgeois economics for its preoccupation with exchange rather than production relations. This is a fair characterisation of the theory for it focuses on the articulation between distribution and exchange with only a token recognition of **production** (in the form of the specification of technical relations).

Yaffe (1975) for the **Fundamentalists** asserts that **Marx's** solution of the transformation problem is correct, not only quantitatively but also because of its reliance upon value categories and the priority this gives to capitalist production. In doing this he clearly recognises the distinction and unity between production, exchange and distribution, but he offers little in the way of argument to suggest why this makes **Marx's** solution correct. This results from Yaffe's inability to integrate production and exchange. Usually he is confined in the sphere of production, but for the transformation problem he analyses relations in exchange only, taking values as his original costs as a gesture of his former concentration on the sphere of production. Production and exchange are not theoretically integrated in the movement of capital. This error becomes most clear in a contribution by Howell (1975) who argues that far from transforming values into prices of production, Marx was concerned to transform (values expressed in) prices into prices of production. Therefore, Fundamentalists are forced into the position of thinking the transformation takes place only in the sphere of exchange rather than as something **which** expresses the contradictory unity of production, exchange and distribution.

Rowthorn (1974) has made a more extensive criticism of neo-Ricardianism in his discussion of vulgar economy. He argues that the neo-Ricardian method leads it to fail to comprehend capitalism as a specific mode of production. The class relations of production are entirely absent from the neo-Ricardian system which depends exclusively upon distributional relations based on property rights. In fact, the neo-Ricardian price equations fail to distinguish a capitalist system of wage-labour, from a system in which workers hire machinery for their own use from capitalists by a rent (profit) payment. This failure arises from the neo-Ricardian treatment of labour like any other factor input. This is quite explicit in their cost and mark up calculations where the labour costs w_l enter equally with each $p_i x_i$: living labour has the same status as means of production (dead

labour). This implies the use of the concept of the price of labour (the wage) and the failure to make the crucial distinction between labour and labour-power (but see Hodgson (1976) who claims otherwise).

It is arguments of this sort that Rowthorn uses to criticise the historically ambiguous concept of the capitalist mode of production that is implicit in the neo-Ricardian method. He particularly emphasises the **inability of neo-Ricardians** to demonstrate the coercive power of capitalists over labour in the production process. It is here that the classes of capitalist society confront each other on unequal terms. The exclusive preoccupation of neo-Ricardians with exchange gives ideological support to the bourgeoisie, for it is relations of exchange, and not production, that incorporate the bourgeois concept of equality *par excellence*.

Rowthorn's criticisms are significant but limited and that they are so is illustrated by the willingness of the less extreme neo-Ricardians to accept value analysis as a 'sociology of capitalist exploitation'. This reduces Marxism to a moral polemic rather than a science. Value can be seen by neo-Ricardianism as a category that simplifies the explanation of the form of exploitation in capitalist society. Marxism then becomes a sophisticated development of the theory of the natural right of labour. What is denied is that value is a necessary or even useful concept for uncovering the laws of motion of capitalism. This follows from the neo-Ricardian assumption that the necessary objects of analysis for such a study are, the price categories that appear in exchange and which they alone calculate correctly.

Interestingly, neo-Ricardians have never really justified their view that prices are of such significance. Why is the price (rather than value) rate of profit, for example, a central concept for understanding capitalist development? Their explicit rationale for this is that their rate of profit is the central variable governing the behaviour (*i.e.* investment) of *individual* capitalists (and consequently capital as a whole), and that this price rate of profit is a central indicator of distributional struggle. These reasons are extremely weak, relying upon an aggregation of individual propensities independently of the coercion of underlying social forces and betraying a limited notion of the role of surplus in capitalist society (an absolute priority to distribution). Nevertheless, the neo-Ricardian assertion of the necessity for priority of distribution in the economic analysis of capitalism can only be met in analyses such as Yaffe's and Rowthorn's by the counter-assertion of the priority of production.

The barriers of dogma to which this situation led have begun to be broken down by the simple realisation that capitalist, indeed commodity, production is a unity of the processes of exchange and production. It is not a case of a theory of production versus a theory of distribution, but a theory of distribution linked to production through exchange. This method can restore the Marxist priority of production in determination but it need not suspend it in isolation from distribution. In this light, the **neo-**

Ricardian theory cannot offer an alternative because it does not contain a theory of capitalist production, the consequence of its rejection of value analysis. Indeed, neo-Ricardianism now appears as a poor imitation not so much of Ricardo as of Mill with the latter's emphasis on the natural laws of production and the socially determined relations of distribution.

The necessity of having a solution on this threefold unity is realised by Gerstein (1976) although he tends to subsume distribution in exchange. (See also Baumol (1974), Fine (1975a) and Fine (1975b)). His paper integrates the criticisms that have been made of the neo-Ricardian concept of value with a treatment of the transformation problem. In other papers, (Kay (1976), Pilling (1975), Williams (1975)) the neo-Ricardians have been shown to consider the category of value as simply a quantitative measure of labour-time to be calculated from technical relations of production. This is completely inconsistent with Marx's analysis of the two-fold character of the commodity (exchange value and use value) and his criticisms of Ricardo. Marx's emphasis is on the form that value assumes for commodity production. For the production of use-values as commodities implies, through exchange, the social reality of the commensurability of different products and consequently the commensurability of different types of labour. This comparison of individual types of labour through market relations strips them of their individuality, in so far as exchange proceeds smoothly, and reduces the measure of exchange value to a standard based on undifferentiated labour-time or abstract labour. What is crucial is that this reduction cannot take place without the intervention of exchange, for it is based on the commodity form of production. On the other hand it is the quantitative application of labour in production that is the source and measure of value and this is merely expressed by exchange relations. In contrast, the false concept of value that the neo-Ricardians seek to reject can be constructed without reference to commodities and exchange at all, simply by forming the necessary mathematical equations which are derived from production considered merely as a set of technical relations.

Gerstein makes these criticisms of neo-Ricardianism explicit precisely because of his commitment to a concept of capital that embodies the unity of production and exchange. His own treatment of the transformation problem depends heavily upon the solution developed by Seton (1957), a contribution which has received relatively little attention from neo-Ricardians. Seton's difference from neo-Ricardianism arises because he does transform values into prices of production without reference to the technical relations of production that are so fundamental to neo-Ricardianism. This is simply done by setting up simultaneous equations between the price rate of profit and the ratios of prices of production to values. This involves correcting Marx's failure to transform the original costs of production from values into prices of production. Quantitatively

the neo-Ricardian and **Seton** solutions must coincide, but their interpretation remains quite different. For the former, values are a detour in the derivation of prices and profits from technical relations of production whereas for the latter values are the starting point. **Seton's** solution can be seen as representing the unity of production and exchange. Only value categories enter ab *initio*, and the transformation explicitly constructs modified values based on the relations of distribution and exchange.

The uniqueness of **Gerstein's** contribution lies in his insistence that **Seton's** procedure is incomplete. This is because his solution to the transformation problem is only unique up to scale—it determines relative prices of production, the ratios of the prices of different commodities, and not absolute levels. This is a property in common with the neo-Ricardian determination of prices. Starting from a given wage level (corresponding to a given bundle of wage goods) prices of commodities are deduced. If we had set the wage level differently (for the same bundle of wage goods) then the level of prices would be correspondingly higher. There appears to be no rationale for choosing one *level of* prices rather than another. This is because the integration of production and distribution only requires a calculation of the *relative* shares appropriated by capital and labour. Gerstein, however, characterises the choice of the absolute level of prices as the central factor forging the link between the production and circulation of value. He argues that this requires a level of prices for which total value equals total price (rather than one where total surplus value equals total profit, which in general is incompatible with the other condition).

