

## SURVEYING THE FOUNDATIONS

by Ben Fine and Laurence Harris

Geoff Hodgson's comments on our article are most welcome. In surveying controversies in Marxist economics we suggested that there is a **polarisation** between different schools and we presented our own definite views. One aspect of these divisions which is regretted by all is the fact that the various protagonists appear simply not to understand the others; no real dialogue has developed and all sides either ignore the others or, what comes to the same thing, dismiss them. Neo-Ricardians tend to dismiss as abandoning logic all those who do not adopt their equation systems; fundamentalists dismiss neo-Ricardians on the grounds that they abandon Marx.

The appearance of Hodgson's comments raises the hope that a genuine discussion may be initiated. We are disappointed to find, however, that the misunderstandings remain: Hodgson's criticisms of us reflect a failure to understand our argument. Here we shall develop further our essential points in another attempt to overcome these barriers. In doing so, we shall also show how Hodgson fails to understand Marx and, therefore, why we think it is impossible for Hodgson as a neo-Ricardian to fulfill his stated task, the reconstruction of Marxist theory. Hodgson's criticisms and misunderstandings fall into three broad categories; first the status of value theory, second the relation between Sraffa and Marx; third the status of the law of the tendency of the rate of profit to fall. We consider each of these in turn, and since they have in common problems of method we examine this question in our conclusion.'

### *Value Theory and the Sphere of Production*

Hodgson is right to observe that we consider value theory as fundamental to Marxist analysis of the economy. Our view stands in contrast to the position taken by him and other neo-Ricardians on the basis of Sraffa's work: as Hodgson notes 'Sraffa's book does not vindicate the labour theory of value but implies that it is redundant, by giving a formal determination of prices and profits from physical and labour quantities, completely bypassing any notion of embodied labour.' Having noted our emphasis on value theory and the fact that this coincides with our argument that the sphere of production (rather than exchange or distribution) is fundamentally determinant, Hodgson then asks 'First, why is it that

analysis in terms of values automatically asserts the priority of production? Second, when we consider the sphere of production what role does value analysis play in it?

The question is a good one which deserves a serious answer. But the manner in which Hodgson poses it shows that he fails to understand our argument. He bases it on the view that we, in common with much 'orthodox Marxist literature', are trapped in the 'myth that values have some special relationship with "the sphere of production" and much less of a connection with the exchange process.' Inspection of pages 143 and 152-3 of our article makes clear that we do not subscribe to the idea of a 'special relationship' (indeed we know of none who do). There and elsewhere we emphasise that value is a concept which is only relevant for an analysis of production in a mode such as capitalism where production is in reality articulated with exchange through the two fold nature of the commodity as use-value and exchange-value. Thus, values do *not* have an exclusive relation with production, do not disappear once commodities enter exchange and once values are distributed as wages, profits and other revenues. Rather, value is present in exchange; prices and revenues are merely the forms of value.

The puzzle is why Hodgson fails to notice this as part of our interpretation even though he praises our stress on capital's (and Capital's) complex unity of production, exchange and distribution as 'useful and positive.' The answer is that he reads our arguments through neo-Ricardian spectacles. With these, the concept of value is reduced to a quantification of labour-times whose different forms in exchange and distribution have neither meaning nor significance. Thus, Hodgson should not ask us his questions in the context of an exclusive relation between values and production. Let us rephrase his questions: why is it erroneous to analyse production in terms of prices of production without reference to values?

This would be a significant question; one which asks for elaboration and justification of the views we have actually stated. To answer it, we take as given a number of propositions so central to Marxism that we simply state them at the start. First, analysis involves constructing and deriving complex concepts from highly abstract concepts. The highly abstract concepts themselves are based upon reality, the complex concepts pertain to the complexities of reality which are apparent on superficial observation, and the process of deriving complex from highly abstract concepts is itself based on the hierarchical relations of determination which can be shown to exist in reality. Second, the more developed concepts (such as prices of production) do not displace, or make redundant the more highly abstract fundamental concepts (such as value) any more than the existence of prices of production in reality abolishes the real existence of values. The more complex are the expressions, forms, or

appearances of the simpler categories. Third, the class relations of *production* are the starting point in these hierarchies of determination (although they may not be the starting point in exposition).

