A letter and reply on the “Sraffa-based” critique of Marx

Nick Beams
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Dear comrade Nick Beams,

I am a passionate supporter of the WSWS and ICFI.... The main reason I am writing to you is that ... I have discovered serious problems in the ICFI’s position in the field of Classical Political Economy. Otherwise, I consider the ICFI’s perspective to be almost perfect. The field where it is most vulnerable is Political Economy, since, in my opinion, any scholar trained in classical or surplus approach economics would be able to easily embarrass it.

I know that these matters are full of prejudices (although very few people actually know the structure of the problems involved), and that the arguments run according to entrenched passions. But regardless of what one’s final conclusion is, there is one thing that is beyond dispute for me. That is: we cannot take the stand of ignoring science, and preach the eternal validity of Newtonian mechanics without caring or daring to read about Einstein’s relativity. Or, stated differently, however the discovery of the heliocentricity of the solar system, or the fact that humans evolved from monkeys, could have been perceived as hurting people’s feelings, they turned out to be a victory for human reason and the source of progress and pride for mankind.

Here, I am raising, of course, the Sraffa-based critique of Marx. If something is relevant and urgent for the ICFI to consider in the field of Political Economy, then it is this major development which has given a simple and definite solution to some of the problems that Marx left unsolved or to which he left false solutions. Let me give a few quotations: “This should have been welcomed by *all* those working to develop the materialist account of capitalist society. It was not.” “The response of many has been not to *face* them but to *obscure* them.” “The Sraffa-based critique of Marx *cannot* be met head on and rationally rejected, for the simple reason that it is correct. Thus the self-appointed ‘defenders’ of Marx descend into evasion.” “The *appropriate* response of Marxists to the Sraffa-based critique of Marx is thus not to evade it or obscure it but to grasp it, absorb it and use it in the construction of an improved theory of the capitalist economy.”

These quotations come from a major reference on the subject, Ian Steedman’s: *Marx after Sraffa*, 1977. I insist on this: we absolutely cannot afford not to examine Steedman’s book. It is, unlike *Capital*, short and easy to comprehend, recognized by the whole scientific community, cited in encyclopedias as a main reference, and it is also a rare example of an honest Marxist materialist analysis with impeccable logic. From carefully reading the WSWS I have drawn the conclusion that Steedman’s book is probably not known to anyone in the ICFI. For example, in the only article that mentions Sraffa that I could find with the WSWS search engine: “A question on Marx and Keynes” of August 8, 2001, there is only the following three lines:

“Similarly, Piero Sraffa was aware of the contradictions in the orthodox theory of capital. But he attempted to develop a theory of value based on Ricardo, rather than Marx.”

And the question was: “... but some of his successors (Kalecki, Robinson, Sraffa) did attempt to come to grips with Marxian economics. I am curious what WSWS has to say about the state of academic economics today, and of the science’s historical development.”

So the main point of my initial correspondence with you is to draw attention to this book, and if the content of it is known, then to examine with you the position of the ICFI on the issues involved.

I should warn against drawing conclusions guided by prejudices, because I think this matter has the danger of dragging the ICFI into a trap of a “school of falsification”. Political economy is just that kind of slippery ground. In my opinion, a lot of Marx’s *Capital* has been proved, among others by Marxist economists, to be inconsistent, and what is most important for me is that Marx (apart from not finishing his planned opus, and writing it in a manner that not only the proletariat cannot understand, but one can count on one’s fingers those who can, including in the whole Eastern bloc, where it was propagated, and, unlike quantum mechanics does not justify such confusion), despite his materialism, in *Capital* Marx postulated many things on sheer idealist grounds. Some amount to 2+2=6. My boldness derives from finding out that the issue is settled in the scientific community and has become a common fact. It is all simple Linear Algebra, and I would not suggest to anyone that they polemicize with Linear Algebra. But if the ICFI is confident it can rebut it, it would earn a Nobel prize in Economics for sure, and another one in Physics for constructing a perpetuum mobile. I would be glad then to admit my mistake and to restore Marx’s infallibility.

I have stated my argument in a rather sharp form because the purpose is to provoke attention and caution. No one should doubt my devotion to the socialist cause. My only hope to survive meaningfully is World Socialist Revolution!

I should mention that I don’t know about Steedman’s political affiliations. They might well be like those of other academicians, but that is irrelevant here. We should try to penetrate the growing movement for a resurgence of the surplus approach to economy, and influence them and bring them to the ICFI, because they badly lack political orientation.