To us, whilst Gerstein is correct to emphasise the transformation of values into prices of production as an **in.egration** of production and exchange, this does not depend ultimately upon choosing an appropriate absolute level of prices. Indeed, the development of such an absolute level of prices is quite **meaningless** without the existence of a general equivalent **i.e.** money, and the direct intervention of money in the exchange process has been correctly absent from the analysis of the transformation. We have been treating value and surplus value as they exist in exchange but not explicitly as they exist in money form. At a lower level of abstraction, in moving from prices of production to money prices, **i.e.** from the circulation of (modified) values to the circulation of money, it will be necessary to relate the modified values of commodities to the modified value of commodity-money. Further development of the concept of market price depends upon the concept of fiat money and analysis of the credit system.

We conclude this section by considering the significance of the distinction between the value and price rates of profit. As has been noted, the correction of **Marx's** transformation leads to a divergence between the two rates. The neo-Ricardians argue so much the worse for the value rate of profit and any laws of political economy based upon it. This fails

to recognise that the **relationship** between the price and value rate of profit is essential for understanding the unity of production, exchange and distribution. Such an understanding cannot be gained by discarding one or other of these concepts as neo-Ricardians do in rejecting the value rate (and Fundamentalists do in rejecting the price rate of profit). The neo-Ricardian method lends priority in determination to circulation and distribution, because the major determinant in capitalist society is considered to be the price rate of profit.

In contrast, we would emphasise movements in the value rate of profit as the critical indicator of the ability of capitalist society to create the conditions for a continued accumulation, free of economic and social crisis. It is in this context that the capitalist formation should be seen as an articulation of other economic and social relations with those of production.

Productive and Unproductive Labour

The importance of the distinction between productive and unproductive labour lies in the increasing significance in modern capitalism of those workers who might be classified as unproductive (e.g. state and commercial as opposed to industrial employees). Unproductive employees are not only distinct in the economic functions they perform for capital, but they are increasingly drawn into and hence hold a distinct position in economic, political and ideological class struggle. It is the movement towards an understanding of their role in these struggles and in capitalist society as a whole that makes the clarification of the concept of unproductive labour so potentially fruitful.

In an article that was the starting point for the debate, **Gough** (1972) summarised what was to become the **neo-Ricardian** interpretation of **Marx's** theory of productive labour; 'To conclude, productive labour is labour exchanged with capital to produce surplus value. As a necessary condition it must be useful labour, must produce or modify a **use-value**—increasingly in a collective fashion; that is, it must be employed in the process of production. Labour in the process of circulation does not produce use-values, therefore cannot add to **value** or surplus value. It does not add to the production of use-values because it arises specifically with commodity production out of the problems of realising the value of commodities. Alongside this group of unproductive labourers are all workers supported directly out of revenue, whether retainers or state employees. This group differs from circulation workers, however, in that they do produce use-values—all public teachers, doctors, etc. would be included in this category today.'

It is significant that this interpretation only bases itself on the circuit of capital in so far as labour is defined as productive or not according to what is done. It does not draw upon (and maintain) the distinction between

production and exchange as separate but integrated spheres of economic activity (see Fine (1973)). This leads the neo-Ricardians to **reject Marx's** concept of unproductive labour (see Harrison (1973a) and Gough and Harrison (1975)). Their case for this is at its strongest in the case of commercial workers, although it is extended in various degrees to other unproductive and even to non-wage labour such as housework. It essentially consists of establishing that commercial workers labour under relations of production that are 'materially identical' to those of productive workers. This is because first, their labour-power and means of production are costs contributing to price, wage and profit formation; second, commercial workers are exploited wage-labourers and this is seen as a source of commercial profits; and third, commercial workers are subject to the control of capitalists over their labour process.

This reasoning conforms to the neo-Ricardian treatment of the transformation problem in basing analysis of the laws of motion of capitalism on technical relations of production (or more exactly labour activity). The effect of this is an eclectic aggregation of labour expended in both production and exchange to analyse the source of profit, the formation of the rate of profit and the potential for accumulation, whereas the major achievement of **Marx** was the demonstration that the potential for accumulation was created ultimately in the sphere of production alone. The neo-Ricardian conclusion is reached through examples which grant to each set of labour activities an absolute economic independence in their impact within the social formation. Treating the economy as a mixture of sectors of activity, they argue as follows for the effects of productivity increase sector by sector. For commerce, if productivity increases the rate of profit increases whilst real wages remain the same. In the state sector, the provision of ~~any~~ given level of goods and services can be achieved at a lower cost, allowing for resources to be released for accumulation and the raising of the rate of profit. **This** follows from the neo-Ricardian method of treating money wages and welfare services as commensurable and substitutable. The latter is a 'social-wage'. As long as workers' combined 'wage' remains the same, whether provided by exchange or the welfare state, profitability rises with productivity increase in the state sector. It only remains for this to be effected either by a reduction in the resources devoted to state activity, real output remaining the same, or by an increase in this activity, resources used remaining the same, whilst money wages are cut (for example through taxation) to 'compensate' for the increased 'social wage'. If luxuries are produced more cheaply, this does not affect the rate of profit, but it may release resources from capitalists' surplus consumption for capital accumulation. Finally, housework, because it is a source of use-values for the labourer, may be a source of reducing the costs of **labour-power** to the capitalist by providing wage-goods that would otherwise have to be purchased out of wages which would therefore have

to be higher than they are if wives did not do housework *gratis*.

The major disagreement with the neo-Ricardians has been voiced by Bullock (1973) and (1974), a representative of the Fundamentalists. Basing himself exclusively within the sphere of production, he attempts to define as productive that labour which creates surplus value in a form that can be accumulated. This includes produced means of production and **wage-goods** (which can be exchanged against labour-power) but excludes luxury production. In effect, Bullock identifies productive labour with that labour that can produce relative surplus value. This places him in some embarrassment, because this definition of productive labour differs from **Marx's** (which includes luxury production). Bullock attempts to compensate for this by arguing that his definition is consistent with **Marx's** on (nebulous) methodological grounds. Appealing to the movement of theory between levels of abstraction, he considers that at the first level of abstraction, in simply elaborating the production of surplus value, luxury production does embody productive labour, and this is why Marx included this sector in the productive category. But at a lower level of abstraction, accumulation of surplus value is determinant and since luxury goods cannot be accumulated, he argues that the concept of productive labour must be modified to reflect this. This total emphasis on accumulation accompanied by a lack of clarity, a few terminological errors and a shifting of his position, yield to the neo-Ricardians a field-day of criticism.