Now consider why capitalist production is not analysed by taking profit (in terms of prices) rather than surplus value as the starting point. The answer is that profit cannot be considered without introducing exchange and distribution explicitly and fully, since profit is a category defined in terms of the **exchange/distribution** categories of prices and wages. Thus, we cannot analyse production (and its priority in determination), *whilst abstracting from exchange and distribution*, by utilising prices of production and wage and profit rates. On the other hand, we can analyse production, whilst abstracting from these, in terms of values and surplus value. For these, although only existent in a mode of production where production is related to exchange, are created in the process of production alone.

But why should we follow Marx in abstracting from exchange and distribution when we analyse production? There are three conclusions reached by Marx which are especially significant in distinguishing his work from Classical political economy and which are uniquely based on this abstraction; one, the determining contradiction in capitalism is the antagonism of the two great classes; two, capitalism is a dynamic system producing constant revolutions in the process of production; three, capitalism involves tensions and displacements between production, exchange and distribution. In each case it is easy to see that the conclusion can only be based upon the abstract analysis of production.

The antagonism of the bourgeoisie and proletariat is founded upon the antagonism of capital and labour. This involves an undifferentiated concept of capital as well as labour (*viz.* abstract labour). It is the struggle of capital-in-general with labour-ingeneral which is at the root of capitalism's reproduction and the limits of it. The struggle of many-capitals in competition with each other through exchange does not have the same significance. Taking the struggle of capital-ingeneral as basic, it is logically impossible to analyse it in terms of prices which differ from values, for such prices only exist on the basis of competitive exchange between many capitals (equalisation of the rate of profit). Thus, the analysis of production so that it identifies this struggle must be in terms of values. (Moreover, this value analysis does not involve ignoring exchange until a later stage of analysis. **Marx's** value analysis is explicitly applied to exchange but, as with production, it concerns only exchange between *capital* and *labour*. . . the purchase of labour-power as a commodity being an indispensable fact. . . rather than exchange between capitals. Thus, when it is stated that value analysis abstracts from exchange this means abstraction from the complexities of exchange which result from exchange between capitals.)

The dynamic nature of capitalism. . . in the sense of the introduction of new techniques of production. . . is similarly seen as being fundamentally based on the antagonism of capital-in-general with labour. As such it can, again, logically only be analysed in value terms. With the concept of relative surplus value Marxism demonstrates that the essential property of capital-in-general. . . self expansion. . . must involve technical change. Moreover, even when we go beyond the properties of capital-in-general and consider how competition between capitals forces innovations we do not immediately enter a realm where prices of production are relevant. For, as Marx argues, the form of competition relevant to this process is that between capitals *within* each particular industry. It is a question of how each capital within the industry attempts to gain a larger amount of surplus value by expelling living labour. For this within-industry analysis only values are relevant; prices of production exist and are relevant only in the context of exchange and competition across industries.

That tensions and displacements between production, exchange, and distribution exist is a fact which is central to Marxist analyses of crises and cycles. The existence of speculative booms preceding crises is an aspect of the over-expansion of exchange in relation to production, and this over-expansion is precipitated by distributional struggle between capital-in-general and labour and between individual capitals. It is itself based upon the fundamental contradictions of capitalist production. In order to study these relationships between the spheres it is necessary to study their articulation. In other words, it is again necessary to consider production in abstraction, production and exchange abstracting from distribution between capitals, and, finally, production, exchange and distribution. As we have argued, the first two objects of study must be considered by abstracting from the existence of prices of production.

There are, then, three particular results obtained by Marx on the basis of value analysis. Neo-Ricardianism, by abandoning such analysis, cannot obtain these results although it may in some cases put forward propositions which appear similar. The articulation between spheres with its tensions and displacements is explicitly abandoned in favour of analysis based on the existence of a simple (hence harmonious) unity between spheres. The dynamic of capitalism is treated as determined by distributional struggle over exchange relations (wages and profits) instead of treating these as dependent upon the class relations of production. This choice of exchange relations as the object of analysis is, in a sense, arbitrary since if the economy is seen as a simple unity any aspect of it can be chosen as 'representing' the whole.' The analysis of production as a relation between capital-in-general and labour (with associated exchange relations between these categories) is abandoned in favour of a study of production with many-capitals which are in competition with each other through mutual exchange. We should note, however, that some neo-Ricardians do

take the view that value analysis is useful for the study of the sociology of exploitation but should be abandoned for analysing the dynamic of capitalism. This would imply that the essence of capitalist production relates to capital-in-general while the laws of capitalist development have no such essential determinants; it, therefore, is an arbitrary acceptance of **Marx's** method for one instance and rejection of another.