There are a lot of lessons that we could take generally out of the painful debate originating from Marx’s *Capital*.

This is just to establish a contact. I hope to receive your initial response, and that there will then be more opportunities for debate. I wish you the best, and thank you for everything you do so successfully for the ICFI and World Socialist Revolution!

Sincerely yours

Dejan Popov

Dear DP,

The so-called Sraffa-based critique of Marxism, associated most immediately with Ian Steedman and his book *Marx After Sraffa*, is not an attempt to provide a solution to problems Marx left unsolved or to provide a correction to his supposed errors. It is a rejection of the entire analysis of value upon which *Capital*, Marx’s crowning work, is based.

Steedman, at least, makes this clear. Summing up his work he writes:

"Marx's value reasoning—hardly a peripheral aspect of his work—must therefore be abandoned in the interest of developing a coherent materialist theory of capitalism."

In case anyone missed the point, he adds further down the same page: "It can scarcely be overemphasised that the project of providing a materialist account of capitalist societies is dependent on Marx's value magnitude analysis *only* in the negative sense that continued adherence to the latter is a major fetter on the development of the former" (Ian Steedman, *Marx After Sraffa*, p. 207).

Before coming to value itself, for it on this that the question turns, let me cite an insightful remark by Schumpeter on Marx's method. While he was certainly no Marxist, Schumpeter was nevertheless aware of Marx's historical significance.

"There is ... one thing of fundamental importance for the methodology of economics which he actually achieved. Economists always have either done work in economic history or else used the historical work of others. But the facts of economic history were assigned to a separate compartment. They entered theory, if at all, merely in the role of illustrations, or possibly of verifications of results. They mixed with it only mechanically. Now Marx's mixture is a chemical one; that is to say, he introduced them into the very argument that produces the results. He was the first economist of top rank to see and to teach systematically how economic theory may be turned into historical analysis and how the historical narrative may be turned into *histoire raisonée*" (Schumpeter, *Capitalism, Socialism and Democracy*, p. 44).

No one could deny that Marx based his analysis of the *historical* development of capitalism on the *logic* that unfolded from his value analysis. If, however, one wants to follow Steedman and throw out the analysis of value, then one must explain how it was that Marx, despite his incorrect procedure, was able to provide a scientific analysis of the development of capitalism.

It is impossible, I would suggest, to agree with Steedman on the one hand, and accept Marx's analysis of capitalism and its historical development on the other. If one accepts Steedman, then one rejects *Capital*. You appear to be heading in that direction when you write that "a lot of Marx's *Capital* has been proved, among others by Marxist economists, to be inconsistent" and that it was written in such a manner that it could not be understood. On the other hand you praise Steedman for his "simple Linear Algebra", while assuring us that if it can be refuted you will admit your mistake and "restore Marx's infallibility".

On the question of difficulty, Marx explains that the first chapter of *Capital*, which contains his analysis of the commodity and value, is difficult, precisely because he is striving to penetrate beneath social forms that have baffled the human mind for 2000 years. Marx drafted and redrafted this chapter several times in order to make it as accessible as possible. As for the question of "infallibility" no one, least of all Marx, has ever claimed this. All he asked for was "a reader who is willing to learn something new and therefore to think for himself."

As with so many difficult issues, it is necessary to approach the question of value by means of an historical analysis.

Marx would certainly have agreed with Newton's remark that if he were able to see further than his contemporaries it was because he stood on the shoulders of giants. Marx was always deeply aware that his achievements were grounded on those of classical political economy, which reached its highest point in the work of Smith and Ricardo.

All the classical political economists, from William Petty onwards, were led to the question of value. It was not that they set out consciously to provide an analysis of the new society that was coming into being. They were concerned with practical issues, such as how to strengthen the realm. But that led to the question of wealth and how it was measured; and to the question of price and what might lie behind it—value. With Smith, and this was his great achievement, we have the development of political economy as a science.

Smith had maintained that in an "early and rude" state of society, the price of any commodity was determined by the labour necessary to produce it. However, as soon as he began to deal with a society in which private property existed—capital and privately owned land—his labour theory ran into problems. Accordingly, Smith concluded that the price of any commodity was determined by the sum of wages, profit and rent, by the incomes of the three great classes in society—wage earners, capitalists and landowners.

Ricardo rightly rejected Smith's "adding up" theory as unscientific. He sought to show that the value of a commodity was determined by the labour embodied in it. He maintained that there was an inherent value in a commodity, which was then divided among the different classes and formed the basis of their incomes, in opposition to Smith, who maintained that value was the sum of these incomes.