However, the Fundamentalists have also been preoccupied with the nature of the wage-labour that educates and medically cares for the working class and in doing so modify their position (see Bullock and Yaffe (1975) and Howell (1975)). This they eventually classify as productive even if it is not employed by capital (for example, by the state instead), drawing the analogy between repair work on fixed capital and 'repair' and reproduction of the commodity labour-power. Because Marx categorises machine-repair as productive labour *sui generis*, it is argued that wage-labour reproducing the labourer is also of this genus and hence productive. This is a ludicrous mimicry of **Marx's** theory: for him repair work is not productive because it is of a unique type, but because it is undertaken by industrial capital. However, the error is symptomatic of a method confined to analysis of production, leading to a definition of productive labour according to the potential and contribution created for accumulation.

Fine and Harris (1976a) criticise Gough's (1975) neo-Ricardian assessment of the role of state employees. They argue that labour employed by industrial capital alone produces surplus value and this alone is the source of value upon which all labour-power and commodities that exchange with the capitalist economy ultimately depend. To suggest, as **Gough** does that state or any other unproductive employees can create surplus value through the transfer of their surplus labour by exchange is to construct a

situation in which surplus value can be created without the use of capital except for 'conversion purposes'. Further, neo-Ricardians are quite wrong to argue that all wage-labour is by definition organised under 'materially identical' conditions. For, whilst productive labour is directly governed by the control of capital as exercised by individual capitalists through exchange relations and subject to the laws of motion of capitalist production, the immediate control of state employees lies in relatively autonomous political relations, even though these are determined by the economy. In particular, there need be no commodity production in the case of state employees, hence they do not create value and cannot be subject to the necessity of reducing socially necessary labour-time to a minimum as for capitalist production. In conclusion, the *ceteris paribus* arguments of the neo-Ricardians are quite wrong in granting different social activities an independence from capital. Productivity increases, changes in taxation, a relocation of the production of use-values etc. cannot be the starting point of any analysis. They must be situated relative to the forces that produce them and the forces that resolve them. In doing this, Marxist analysis must be based on capitalist production and analyse unproductive labour in its dependent articulation with capitalist production.

This criticism of the neo-Ricardian method can be extended to consideration of its strongest case for the rejection of Marx's concept of productive labour. . . commercial workers. Here, labour-power is employed by capital, exchange activity is subject to the coercive factors of competition that grind down socially necessary labour-time to a minimum, and labour expended in commercial activity is consequently commensurable with industrial labour. This means that the capital employed in exchange is subject to historical tendencies similar to those of industrial capital, concentration and centralisation for example, but it does not mean that production and exchange are subject to the same laws of motion as the neo-Ricardians imply. Capital must be understood as uniting production and exchange in a movement that grants relative independence to both but makes production determinant. The failure to distinguish productive and unproductive labour in the circuit of capital implies an inability to analyse the relatively independent movement of exchange in its dependence upon the laws of production. This anticipates our discussion of the theory of crisis, but it again reveals the essence of neo-Ricardianism. Interested only in the static formulation of the transformation problem and the calculation of the potential for accumulation, they misconceive both and therefore are unable to develop the laws of motion of capitalism and the contradictions that these create in society.

For Marx, the distinction between productive and unproductive labour only applies to wagedlabour. So far we have examined the concept of unproductive labour according to whether it is directly under the control of capital (e.g. commercial workers) or not (state employees). Now we briefly

consider the implications of various analyses for non-wage labour. In particular, debates have been generated over the nature and significance of housework.

Broadly theories of housework can be divided into two types—those for which the quantification of domestic labour-time is both meaningful and necessary and those for which it is not. Not surprisingly, the neo-Ricardian theory takes the first approach and seeks to discover the rate of exploitation of housewives (Harrison (1973b) and **Gough** and Harrison (1975)). They then argue that surplus domestic labour is quantitatively equivalent to surplus value and is appropriated by capitalists through the payment of wages that would be higher without the existence of domestic labour.

Although Seccombe ((1974) and (1975)) implicitly rejects the neo-Ricardian method of treating domestic and productive labour as equivalent creators of value, he measures the value he considers housework creates (embodied in labour-power) by the remuneration received by the housewife. The inevitable conclusion of any theory that measures housework in this, the neo-Ricardian, or any other way is that housework will be undermined and invaded by capitalist production. This follows from the action of the forces of competition which the capitalist sector exerts precisely because of its value commensurability with housework that cannot maintain the same levels of productivity increases. Housewives will be drawn into wage work, domestic use-values will be produced as commodities. The only obstacles are the political, ideological and other economic forces associated with the capitalist family.

This analysis owes more to a neoclassical theory of time allocation than to Marxism. It can only be rejected by realising that housework does not produce value (as properly understood—see above and also **Gardiner** (1975)), and its labour-time is not commensurable with value. Rather it is in their dual performance of domestic labour and wage that the analysis of the historical evolution of women under capitalism must be located (see Coulson, **Magas** and Wainwright (1975) and Gardiner, Himmelweit, and Mackintosh (1975)). There is not simply an evolution of one form of labour into the other.

Seccombe's economic analysis leads him to a one-sided political strategy for women. Drawn into industrial life, he sees women's campaign there for equality with men as primary, whilst having repercussions for raising the consciousness of women remaining confined to the home. Significantly, this channels women's struggles precisely along the lines that makes their division of labour most efficient for capital. Equal pay for women is a bourgeois demand for equality. In contrast, an emphasis on the dual nature of women's labour points to a political strategy based on the tension between the two. Women's ability to pursue equality in work and struggle is constrained by the duality of their labour. It is these constraints that must be the object of struggle, as much as equality

in 'economic' life, and the failure of reformism to overcome them must be linked to the struggle for socialism. In this way, not only are the material interests of all women advanced within capitalist society by the socialisation of housework and the progress towards equality in the economy, but also women's participation in the revolutionary transformation of society becomes developed.

In Volume I of *Capital*, Marx perceived 'that the production of surplus value has at all times been made, by classical political economists, the distinguishing characteristic of the productive labourer. Hence, their definition of a productive labourer changes with their comprehension of surplus value. Thus the Physiocrats insist that only agricultural labour is productive, since. . . with them, surplus value has no existence except in the form of rent.' (p. 509) The Fundamentalists insist that only labour whose products can be accumulated is productive since with them, surplus value has no existence except in the form of accumulation. The neo-Ricardians insist that all labour that is exploited is productive since with them, surplus value has no existence except in the form of surplus product. Marx himself insists that only industrial labour is productive, since with him surplus value has no existence apart from production by capital. It is the maintenance of the distinction between productive and unproductive labour (and consequently non-wage labour) that is the starting point for understanding the role played by economic agents in the capitalist formation.

3. *Laws of Development, Crises and State Intervention*

In the previous section we have explained the significance of the debate over the transformation problem and the **productive/unproductive** labour distinction. Quite apart from the question of whether the positions taken are faithful to 'what Marx actually said' we have demonstrated the strengths and weaknesses of the different contributions in being able to develop an understanding of capitalist economic life as a whole on the basis of its hidden, inner characteristics. But the force of the arguments over these questions is best appreciated by examining them together with the debates over the economic laws of development of capitalism.

Law of the Tendency of the Rate of Profit to Fall

One debate on laws of motion has been central to much of British Marxist economics. It concerns the law of the tendency of the rate of profit to fall (TRPF). It is generally agreed that Marx in *Capital* and the *Grundrisse* put forward as a law of capitalism that the rate of profit has a tendency to fall: the laws of production and accumulation 'produce for the social capital a growing absolute mass of profit, and a falling rate of profit.' No one disputes that Marx considered this law to be of fundamental significance: it is 'in every respect ~~the~~ most fundamental law of

modern economy, and the most important for understanding the most difficult relations. It is the **most** important law **from** the historical standpoint'. Beyond this there is no agreement. In order to appraise the neo-Ricardian and Fundamentalist interpretations of the law we begin by stating our own interpretation.