These paragraphs indicate why, for us, value analysis is essential for the study of capitalism. It is not a question of its necessity for **analysing** production in some general sense, but of analysing production in its complex unity with exchange and distribution. The existence of value cannot be ignored if we are to distinguish the order of determination within the articulation of spheres which is specific to capitalism. It is for rejecting this articulation that neo-Ricardianism is often characterised as ahistorical and not based on capitalist social relations. But Hodgson takes issue with that description. He argues, quite rightly, that neo-Ricardianism takes as central a feature specific to capitalism: the price system which results from 'the social mechanism of the equalisation of the rate of profit' (across industries). Nobody disputes that this is a social phenomenon specific to capitalism; what is disputed is its significance when it is taken as the starting point so that the essence of capital-in-general and the complex articulation of the different spheres of the capitalist economy are **ignored**.<sup>3</sup> Thus, Hodgson denies the reality of the antagonism between capital-in-general and labour, so that, for him, the source of profit in surplus value, and value itself are categories which become simply non-analysable and hence irrelevant. Small wonder that Hodgson applauds Sraffa's work which as he says 'does not vindicate the labour theory of value but implies that it is **redundant**.'<sup>4</sup>

### *What is Sraffa's Economics?*

The criticism of Hodgson's views on value theory is a criticism of Sraffa. Hodgson's reply is in large part a eulogy to one book, Sraffa's *Production of Commodities by Commodities*. He is right to emphasise that Sraffa's method is also his own and that of the other neo-Ricardians; and he is right to argue that there are extremely significant differences between Sraffa and **Ricardo**.<sup>5</sup> If for that reason Hodgson is offended by the label neo-Ricardian, as he seems to be, we apologise. It was not intended as a derogatory label and was **applied simply** because it is widely used by Marxists. If the label '**Sraffian**' is preferred, we have no objection to Hodgson and others erasing the word 'neo-Ricardian' in their copies of *Socialist Register* 1976 and writing in the word 'Sraffian'. It hardly seems to be worth the fuss.

We are also surprised that Hodgson **criticises** us for not dealing explicitly with Sraffa. We do deal explicitly with his followers such as Hodgson and **Steedman** and since their results are precisely those which Hodgson claims

for Sraffian analysis it would have involved a wanton waste of paper to duplicate the argument. However, since Hodgson now brings Sraffa to the fore, it is necessary to make explicit the nature of this work upon which those who wish 'to renovate Marx' base themselves. As we all agree, Sraffa is different from Ricardo (although their similarities should not be ignored). But in what way is he different? We consider that Sraffa's differences do not bring him closer to Marxism. Instead, his theory merely lays the foundations for a reconstruction of a narrow branch of neo-classical, bourgeois economics. This is the school which dominates the economics profession and which is in radical opposition to the work of both Marx and Ricardo.

We begin to justify this assertion by considering Ricardo's theory of value. This was based on undifferentiated labour-time and consequently grasped unconsciously, but with a **superficial** understanding, the category of value that is specific to the analysis of commodity production. For this reason Marx frequently praised Ricardo for the scientific content of his theory, his ability to penetrate the price form of value as it appears in exchange and link it with labour-time. But Marx also characterised Ricardo as the last and ultimate representative of classical political economy that was to be superseded by vulgar economy. By 'vulgarity', Marx meant that analysis which dealt exclusively with appearances only, that is in this context with the categories of the market system—prices, wages and profits. Vulgar economics has its roots in the inconsistencies in Ricardo's own theory. He recognised that a theory of prices that equated them with values was inconsistent with a theory of prices based on a uniform profit mark-up on capital advanced (the so-called transformation problem). However, so tenacious was his commitment to an analysis based on **labour-time** that this inconsistency was never resolved, since Ricardo, unlike Marx, never distinguished labourtime as the source of value from price as its form.