Ricardo, however, was confronted by another problem: how to reconcile his labour theory of value with the clearly observable fact that in capitalist society, profit rates tended to equalise across industries. If prices were directly determined by labour values, then profit rates in different industries would vary according to the amount of labour employed, or the different turnover times of capital.

There appeared to be only two possible resolutions of the problems confronted by Ricardo. One was to abandon the labour theory of value and return to Smith's "adding up" theory, or, if that proved unsatisfactory, abandon completely the search for any objective basis of value and develop instead a subjective theory (the marginalist school of the 1870s).

A third alternative was a complete re-examination of the theory of value, to show how the theory itself could explain the contradictions to which it seemed to give rise. This was the road taken by Marx, as he sought to develop a theory of value that explained the laws of motion of capitalist society.

Marx recognised, however, that the categories within which the classical political economists had sought to conduct their analyses—wages, price, profits, rent etc.—could not simply be adopted. Rather, these categories themselves had to be explained. "Political economy," he wrote, referring to his predecessors, "has indeed analysed value and its magnitude, however incompletely, and has uncovered the content concealed within these forms. But it has never once asked the question why this content has assumed that particular form, that is to say, why labour is expressed in value, and why the measurement of labour by its duration is expressed in the magnitude of the value of the product" (*Capital* Volume I, pp. 173-174).

After considerable research, summed up in *The Grundrisse*, Marx arrived at his starting point for the analysis of capitalism—the commodity, the economic cell-form of this particular mode of production.

In one of his last writings on political economy, rejecting the charge that he started from a "concept" of value, Marx explained his method as follows:

"In the first place, I do not proceed on the basis of 'concepts' and hence also not from the 'value-concept', and I do not have the task of 'dividing' it up in any way, for that reason. What I proceed from is the simplest social form in which the product of labour in contemporary society manifests itself, and this is as 'commodity'. This is what I analyse, and first of all to be sure in the *form in which it appears*. Now I find at this point that it is, on the one hand, in its natural form a *thing of use-value*, alias *use-value*, and on the other hand it is *bearer of exchange-value*, and is itself exchange value from this point of view. Through further analysis of the latter I discovered that exchange value is only an 'appearance-*form*', an independent mode of manifestation of the *value* which is contained in the commodity, and then I approach the analysis of this value" (Marx, Marginal Notes on Wagner, in *Value Studies by Marx*, p. 214).

In their analysis of economy, all bourgeois theorists proceed with various simplifying assumptions, or abstractions, from which they then construct some type of model. Now, it is certainly true that any scientific analysis of capitalist economy requires the "force of abstraction". The real issue is how these abstractions are developed. With Marx, they are derived in a manner completely opposite from that employed by bourgeois economists.

Marx begins, not with simplifying assumptions, but with the simplest cell-form, the commodity, of the society he is seeking to analyse. In analysing the exchange of corn and iron, represented by the equation 1 quarter of corn = x hundredweight of iron, he writes: "What does this equation tell us?" Marx does not start from an assumption, but from the exchange of the products of labour in society, and then asks what the equation signifies. Both the bourgeois economist and Marx deal with abstractions. The difference is that Marx makes clear that abstractions must be derived from a real social process, not imposed upon it.

Analysing the social process of exchange and what it tells us, Marx explains that, first of all, in each of the two different things (corn and iron) something must exist which is common to them both, but which is neither one of them.

As he goes on to demonstrate, this common something cannot be a natural property, because such properties attract our attention only insofar as they comprise the commodity's use value. "But the exchange of commodities is evidently **an act characterised by a total abstraction from use-value."** [Emphasis added]

In my view, this passage is extremely important. Marx does not say, as do the bourgeois economists in constructing their models, that we abstract from this or that, or we make this or that assumption. Instead, he draws out that it is the "act" of exchange that abstracts from use-value and, consequently, from the concrete labour which produced that particular use value. This means that the concept "abstract labour" is not an assumption that we somehow impose. Rather, it is a correct reflection, in thought, of an objective social process.

From the analysis of value comes the analysis of money, capital and surplus value. On the basis of this analysis, Marx is able, in Volume 3, to tackle the problem which had so bedevilled Ricardo: that if the law of value is true, then it invalidates the obvious fact—one of the most stable features of capitalist society—that equal amounts of capital return profit at equal rates.