In the chapter on *The Law as Such* in *Capital* Volume III Marx considers the value rate of profit

$$r = \frac{\frac{S}{V}}{C + V} = \frac{\frac{S}{V}}{\frac{C}{V} + 1} = \frac{\text{rate of exploitation}}{\text{value composition} + 1}$$

and argues that if $\frac{C}{V}$ rises and $\frac{S}{V}$ does not rise sufficiently, the rate of profit will fall. For Marx, however, it appears in places that there is no 'if'; the law of TRPF appears as an inevitable aspect of accumulation. Our view is that this law is an inevitable concomitant of accumulation but the law must be understood as the law of the *tendency* of the rate of profit to fall; it is not a law which predicts actual falls in the rate of profit (in value or price terms). To clarify this, we must consider the structure of Marx's argument in terms of the different levels of abstraction which are employed in the three chapters (13 to 15) of Volume III, Pt. III entitled 'The Law as Such', 'Counteracting Influences' and 'Exposition of the Internal Contradictions of the Law'.

In the third of these chapters Marx is concerned with the effects on the surface of society of the law of TRPF, the counteracting influences and the contradictions between these. These effects take the form of 'over-production, speculation, crises, and surplus-capital alongside surplus-population'. These are not simple effects of the law of TRPF or of the counteracting influences, but of both of these existing in a complex contradictory unity:

'From time to time the conflict of antagonistic agencies finds vent in crises. The crises are always but momentary and forcible solutions of the existing contradictions.'

The concept of crisis is, therefore, at a lower level of abstraction than the concepts involved in the law of TRPF and the counteracting influences: it is constructed on the basis of them.

Consider the law as such. It is constructed by abstracting from all distributional changes and from all changes in values except for those which immediately and directly result from changes in the technical composition of capital. To appreciate this one must understand the meaning of the three concepts of the composition of capital. The *technical* composition of capital is the ratio of means of production to

living labour expressed in physical, material, terms (although clearly not measurable in such terms). The *value* composition of capital is the ratio of means of production to the paid portion of labour expressed in value terms; it is the ratio of constant to variable capital $\frac{C}{V}$. The *organic* composition is the same as the value composition expressed in symbols, it is $\frac{C}{V}$, but it is only equal to the value composition insofar as it *directly* reflects the technical composition. An example will clarify the distinctions. A rise in the technical composition (expulsion of living labour) is an inevitable aspect of capitalist accumulation. By definition this involves a rise in the organic composition, for this is the same thing as the technical composition expressed in terms of values where the value per unit of means of production and labour-power are the unit values which existed before the rise in technical composition. However, the value composition will not necessarily rise as a result of the rising technical composition since the latter has indirect effects on the ratio $\frac{C}{V}$ as well as its 'direct effect on organic composition. The indirect effects include the fact that the unit values of the commodities which enter into constant and variable capital are decreased, and not necessarily in the same proportion. These unit values decrease because the rise in technical composition is a rise in productivity and therefore less labour is embodied in each commodity than previously. The distinction between organic and value composition is made clear by Marx:

'The value composition, insofar as it is determined by its technical composition and mirrors the changes of the latter (is called) the organic composition of capital.' (Emphasis added).

whereas, in general,

'The altered value composition. . . only shows approximately the change in the composition of its material constituents.'

This distinction enables us to comprehend the meaning of the law of TRPF. For Marx specifies the law as the consequence of a rising *organic* composition. His method in deducing the law is therefore to abstract from the *indirect* effects of the rising technical composition of capital, to abstract from changes in the rate of exploitation and, since we are dealing with the value rate of profit, to abstract from the effects of price and wage changes on the rate of profit. With these abstractions it follows tautologically that the rate of profit in value terms falls. The significance of this proposition can only be seen when it is considered together with the **counter-**

acting influences and the complex effects which are produced. But even at the present stage it would be wrong to dismiss the law as a 'mere' tautology for it can already be seen that it is constructed on the basis of the concepts which come before it in *Capital*. It is the direct effect of the rising technical composition of capital and the necessity of that tendency itself follows from Marx's analysis of capital as self-expanding value, an analysis constructed from the concepts of the commodity, money, labour and value.

The law as such then is constructed by abstracting from many complications. The counteracting influences take account of these complications. Marx's presentation of the counteracting influences appears to be a rather arbitrarily delimited list of factors with analysis of the way in which each operates. The list is the same as that proposed by J.S. Mill and Marx prefaces it by the warning that 'the following are the most general counterbalancing forces' only. Those enumerated are chiefly concerned with the distributional effects which can only be understood in terms of the articulation of production, exchange, and distribution. Under this heading are to be considered increasing intensity of exploitation, depression of wages, foreign trade, increase in joint-stock capital, and relative overpopulation (which encourages low wages). As a result of these factors the effect on the rate of profit of increases in the composition of social capital will be counteracted through changes in distribution between labour and capital. In addition, Marx considers the cheapening of the elements of constant capital and the effect of relative overpopulation in encouraging the persistence of industries with low compositions of capital. These factors imply that the value composition of social capital will not rise as fast as the organic (and technical) composition thereby again counteracting the effects of the rising organic composition.

Thus, in considering the counteracting influences, Marx introduces accumulation's effects on distribution and on the value composition of capital. They are at the same level of abstraction as the law as such in the sense that the counteracting influences are not predicated upon the concept of the law—they are not the effects or results of the tendency of the rate of profit to fall. Instead, both the law of TRPF and the counteracting influences are equally the effect of capitalist accumulation with its necessary concomitant of a rising technical composition (reflected in Marx's analysis by a rising organic composition but a value composition which does not necessarily rise). As Marx puts it:

'the same influences which produce a tendency in the general rate of profit to fall, also call forth counter-effects' (emphasis added).

A more accurate name for Marx's theory would be 'the law of the tendency of the rate of profit to fall and of the tendency for counteracting

influences to operate'.

Our interpretation of **Marx's** law has several implications which will become clear as we critically appraise other interpretations. One is worth stating immediately. The observable effect of the law cannot, on our interpretation, be a simple tendency for the actual rate of profit (in value or price terms) to fall. The effects of the law (which, being constructed from the law as broadly defined are at a lower level of abstraction) must be the effects of the complex contradictions between the tendency of the rate of profit to fall and the counteracting influences. One such effect is crises which are necessary at times to temporarily resolve the contradictions, another may in fact be actual falls in the rate of profit. But if the latter effect occurs it cannot be understood as a simple manifestation of the law, it is a manifestation of the complex internal contradictions of the law as defined above in the broadest sense. Hence the title of **Marx's** Chapter 15 where he considers the law of TRPF and counteracting influences is 'Exposition of the Internal contradictions of the Law' (emphasis added).