It is within this school of vulgar economy that Sraffa's contribution lies. That this is so is indicated by the very title that is given to his short thesis on the capitalist economy, *The Production of Commodities by Means of Commodities*. From the outset this suggests a concept of production trapped in commodity fetishism, a view of the production process as a relationship between things—things whose only social context is competitive exchange rather than social production.

However, Hodgson argues that this results from 'what Althusser would call symptomatic silences' (although he misunderstands **Althusser's** concept) and directs us to forgive Sraffa for ignoring 'the dynamics of the production process and the determinants of technical change—(and) the analysis of money and uncertainty', his book is only a 'Prelude to a Critique of Economic Theory'. Of course, no-one can do everything at once, but the point is that Sraffa's system precludes the development of

the critique. Several examples make this clear. Without value theory Sraffian economics cannot identify the source of profit in the production relations of capital-in-general and labour. We are therefore offered one of Sraffa's most famous examples where the profits obtain'd by selling wine depend on the ageing of the wine—a process which involves no labour; an example where Sraffa's system cannot go beneath the surface appearance and leaves us with the apparent phenomenon of things (young wine) having a natural productiveness, as in neo-classical theory, an ability to produce revenue if left long enough. Without value theory, Sraffians can talk about a change in the techniques of production which (out of a given set of available techniques) is used, but they can only see it as a relationship between things completely determined by distributional phenomena (the ratio of wage rate to profit rate) rather than by the fact that production itself is a relationship between classes. Without value theory, how can Sraffians explain the existence of money under capitalism except, as in the manner of neo-classical economics, by arbitrarily selecting one commodity and calling it a medium of exchange? Marx, by contrast, is able to uncover its role as a form of value, a form necessitated by the fact that capitalist production requires the existence of abstract labour rather than by the fact that exchange occurs (as it does under non-capitalist modes of production).

It seems clear then that, by taking competitive exchange and distribution as its starting point, Sraffian economics is bound within the same limits as neo-classical economics. How, then, is it a critique of orthodox economics? The point is that it is a limited critique within the same framework. One aspect of it is extremely superficial. Both Sraffa and the orthodox neo-classicists concentrate on the 'logical' calculation of prices on the basis of a given technology (set of techniques of production). But whereas orthodox neo-classicists study the price system as the outcome both of the psychological propensities of consumers and the natural productiveness of things (factors of production), Sraffa demonstrates that a price system can exist on the basis of the latter (together with distribution relations) without the intervention of consumers' propensities. This is in no sense a critique of orthodox theory for the latter includes many models of such 'production-based' price systems. The second aspect is more weighty and has been the subject of intense debate between orthodox neo-classicists and Sraffians. It is the demonstration that some formulations of the orthodox system are internally inconsistent when they attempt to consider an economy which includes more than one commodity. It is shown that in such systems prices are not independent of the distribution of income wages and profits and the latter cannot be determined by the productiveness of means of production and labour. All this is contrary to the conclusions reached in crude formulations of orthodox neo-classical economics, but the outcome of the debate has been that, having

demonstrated the logical inconsistency in these crude formulations, Sraffians have provided the basis for re-constructing neo-classical economics for a world of more than one commodity. It is a re-construction in the sense that the only change implied is the abandonment of the assumption that distribution is determined by the natural productiveness of means of production and labour while the framework remains one where all that is considered are distribution and exchange phenomena. It is radical in the sense that wage-profit distribution *can be* interpreted as resulting from class struggle (although nothing in Sraffa's system dictates this interpretation, rather than one for example, based on the aggregation of the individual psychological propensities for consumption and leisure). But even this interpretation of class struggle is more neo-classical than Marxist, for in this conception it is seen merely as competition over a price, the wage rate which is the 'price of labour'. As against a Marxist interpretation, it is not rooted in the antagonistic nature of capitalist relations as a whole.

### *Law of the Tendency of the Rate of Profit to Fall*

In Hodgson's discussion of the law of TRPF we again find that he has misunderstood both Marx and our own argument. He notes that we argue that the rate of profit in either price or value terms cannot be expected on theoretical grounds to have an observable downward trend. He does not disagree with this (although we arrive at the proposition on a basis different from that employed by him). However, he presents two criticisms of our views on this matter. The first is that we argue that this was **Marx's** view whereas Hodgson thinks it was not. The second is that if theory does not predict an observable downward trend, then it is wrong of us (and Marx) to write of the falling rate of profit as a 'law'. The first point concerns textual exegesis, the second a difference in scientific method, but the two are related.