Here we come to the so-called "transformation problem" which forms the starting point for Steedman and others, both before and since, who want to junk Marx's value analysis.

In Volume 3 of *Capital*, Marx explains that in capitalist society, where commodities are no longer produced by individual commodity producers but are the products of capital, price relations in the market are no longer governed directly by the law of value but by "prices of production". This is the price that would return to that section of capital which produced a particular commodity, i.e., profit at the average rate.

These prices of production are regulated by the movement of capital from one sphere of production to another. If capital in one area is able to achieve a profit at higher than the average rate, then capital from other areas will move to where profits are higher, increasing production, bringing more of that particular commodity on to the market, thereby lowering its price until the rate of profit falls to the average level. Conversely, if profits in a particular area are lower than the average, then capital will move elsewhere, raising the market price until it reaches a level sufficient to return profit at the average rate.

What Marx lays out in Volume 3 is the process through which capital no longer receives surplus value according to the surplus labour which it directly extracts, but rather shares in the total mass of surplus value extracted by *capital as a whole* in accordance with its particular share of total capital.

But what role does the law of value play? The answer is to be found by considering the average rate of profit, which is determined by the ratio of total surplus value to the total mass of capital used to extract it. This average rate of profit, in turn, regulates the prices of production.

In other words, the law of value no longer regulates production directly at the level of the price of particular commodities, but at the level of society as a whole. Competition, the struggle of different sections of capital against each other, is the social mechanism through which production is regulated by the law of value whose effects are not direct but are mediated through the prices of production and the average rate of profit.

With this analysis, Marx not only solved the problem which had baffled Ricardo—how could the law of value and the equalisation of profit rates both apply?—he revealed the source of the errors of the bourgeois economists, by showing that these errors were not the result of their individual failings but were generated by the appearance-forms of capitalist society itself.

It is impossible to go through here all the rich insights provided by Marx's analysis in *Capital* Volume 3. Let me point to just one example—the notion that labour is not the source of value. This idea is generated by the very operation of capitalist economy itself.

Each section of capital receives as profit a share of the total surplus value which is extracted from living labour, on the proviso that its methods of production are equal to the social average. If, however, one section of capital becomes more productive than the social average, reflected in a fall in its costs of production, it will receive profits at higher than the average rate. Under conditions where this increase in productivity has been achieved by cutting the labour directly employed in production it will appear to the capitalist—and to the bourgeois economist who fashions his prejudices into theories—that far from labour being the source of value, the real source of value is the technology which enabled him to lower his costs.

On the basis of Marx's value analysis, however, it is clear that the increased profit to the individual capitalist firm is the result of its ability to lower costs below the social average, enabling it, for a time—at least until other firms catch up—to receive a greater portion of the available surplus value than it otherwise would.

Much ink, most of it wasted, has been spent on the so-called "transformation problem". It is alleged that Marx's analysis in Volume 3 is invalidated because, in the numerical example he provided, Marx made an error in failing to "transform" into production prices the value of the inputs into the production process as well as the outputs.

In the first place, the demand for simultaneity is itself invalid. As a number of writers have pointed out, prices of production emerge at the end of the process, in the struggle on the market. They cannot, at the same time, determine the cost of the inputs that were used in an earlier period, at the beginning of the process.

A more basic objection, in my view, is that Marx's critics attempt to turn his numerical example in Volume 3 into a kind of input-output model of an economy which has reached a point of equilibrium, and in which the transformation problem comes down to solving a set of simultaneous equations. This is incorrect. Marx is not here constructing a model of capitalist economy based on the achievement of equilibrium. True to his method of procedure throughout, he has abstracted from other processes in capitalist economy to reveal the forces at work in the formation of the average rate of profit, and how the mass of surplus value is distributed among the different sections of capital that extracted it.

Steedman begins his book with a discussion of the transformation problem. He maintains that while Marx was wrong not to transform the price of inputs, this is not his central objection. "The central objection," he maintains, "is that, even if input prices are transformed, Marx's 'solution' is *internally inconsistent*." (Steedman *op cit.*, p. 29)

For Marx, the average rate of profit is given by $S/C+V$, where S is the total mass of surplus value, C the value of constant capital and V the value of variable capital. But if prices diverge from values, as they must according to Marx's own analysis, then, Steedman insists, the money rate of profit must diverge from the value rate of profit. This means that, in general, $S/C+V$ does not equal the rate of profit.