Having set out our interpretation of the law of TRPF we are now in a position to consider the neo-Ricardian interpretation and critique of the law. That position is best represented in the writings of **Steedman (1972)**, **Hodgson (1974)** and **Himmelweit (1974)**. Many of the points they develop were already known in less developed form before the recent debates and had been summarised by **Meek (1967)** and **Sweezy (1949)**. In essence, neo-Ricardian writers are concerned to demonstrate the invalidity of the law of TRPF (or, at least, their interpretation of it) by demonstrating that a rising technical composition of capital does not necessarily involve a rising value composition (or, as they call it 'organic composition'); that if the value composition of capital does rise this does not necessarily cause falls in the rate of profit and that the real source of falls in the rate of profit can only be wage increases, the result of class struggle over distribution in the sphere of exchange. (Since the models are generally constructed in terms of prices rather than values, wage increases are equivalent to 'falls in the rate of exploitation'.)

The first point in the neo-Ricardian argument is that the value ('organic') composition is an irrelevant concept (**Hodgson, Steedman**). It is argued that the relevant concept is dated labour and this view inevitably follows from their concentration on a price of production model (their rejection of value theory which we explained in Section 2) for in such a model embodied labour is treated simply as a cost and prices are the sum of these costs multiplied by a factor which depends on the rate of profit and the date at which the labour was expended. In such a model there is no qualitative difference between dead and living labour, whereas for **Marx** there is such a difference and it is captured by the concept of value composition. This concept emphasises the distinction between constant capital (dead labour) which does not create value and variable capital which

is a component of the living labour which does create value.

The second neo-Ricardian argument is that even if we accept the concept of the value ('organic') composition, a rise of the technical composition of capital does not necessarily imply a rise in 'organic' composition (Hodgson). The rise in technical composition **will**, since it raises the productivity of labour, lower the values of commodities: more commodities can be produced in a given number of labour hours. Assuming that the values of means of production fall in this process, then, depending on the rate of fall, the increasing mass of means of production may not involve an increasing value. The value of constant capital may rise, fall or stay unchanged, and therefore the value composition may not rise even though the technical composition of capital has risen.

A third strand in the neo-Ricardian critique is the idea that, even if the 'organic' composition does increase, the rate of profit will not necessarily fall. It is a proposition put forward in different ways by Hodgson (1974) and Himmelweit (1974). Hodgson's argument for this proposition is extremely weak since it reasons by a false analogy between neo-classical economics and **Marx's** theory. Himmelweit's argument is more worthy of consideration. She argues in a model expressed in terms of prices of **production** rather than values and she adopts $\frac{c^1}{v^1 + s^1}$, rather than $\frac{c^1}{v^1}$ as the measure of 'organic' composition (where the primes denote price rather than value quantification). Within Sraffa's **neo-Ricardian** model of prices of production it is easy to show that, given the state of technology there is a unique relationship between wages and profits: if wages go up, profits go down. Himmelweit argues from this that a rise in the wage rate is the sole cause of a fall in the rate of profit given the state of technology, and that a rise in the wage rate **brings about** a change in technology toward a higher organic composition as individual capitalists seek to offset the rise in wages by raising productivity. This rise in productivity actually **stems** the fall in the rate of profit which is being caused by rising wage rates (whereas Marx argues that the falling rate of profit and rising productivity are two manifestations of the same tendency). Therefore, the rise in the 'organic' composition slows or even reverses the tendency of the rate of profit to fall instead of being 'cause' of the fall. The capitalist class as a whole benefits from the fact that the new techniques introduced by individual capitalists for their own gain reduce the effects of rising wages whereas Marx argues that the competitive actions of individual capitalists in introducing new techniques are an aspect of the falling rate of profit and therefore harm the class as a whole. The contrast between Himmelweit's conclusions and Marx's, arises from the fact that the structure and status of each concept differs between the two writers. For Himmelweit a distributional phenomenon, the movement of the wage rate, is primary and the motive force (and this phenomenon is considered only as an exchange phenomenon).

For Marx, however, movements of wage rates are derivative from the accumulation of capital ('the rate of accumulation is the independent not the dependent variable; the rate of wages the dependent, not the independent, variable').

Marx begins with accumulation and the organic composition and productivity rise *wen* without the prior stimulus of rising wages. When that happens, then even in Himmelweit's price of production model, the rate of profit will in general (although not in all circumstances) fall as long as wages rise. And in **Marx's** approach based on the law of value, wages will rise, since to maintain equality between wages and a constant value of labour power, wages must rise as labour productivity rises. For the rise in labour productivity means that the value embodied in each wage commodity falls; if the value of labour-power is constant and equal to wages, then wages must rise to allow more commodities and, hence, an equal amount of total value to be received by workers. This example illustrates the significance of value analysis since Himmelweit's concentration on price of production and wage rates diverts attention from the question of the value of labour power. More than that, it actually prevents an analysis which takes into account the articulation of the spheres of production, exchange and distribution with production as fundamental, for, as we have shown in Section 2, this articulation cannot be understood without value theory. Thus, Himmelweit is forced to consider matters from the one-sided exchange based view of distribution.

What then is the conclusion of the neo-Ricardian critique of the law of TRPF? Hodgson and Himmelweit both argue that the element of truth in **Marx's** law is that a rise in the 'organic' composition, if it occurs, will involve a fall in the maximum attainable rate of profit—in the rate of profit which would be appropriated by capitalists if the wage rate were zero. The important point for neo-Ricardianism, however, is that the actual rate of profit is below its maximum since wages are greater than zero (and, indeed, only neo-Ricardians could in the first place conceive of an economy where wages are zero and therefore where profits exist without workers). As Himmelweit concludes, the fact that the maximum rate of profit will fall if the 'organic' composition rises says nothing about whether there is a tendency for the actual rate of profit to fall. What is emphasised is that changes in wage rates are the sources of changes in the profit rate. Class struggle over distribution in the sphere of exchange is everything (see Bhaduri (1962)). This is the theoretical basis for the empirical work of Glyn and Sutcliffe (1972) which we discuss below.

At the opposite extreme, the Fundamentalist interpretation of **Marx's** law of TRPF, as in Yaffe (1972) and Cogoy (1973), emphasises the immanent contradictions of capital as the basis of the law. In contrast to the **neo-Ricardian** approach, these are seen as being located within the sphere of production. Yaffe considers the problem in two stages: first, he

argues that accumulation necessarily involves a rise in the technical *and* 'organic' (value) composition of capital and, second, he argues that this rise is not offset by increases in the rate of exploitation since there are definite limits to its rate of increase. Therefore, he concludes, there is a tendency for the value rate of profit to fall. The substance of his argument concerns the rising 'organic' composition: the inevitability of this tendency stems from the very nature of capital. The concept of capital implies a contradiction since capital is 'value in process'; it is self-expanding value which necessarily strives for expansion without limit, but its **self**-expansion is based on the labour of the working class and this is necessarily a limited basis since the population and length of the working day cannot be expanded without limit. As the resolution of this contradiction, capital therefore must make itself as independent as possible from its limited base by increasing the technical composition of capital, employing, that is, a greater proportion of machinery and raising labour productivity so that a greater amount of raw materials is worked up with a given amount of living labour. Furthermore, this must involve an increase in the 'organic' composition, the relative value of constant and variable capital employed. Why, we may ask, must this be so, for, as we have seen the increase in the use of machinery may itself cause a disproportionate fall in the value of machines and the value ('organic') composition may not rise? Yaffe concludes that the 'organic' composition must rise if the technical composition rises because new machines will only be installed if the labour embodied in the production of new machines (their value) is less than the value of the labour power (the paid labour) which is displaced by the machines. His argument is, however, impenetrable. On one interpretation, neo-Ricardians criticise it on the grounds that it is tautological since its conclusions follow immediately from the assumption about the rule for installing new machinery (Hodgson (1974), Catephores (1973)) and neo-Ricardians could argue that, in their terms, the rule for installing machinery is invalid since individual capitalists are not concerned with the labour embodied in constant and variable capital but with the price (or price of production) of these elements. Even if, however, one accepts that individual capitalists' decisions are taken on the basis of labour embodied, Yaffe's 'proof' of the rising 'organic' composition is flawed by mixing a theorem which concerns individual capitalists' behaviour with an equation which concerns aggregate values. Finally, as Catephores (1973) argues, Yaffe's 'proof' of a rising 'organic' composition contains an implicit assumption of competition (since it starts from the profit maximizing behaviour of an individual capitalist in introducing machinery) and this is a method which Yaffe claims to be avoiding. Yaffe's stated objective is to demonstrate that a rising organic composition is deducible from the concept of capital-in-general rather than the concept of many-capitals. Thus, neo-Ricardianism's thrust is that the idea of a rising organic