To discuss these criticisms it is advisable to begin by clarifying some semantic issues. When Marx refers to an economic law he explicitly means a tendency. He makes this explicit in the very title of Volume III's Ch. 13, and the first paragraph of Ch. 14; and elsewhere (for example, *Capital* Vol. III p. 175) he states that it is the meaning of all economic laws. But the meaning of a tendency is understood differently by different writers. One meaning in the present context is that if one collects data on the rate of profit over a definite period of history one will observe a definite downward trend (or regression line). We shall call this an 'empirical tendency'. It is the way that Hodgson thinks of a law of tendency. A second meaning is that if one abstracts from the counter-acting influences one identifies an 'underlying' direction of movement of the rate of profit. This interprets a tendency as a proposition developed at a certain level of abstraction which by itself yields no general predictions about actual **move-**

ments in the rate of profit. Actual movements depend on a complicated relationship between the tendency and the counteracting influences which have been abstracted from their particular balance at particular times. We shall call this an 'abstract tendency'. Such is our interpretation of the law of the TRPF.

Now consider Hodgson's first contention; that we differ from Marx because he proposed the law of TRPF as an empirical **tendency**—observable by collecting data over long periods. To support this interpretation of Marx, Hodgson presents two quotations from Marx. The first is **Marx's** statement that 'in reality as we have seen, the rate of profit *will* fall in the long-run.' This, however, is a statement that throws the reader and cannot be taken at its face value for up to this point in *Capital* we have *not* seen that the rate of profit will fall. In the preceding pages Marx has only shown that as a result of productivity increases it will fall *if* we abstract from counteracting influences such as the devaluation of the elements of constant capital. He has only dealt with an 'abstract tendency' rather than an 'empirical tendency'. The only way, therefore, in which to make sense of the statement is contrary to Hodgson's interpretation of it as an 'empirical tendency'. Almost all of **Marx's** other references to the falling rate of profit avoid statements to the effect that it *will* fall—which would *be* clear statements of an 'empirical trend'—and emphasise its tendential nature either leaving open the question of the meaning of a tendency or being explicit that it is an 'abstract tendency'. The clearest of these is that as a result of counteracting influences 'the law acts only as a tendency. And it is only under certain circumstances and only after long-periods that its effects become strikingly pronounced.' (*Capital III*, p. 239). Note that the distinction between the law and its *effects* (the observable rate of profit) implies that the law is an 'abstract tendency'.

Hodgson supports his interpretation of the law as an empirical tendency with the quotation to the effect that a counteracting influence, the cheapening of the elements of constant capital, is 'an isolated case.' This, however, is a surprising mis-reading of **Marx's** views on the counteracting influences. In our article we showed that Marx explicitly argued that the *same* forces which give rise to the TRPF *also* give rise to counteracting influences; and Marx most certainly did not think that the latter occurred with less frequency than the former. The cheapening of the elements of constant capital 'is another *continually* operating factor which checks the fall of the rate of profit (*Capital III*, p. 236 emphasis added); similarly, accumulation 'is the law for capitalist production, imposed by *incessant* revolutions in the methods of production themselves, by the depreciation of existing capital *always* bound up with them' (*Capital III*, p. 244 emphasis added). Another counter-acting influence, the 'extra' surplus value obtained by the introduction of

inventions before their adoption as **normal**, involves 'temporary, but *always recurring*, elevations in surplus value.' (*Capital III*, p. 234 emphasis added). Similarly, the counter-acting influence of foreign trade is so definitely *not* an isolated case that Marx ranks the 'Creation of the world-market' as one of three 'cardinal facts of capitalist production'. (*Capital III*, p. 266).