This objection can be dealt with relatively quickly. Of course the money rate of profit in the economy as a whole will not equal the value rate of profit at any given time. But this does not invalidate Marx's analysis. Whatever the money rate of profit and the prices in the market, the fact remains that profits are an appearance form of surplus value, distributed between different sections of capital. (Interest and rents are also forms of appearance of surplus value, but we can leave them out of the analysis here).

The mass of surplus value represents a definite amount of surplus labour that has been extracted in the process of production. This means that there are definite limits on the money rate of profit. It will oscillate around a level determined by the average rate of profit, as determined on the basis of value, that is, congealed labour.

Before going further into Steedman's analysis, it should be noted that, like so many other critics, he maintains that "Marx's discussion of the 'tendency of the rate of profit to fall' apparently continues to exert a considerable fascination, even though it is well-established that no definite conclusions may be drawn from that discussion" (Steedman *op. cit*., p. 116).

Far from being of no significance, Marx's analysis of the tendency of the rate of profit to fall provides proof of the historically-limited character of capitalist production. This is because the tendency arises not from competition, as had been postulated by Smith, nor from falling labour productivity, especially in agriculture, as maintained by Ricardo, but from ***increasing*** labour productivity, which is promoted by the development of capitalism itself. Capitalism continually strives to overcome the tendency of the rate of profit to fall by increasing the productivity of labour. But whatever relief this brings—and there is no question that it may bring about increases in the average rate of profit extending over a considerable period of time (the periods 1848 to 1873 and 1950 to 1973 spring to mind)—the tendency nevertheless re-emerges.

Capital, Marx explained, strives to develop the social productivity of labour and the productive forces. But this striving comes into conflict with the existence of capital and its self-expansion through the extraction of surplus value.

"The means—unconditional development of the productive forces of society—comes continually into conflict with the limited purpose, the self-expansion of capital. The capitalist mode of production is, for this reason, a historical means of developing the material forces of production and creating an appropriate world-market and is, at the same time, a continual conflict between this its historical task and its own corresponding relations of social production" (Marx, *Capital* Volume 3, Moscow edition, p. 245).

Now we come to that aspect of Steedman's analysis which exerts such a fascination for you. "It is all simple Linear Algebra," you write, "and I would not suggest to anyone to polemicize with Linear Algebra." I have no intention of doing so. I am sure Steedman's mathematics are perfectly sound. I am equally sure that the analysis of partial derivatives provided by Paul A. Samuelson in his *Foundations of Economic Analysis* is also perfectly sound, as is, I have no doubt, the mathematical analysis of a thousand and one other bourgeois economists, all of whom "refute" Marx's analysis of value.

Why then should we not throw away *Capital* and adopt one or other of the bourgeois theories? Because the issue is not how the simultaneous equations, partial derivatives or matrices are manipulated, but what the symbols in the various equations purport to represent.

In his analysis, Steedman employs the category of embodied labour. At first sight, it may appear that this is no different from Marx's abstract labour. But closer analysis shows this is not the case.

As we saw in considering Marx's analysis of value in Chapter I of *Capital*, the category of abstract labour is not a mental construct that we decide to make, but rather a reflection in thought of a real social process arising from the actual exchange of commodities. This means that abstract labour and value are real; they arise from a social process.

For Steedman, there is no need to consider any social processes. He insists on what he calls a "physical quantities description of the economy" (*op cit.*, p. 45).

Of course, as Steedman has to acknowledge, different types of concrete labour are involved in the production process. The development of his various equations requires the reduction of this labour to a common type, as embodied labour. But for Steedman, this is entirely a mental process, a construct of his model. For Marx, the reduction of the various types of concrete labour is an abstraction, but a *real* abstraction, that is, one which is carried out by a real social process. Steedman uses the category embodied labour, not as an abstraction reflecting a social process but as a mental convenience, containing the assumption that labour is homogeneous when it is not. In other words, Steedman's method is no different from that of all the bourgeois economists who make various simplifying mental assumptions on which they construct their various economic models.

In conclusion, I would point out that it is 25 years since Steedman's book burst on the scene, with its promises of a new basis for the materialist analysis of capital, free from all the errors and inconsistencies allegedly found in Marx. But what has the past quarter of a century produced? Nothing very much. This is not a product of the inadequacies or deficiencies of Steedman himself. It flows from the fact that he went up a blind alley, from which there is no way out, except to turn back to the value analysis of Marx. With all its complications and difficulties, this analysis provides the only means of unravelling the complexities of capitalist economy, and providing a correct political orientation for the working class.

Yours sincerely,
Nick Beams