composition cannot be the basis of the law of TRPF and that, instead, we should focus on changes in the rate of exploitation in price terms, changes brought about by class struggle over wages, as the source of a falling rate of profit. In contrast, the Fundamentalists argue that the law of TRPF stems from a rising organic composition and that the latter is inherent in the nature of capital. Both schools, however, suffer from the same weakness—a misinterpretation of **Marx's** method and the meaning of the law.

Neo-Ricardians and Fundamentalists alike consider the law to predict falls in the actual (value of price) rate of profit, falls which are the simple effect of a rising technical composition. Neo-Ricardians seek to disprove such a proposition by, among other things, emphasising the role of two groups of **Marx's** counteracting influences: the cheapening of the elements of constant capital which may prevent the value composition rising with the technical composition, and changes in distribution related to wage struggles. Fundamentalists seek to prove such a proposition by (unsatisfactorily) proving that a rising technical composition must involve a rising value composition. Fundamentalists recognise the existence of counteracting influences but treat them as secondary, transient factors so that the effects of the law of TRPF continually re-appear as actual falls preceding crises. The neo-Ricardian position is the reverse and is summarised by Hodgson's view that the counteracting influences may be considered as the law and the tendency of the rate of profit to fall as contingent. Both schools consider that what is a law and what a 'mere' influence is an empirical matter, a question of the frequency with which one is manifested rather than the other.

The burden of our own interpretation is that the existence of both the tendency of the rate of profit to fall and of counteracting influences has the status of a law in the sense that both are inevitable products of capitalist accumulation. One cannot preface the counteracting influences with the adjective 'mere'. The distinction between the law of TRPF and the counteracting influences is not one of their relative empirical or logical significance. It is a distinction based solely on the fact that Marx isolates and considers separately the different effects of accumulation; the concept of organic composition is employed to analyse the former and the concept of value composition to analyse the latter. The importance of the distinction between these two concepts has escaped neo-Ricardian and Fundamentalist writers; they use organic composition to mean value composition (and, in consequence, we have followed their terminology in describing their arguments but used quotation marks to denote our disagreement with their interpretation of organic composition).

Theory of Crisis

The debate over the falling rate of profit is not merely academic and technical. It has implications for the theory of crisis and this is undoubtedly

the reason for its having aroused such interest. Fundamentalists see the tendency of the rate of profit to fall as the source of crises and the inevitability of the former ensures the inevitability of the latter. Neo-Ricardians see their attack on the law of TRPF as an attack on determinism and economism to which end 'we must bury the last iron law of Marxian political economy' (Hodgson (1974)).

The neo-Ricardian position on crises is best summarised by Glyn and Sutcliffe (1972). For them, the recent economic crisis (and, implicitly, all crises) results from an actual fall in the rate of profit which is caused by a rise in wages, not a rise in value composition. The rise in wages is the result of a change in the balance of forces in class struggle—a rise in workers' militancy in the context of increased international competition so that capitalists cannot simply pass on and counteract rising wages by proportionate increases in prices. We therefore have an analysis where crises are not the mechanistic result of the faceless laws of economic practice. From the point of view of the economy, the rise in wages is purely contingent and this gives their theory both its strength and its weakness. Its strength because it emphasises that the 'subjective' actions of the working class have a role to play in capitalism's laws of development; its weakness because their theory implies that crises are accidental rather than the necessary concomitant of the complex contradictions between the relations and forces of production. The weakness in Glyn and Sutcliffe's position is that it emphasises distributional class struggle is compounded by Gough (1975) who emphasises class struggle in general. That is, he fails to distinguish accurately between political, ideological and economic class struggle and tends to reduce economic class struggle to political struggle; and to the extent that he refers to economic class struggle he is concerned only with distribution located in the sphere of exchange. This compounding of different types of class struggle has been criticised by Fine and Harris (1976a) on the grounds that it prevents an analysis of the links and contradictions between the different forms of struggle and it precludes any distinction between economic crises and the general crisis of a social formation. Neo-Ricardian writers, however, appear to think (erroneously) that it is necessary to concentrate on political and distributional class struggle as the source of crises in order to avoid the dangers of economism with its emphasis on a mechanistic determination of social events by the sphere of production. They implicitly adopt and misapply the slogan 'politics in command!'

Fundamentalists, on the other hand, locate the sources of crises in the law of the tendency of the rate of profit to fall which, as we have explained above, they analyse within the sphere of production and in terms of the concept of capital-in-general (i.e. attempting to abstract from competition). The position is best expressed by Yaffe (1972). The law of TRPF is seen as sometimes masked by counteracting influences and at other times comes to

the surface in the form of an actual decline. When it does make this appearance it induces crises and these crises overcome the contradiction of capital for which the falling rate of profit is merely the form of expression; but in overcoming the contradiction, the barrier to accumulation, the crises remove it to a higher level. Economic crises is seen as the major counteracting influence to the tendency of the rate of profit to fall (although Marx considers it as the resolution of the contradictions of the tendency and the counteracting influences rather than a counteracting influence itself). Yaffe argues that the law of TRPF is located exclusively within the sphere of production, but that crises can only be analysed after competition and activities in the sphere of exchange are introduced. The processes by which the crisis counteracts the falling rate of profit the restores the conditions for accumulation include forces located within the sphere of production (e.g. restructuring of productive capital), those located within the sphere of exchange (e.g. depreciation of the prices of commodities) and distributional phenomena. In contrast to the neo-Ricardians, Yaffe is explicitly dealing with economic crises and succinctly makes clear that these cannot be reduced to general social crises whilst the latter, equally, cannot be reduced to economic crises. This analysis of crises is the opposite of the neo-Ricardians' it emphasises the priority of production rather than exchange and distribution based on exchange, it locates crises as necessary rather than contingent, and it distinguishes economic crises as a separate category. In this, Yaffe is closer to advocating Marx's theory of crises whereas neo-Ricardians can only be considered to be rejecting it. Yaffe's argument does have its faults. As we have seen, his treatment of the law of TRPF is not wholly satisfactory, but his greatest error comes when he introduces a problem not explicitly considered by Marx—the problem of the state's intervention in economic crises. Here, as we explain at the end of the present section, he falls into the same error as the neo-Ricardians and treats the state's intervention in the same way as it is treated by bourgeois Keynesian theory. A further weakness of Yaffe is that although he introduces competition and exchange in the analyses of crises he does not consider the relative autonomy of the spheres of exchange and distribution and, therefore, in his analysis their role can be reduced to the sphere of production. Itoh (1975) and Fishman and Ergas (1975) partially overcome this error.