Finally on the question of how to interpret **Marx's** idea of a tendency we refer again to the distinction between the *organic* and *value* composition of capital. In our article we argued that Marx develops the law of TRPF in terms of the *organic* composition; that this concept itself involves abstracting from counter-acting influences; that, therefore, the law of TRPF involves an 'abstract tendency' rather than an 'empirical tendency.' We criticised Hodgson for interpreting **Marx's** development of the law as being based on the value composition and therefore thinking that the **counter-acting** influences are introduced as a relatively unimportant after-thought. We argued that Marx develops the law in terms of the organic composition, changes in which have a status equal to the development of counter-acting influences. Now Hodgson recognises that our criticism of him for equating the two concepts of organic and value composition is based on 'perhaps justified misgivings.' Since he asks for textual evidence, we refer him to pp. 145-6 of *Capital* Vol. III and to pp. 382-386 of *Theories of Surplus Value* Pt. III. In the latter especially he will find the distinction between organic and value composition spelled out monosyllabically. He will surely then agree that it is not only ungenerous but wrong to write that our views on the distinction are 'perhaps' justified. In view of this, Hodgson is mistaken in thinking that Marx did not write of the law as 'the law of the TRPF and of the operation of counter-acting influences.' As we noted in our article he entitles the chapter which deals with contradictions between TRPF and counter-acting influences, 'The *Internal* Contradictions of the Law.' And we have noted there and in this paper that both 'sides' were thought to operate as ever-present tendencies resulting from the same forces—capitalist accumulation; the law is that both operate as tendencies.

Why then did Marx in Chapter 13 write of the law of the tendency of the rate of profit to fall and only subsequently bring the counter-acting influences into the discussion of the law and its effects? Is it simply an *accident* of the order of exposition? We consider it follows from the *logical* order of exposition. For, whilst we have argued that the counter-acting influences, and the tendency itself are simultaneous (albeit contradictory) products of accumulation, the tendency (associated with the rising O.C.C.) can be studied in abstraction from the circulation and distribution of surplus value. On the other hand, the study of the counter-acting influences (associated with the formation of the V.C.C. for which the effects of the rising O.C.C. and the reduction of the value of

constant and variable capital are integrated) presupposes the formation of new values and a new rate of surplus value through exchange relations. Indeed, it is exchange through which the internal contradictions between the tendencies are expressed. Consequently, the TRPF can only appear through its articulation with the counter-acting influences, and these in turn can only be examined on the basis of the TRPF. In short, the law of the TRPF is an abstract and not an empirical **tendency**.<sup>6</sup>

Leaving the question of 'what ~~Marx~~ wrote and meant' on the subject of the tendency we now turn to Hodgson's second criticism. If Marx was not predicting an empirical tendency, if the rate of profit in value or price terms may go up, down or neither over any particular time period, why say that its movements are subject to a law? At one level we have given an answer, the law refers to an abstract tendency not an empirical tendency. The substance of Hodgson's question, however, is what is the significance of a law if it does not offer simple predictions of an empirical trend? The point which Hodgson fails to take is that an abstract tendency does have a connection with observable phenomena even though it does not involve simple predictions of trend. The TRPF and tendency for counter-acting influences to operate actually exist in capitalism in a contradictory relationship with each other. The existence of these contradictions gives rise to crises, booms, and the associated **cycles** of production and exchange. **These**, with their rhythm of **unemployment, concentration** and centralisation and other phenomena are the observable 'predictions' of **Marx's** abstract **tendency**. Indeed, particular movements in the actual observable rate of profit are associated with these cycles. At times the rate of profit will actually fall, at others it will actually rise. These movements are not arbitrary but are based on the abstract tendencies and their contradictions. Thus, we would expect that crises which result from these contradictions give rise (through the restructuring of capital and other forces which they generate) to a rise in the rate of profit as the basis for a cyclical upturn. The point is simply that these definite movements in observable phenomena are the complex ultimate result of contradictions between abstract tendencies; they are not the simple empirical tendency of falls in the rate of profit which alone Hodgson would endow with the title 'law'. It is this belief that the only significant theoretical propositions are those which consist of simple predictions of observable phenomena (rather than those which see such phenomena as resulting from contradictory complex relationships) which entitles us to argue that Hodgson employs an empiricist methodology despite his protestations to the contrary. The odd thing is that Hodgson is inconsistent in rejecting the validity of abstract tendencies. His neo-Ricardianism takes as central the tendency for the rate of profit to be equalised across industries. As he would surely admit, this is an abstract tendency; because of incessant revolutions in production techniques in different industries one never

actually observes an equalized rate of profit. How can he argue that an abstract tendency is valid in that case so that prices of production do exist but not in the case of the law of TRPF?