Fine and Harris (1975a) and (1975b) develop the theory of crisis in a way which is closely related to that of Yaffe and suffers from some of the same weaknesses. They, too, consider the sphere of production as fundamental and locate the source of crises in the tendency of the rate of profit to fall (although they do not consider that the tendency must be manifested in an actual decline in order to precipitate crises). Moreover, as is made clear in Fine and Harris (1976a), they argue unlike the neo-Ricardians that a clear distinction must be made between economic crisis

and political crisis if a proper understanding of society is to be achieved. The first particular feature of their work is their concentration on the forces through which crises lay the foundations for renewed accumulation. Here they emphasise the functions of crises in stimulating and establishing the conditions for the restructuring of productive capital, so that capital's concentration and centralisation and its internationalisation are stimulated, and new techniques with higher productivity are introduced. They **argue** that these forces are more fundamental than the distributional phenomenon (as understood by neo-Ricardians) of unemployment pushing down the level of wages. Indeed, such distributional phenomena can only be understood if one understands their relation to the sphere of production and the imperative restructuring of productive capital. The second, and most important, distinctive feature of Fine and Harris's work is their analysis of state intervention in crises. Neo-Ricardians and Fundamentalists both in their different ways, view the state in an essentially Keynesian manner in that they consider the state in the era of monopoly capitalism as having a commitment to maintain full employment. Fine and Harris argue against this view and, in doing so, stress the significance of the state's intervention in the restructuring of productive capital. The question of the state is central to modern analyses of crises and capitalism's economic laws of development. We now turn to consider it explicitly.

The State, Crises and Accumulation

Fine and Harris (1975a) (1976a) argue that to understand the state's economic role in accumulation and crises it is necessary to clarify the meaning of the relative autonomy of politics from economics—to understand the constitution of the two spheres as distinct but unified with the economy as fundamental. Thus, the state's position in capitalist society is to ensure the survival of capitalist relations in general and, since these relations have economic relations as their base, this specifically requires the maintenance of the economic conditions for capitalist accumulation. Since economic crises, whose ultimate basis is the operation of productive capital and the law of TRPF, are the necessary concomitant of capitalist accumulation the state cannot be considered to abolish crises. Instead, in its economic intervention the state is objectively forced to accept the necessity of economic crises, overproduction and unemployment. Bearing in mind that economic crises are **founded** in the sphere of production, rather than in exchange and distribution, that the primary recuperative force in crises is the restructuring of productive capital rather than the pushing down of wages, the state's intervention in crises must be located there. For the state does not passively 'accept' crises, it actively intervenes to ensure their fruitfulness for accumulation. This involves primarily increased nationalisation, financial aid to and supervision of private capital, restructuring of nationalised industries' capital, and cuts in state

expenditure to release surplus value for accumulation; and the way in which these policies have operated in the current period of the British economy are analysed in Fine and Harris (1975b) (1976b). These are considered as the primary aspects of state intervention. Derivative is the fact that the state also intervenes in distribution through actions in the sphere of exchange (such as incomes policies). Moreover, for a complete analysis Fine and Harris consider it important that political class struggle and ideological tensions affect the extent to which the state can permit crises to develop at any given time and argue that the state can postpone crises, moderate their depth, and precipitate crises, but it can never abolish them. For it is ultimately bound by the laws of capitalist accumulation.

In this Fine and Harris are radically different from bourgeois Keynesian interpretations of state intervention. Such interpretations, accepting as reality the superficial appearance of the state as being above and outside of civil society; consider that the state has a real objective, the objective of abolishing crises and unemployment. It is able to do this because there exists a national interest (rather than antagonistic class interests) which the state represents and because economic crises result simply from capitalist anarchy and imperfect information having an effect in the sphere of exchange and making the sale of commodities difficult at times. Thus, the state can abolish crises by economic planning and by increasing the demand for commodities when their sale becomes difficult. To the extent that there remains unemployment, Keynesian interpretations explain this by pointing to a conflict between the national interest's goal of full employment and the objective of balance on the balance of payments. The difference between this approach and that of Fine and Harris is transparent and, in particular, Harris (1976b) has argued that the idea of the balance of payments being an objective which conflicts with full employment cannot be accepted by Marxists.

Nevertheless neo-Ricardians, from a starting **point** different from that of Keynesians, finish by accepting the Keynesian view of the state. This is most clearly seen in the work of Gough (1975) who considers that the capitalist state had a commitment to full employment and in the period since World War II it has achieved this objective by maintaining aggregate demand and national **planning**. Gough's difference from bourgeois Keynesianism is found in two factors. First, the state has these full employment aims not because it represents some national interest but because the political strength of the working class (internationally and within each nation) since World War II has forced upon the capitalist states a rejection of unemployment. Second, to the extent that there is a contradiction in the state's full-employment policy this is not because of the balance of payments (although this purely Keynesian factor is considered by some neo-Ricardian writers), it is because class struggles over wages and profits,

distributional struggles in the sphere of exchange, require the state to intervene on behalf of capitalists to create unemployment and push down wages. But these differences do not permit **Gough** to escape from Keynesian conclusions regarding the state's role as guarantor of full employment, they reinforce those conclusions.

As Fine and Harris (1976a) and Holloway and Picciotto (1976) argue, this error of Gough's results from a failure to identify the complex articulation of politics with economics. Fine and Harris consider that Gough's errors stem from an over-politicisation of theory, from viewing politics (and the state which **Gough** locates within the sphere of politics) as absolutely autonomous from economic laws. They also stem from a misconception of the economy, for **Gough** considers only exchange relationships and never the sphere of production. This emphasis on the sphere of exchange has important effects in the two parts of Gough's article, the part where he considers the sources of the long-term growth of state expenditure and the part where he considers the state's role in crisis. These effects are crystallised in his adoption of the neo-Ricardian position on productive and unproductive labour. In essence **Gough** in this rejects the significance of this distinction and therefore treats state expenditure on, or production of, welfare services as materially identical with the production of commodities by capital. He is therefore unable to satisfactorily explain the long-run growth of state expenditure on economic grounds, since in this scheme there is no valid reason why private capital rather than the state should not produce welfare services. Furthermore, Fine and Harris argue, this rejection of the **productive/unproductive** labour distinction is the necessary concomitant of Gough's emphasis on the sphere of exchange.

Holloway and Picciotto (1976) criticise **Gough** for reasons which are, in part, similar to those of Fine and Harris. They argue that Gough's separation of economics and politics permits him to imply incorrectly the existence of an absolute autonomy of politics and to fail to see the economic limits on the state's interventions. But whereas Fine and Harris argue that Gough's particular distinction between politics and economics is faulty with its implicit idea of complete separation and the primary of politics, Holloway and Picciotto argue that any separation of the spheres in theoretical work or in the tactics of class struggle is an error which must lead to the reformism of for example, those who envisage the possibility of transforming society by the mere capture of political institutions. We, however, consider that only through an understanding of the distinction between the spheres of economics, politics and ideology can the movement forge explicitly the unifying links between class struggle in the different spheres.

Although Fine and Harris's and Holloway and **Picciotto's** critiques of the Keynesian view of the state are primarily directed against its adoption in

Gough's **neo-Ricardian** framework, it is also the case that Fundamentalists adopt a Keynesian view of the state. This is clear from Yaffe (1972) (1973) but it is also clear that the state in his Keynesian conception plays a role different from that in the neo-Ricardian system. For Yaffe the law of the tendency of the rate of profit to fall gives rise to a tendency for crises. The state, because it has for political reasons a commitment to full employment, increases state expenditure in order thereby to increase aggregate demand and overcome the crises. In doing so it is producing a further contradiction or, rather, transforms the contradiction inherent in capital and expressed in the tendency of the rate of profit to fall. It transforms this because the growth of state expenditure itself further intensifies the tendency of the rate of profit to fall and the contradiction therefore takes the form of the state, in attempting to overcome crises, merely intensifying the source of crises and thereby underpinning their inevitability. This occurs because state expenditure must be financed by the taxation of surplus value produced by capital since state expenditure (except for the operation of nationalised industry) is itself unproductive of surplus value. An increase in state expenditure therefore must imply a reduction in the proportion of any given mass of surplus value which remains in the hands of capital and is available for accumulation: it must, that is, reduce the rate of profit in value terms. A similar view is adopted within the Fundamentalist framework by Gamble and Walton (1976), but for them the primary contradiction which results from the state's supposed commitment to full-employment is an intensification of inflation (and, therefore, of generalised social instability) rather than merely an intensification of the tendential decline in the rate of profit. The error in these approaches stems from the Fundamentalists' idea *faute de mieux*, that the state is committed to full employment.

It seems clear that the analysis of crises, the state and the relations between politics and economics must be, as Holloway and Picciotto argue, central to further development of the theory of capitalist accumulation. Not only is it the case that these phenomena dominate daily life in this era of monopoly capitalism and that state intervention is increasingly important, it is also the case that all the fundamental problems over which Marxist economists have fought in recent years are **crystallised** in these problems. The debates over values and prices of production, productive and unproductive labour, the articulation between the spheres of production, exchange and distribution, and the law of the tendency of the rate of profit to fall are all fundamental to the theory of crisis and the state. These debates, therefore, are relevant to an understanding of history and to the development of revolutionary strategy; the economists who contribute to them have a considerable responsibility.

4. Conclusion

The debates of Marxist economists in British journals have involved two polar schools with some writers (perhaps an increasing number) producing critiques of both schools. This polarisation is found, as we have seen, within all the major issues of 'high theory' and it has its effects on the analysis of concrete societies. Moreover, it is a real polarisation and separation. It is not that neo-Ricardians analyse the price phenomena which are on the surface of society while Fundamentalists complement that work by using value analysis to analyse the hidden forces. **Marx's** method involves understanding the different levels of abstraction as instances of a unified whole and there is no way in which the neo-Ricardian propositions can be united with those of the Fundamentalists in one whole.

The fact that the two schools cannot be regarded as complementary, two parts of a unity, is reflected in the differences between their (erroneous) methods. Consider the question of the role of contradictions in the analyses. Yaffe, for the Fundamentalists, has emphasised that **Capital** cannot be understood without an understanding of **Hegel**. Accordingly, a form of dialectical contradiction is central to his analysis. It takes the historical phenomena of capitalism, (falls in the rate of profit, crises, state intervention) as the simple expressions of one basic contradiction—that which is inherent in capital-in-general, its tendency toward unlimited expansion and the limited nature of living labour which is the basis of such expansion. Everything follows in a straight line of development from this one contradiction. For the Fundamentalists, the surface phenomena such as crises and state intervention are the simple forms, the appearances, assumed by the essential single contradiction. This essence is located in **the** sphere of production considered in isolation and appears to be thought of as the only reality. For neo-Ricardians, the laws of development are not seen as resulting from the internal contradictions of capital. The falling rate of profit, for example, is not thought of in dialectical terms but in terms of the simple mathematics of technical relations. Similarly, the transformation problem is not seen as a problem in specifying the contradictory unity of the spheres of production, exchange and distribution but as the problem of constructing a price system from technical relations. To the extent that dialectical reasoning enters **neo-Ricardian** analysis it is only implicit: it is the contradiction between the two great classes, proletariat and bourgeoisie, which determines the distribution of income and causes crises, but this contradiction is manifest only in the sphere of exchange (wage struggles) and at the level of politics. As we have made clear throughout, we consider that the methods of both Fundamentalists and neo-Ricardians are incorrect in this respect. What both in their different ways fail to see is that the structure of the economy (and the relation between economics, politics and

ideology) must be understood as a complex structure. The laws of development are located within a structured relationship of contradictions. Thus, the law of TRPF and the counteracting influences are to be seen as contradictory effects of capitalist accumulation, they are contradictions of capital-in-general as has been pointed to by Yaffe. But crises do not result from the contradiction of capital-in-general as Fundamentalists argue, but from this in its relationship to the contradiction between the law of TRPF and the **counter-acting** influences and in its relationship to the other contradictions which are found in the articulation between exchange (and particularly credit) and production.

A second question of method which distinguishes Fundamentalists and neo-Ricardians concerns the proof of a theory's validity and the quantification of relationships. Neo-Ricardians such as Hodgson reject as metaphysical any theories which do not yield predictions concerning observable phenomena. Moreover, these predictions must be quantifiable so that they can be confronted by data in a proof or disproof. Fundamentalists, on the other hand, in concentrating upon the hidden essence of economic relations and treating them as the only substance of reality, would appear to deny the necessity of framing theories in a form corresponding to observable phenomena. Careful consideration of **Marx's** method lends little support to either of these positions. On the question of quantifiability, in particular, several points may be made. First, the law of TRPF (as an example) may not manifest itself on the surface of society as a fall in the actual price or value rate of profit when we bear in mind its existence in a structure of contradictions; its main observable effect is the crises which temporarily resolve the contradictions and which are not necessarily preceded by actual falls in the rate of profit. Second, observable effects need not be confined to quantifiable effects: the practice whose unity with theory is so central to Marxism is not limited to the practice of collecting statistics. Practice concerns the whole field of class struggle and the lessons learned from it; the collection and examination of statistics has some significance, but its role is limited and confined to illustration of theories rather than their proof in an empiricist manner. Finally, the direct use of statistics which are constructed within a non-Marxist framework is an invalid procedure **för** Marxist theoreticians, a point illustrated by Harris (1976a).

The debates surveyed here have occurred in the midst of turmoil in capitalism's economic and political relations, and several contributors take this as their point of reference. In this context in particular it is clear that the way forward for the economic debates is to clarify the relationships between economics, politics and ideology and to develop the analysis of the specific features of state monopoly capitalism. But for this to take place, the issues considered throughout this paper must be given more attention for neither neo-Ricardians nor Fundamentalists have produced theories of the

capitalist economy which give a satisfactory basis for the analysis of capitalist society. They have asked questions, provided answers and enabled progress to be made, but neither has followed **Marx's** method and it is hardly surprising that a common view among Marxists is that the economists have failed to provide Marxist analyses of new problems.

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