The clearest expression of the fact that Hodgson's framework actually prevents him from even understanding our argument is his statement that basically we are 'quite close' to a neo-Ricardian view on the rate of profit. He fails to see that we have reached a conclusion which appears similar to his—that the observable rate of profit may not have a downward **trend**—but that we have reached it through a critique of neo-Ricardian arguments. In consequence, for us this absence of a simple prediction does not make the law of TRPF any less significant whereas for Hodgson it totally destroys its significance; for us crises are to be explained by contradictions in which the law is central, whereas for neo-Ricardians they result in a simple manner from wage struggles (a proposition which, not only was forcefully criticised by Marx, but which, as it stands, leaves the rhythm of wage struggles itself unexplained).

### *Concluding Remarks*

As in our article it can be seen here that a fundamental difference between ourselves and neo-Ricardians concerns the question of *method*: Hodgson's (Sraffian) method demonstrates his affinity to bourgeois economics and his distance from Marxist analysis. This question, however, is confused by Hodgson who introduces the question of *logic* ('formal correctness', 'logical consistency' and 'formal logic'). Method, the process of abstraction, differs from formal logic, the logical deduction of conclusions from premises. The two, of course, are not antithetical, just different issues. Hodgson, however, argues that those who reject Sraffa's equation system because of the method of abstraction involved also necessarily abandon formal logic. When he writes that 'Sraffa's work enables us to talk about value without allowing nonsense to pollute our statements' he clearly thinks that this is the *only* basis for avoiding nonsense. In fact, however, all he can claim is that Sraffian conclusions follow from their premises without logical inconsistency. Sraffian economics has no special claim in this respect. Bourgeois economics can be constructed without logical inconsistency and, of course, the Marxist theories we set out involve no logical inconsistencies despite the fact that we reject Sraffa's method. Despite Hodgson's emphasis on the absence of logic in critiques of Sraffa he has not pointed to one error of logic in our article.

Consider a specific example of the irrelevance of Hodgson's concentration on logic at the expense of method. He dismisses our discussion of Himmelweit because we find 'no real fault in (her) argument.' In other words, given her assumption about the value of wages, her conclusions follow from her premises. This was never in doubt. The significant question is whether her assumptions are or are not consistent with the

Marxist method of abstraction. This is a question which Hodgson consistently ignores as if it were irrelevant.

To restate the difference of method, Hodgson sees the capitalist economy (and neo-Ricardians see society as a whole) as comprising a simple unity of a set of relations, the individual effects of each of which can be analysed in isolation from the others. They are then reduced to a common denominator through consideration of their effects on exchange and distribution. This creation of a two fold compartmentalisation and simple unity of economic (and social) relations corresponds to the dominant bourgeois methods of analysis. Nevertheless, Hodgson correctly observes that everything cannot be analysed at once, and that we too must have our own 'specialisms' (sic). The problem is how are these 'specialisms' to be determined and what is their relationship to each other. Here and in our original article, we have attempted to confront these problems with the Marxist method of abstraction as adopted by Marx in *Capital* and as explained in the *Grundrisse*. This involves rooting concepts in real processes and developing an order of exposition and determination (not necessarily identical) which is consistent with this and reproduces reality in thought in an increasingly complex but concrete form. Neo-Ricardianism fails in this regard. For example, its isolated analysis of distribution and exchange means that it must impose externally, through a simple unity, a theory of 'dynamics' (and the same is true of the theory of the money form of commodities and even of class struggle over distribution). To return to our discussion of Himmelweit, Hodgson sees our 'assumption' of a constant value of labour-power as arbitrary rather than as the basis for an analysis of those contradictions generated by accumulation which are associated with the law of the TRPF. We identify the cheapening of variable capital with the counter-acting influences and can only consider distributional struggle over (the value of) wages after the cycle of production has been examined in terms of the law of the TRPF.

Finally, there is Hodgson's preoccupation with empirical verification or prediction. Here, there is an analogy with his treatment of formal logic. For whilst he denies that 'valid theories are those which *simply* yield correct predictions', (emphasis added), his emphasis has always been on the direct correspondence between theory (for example of the falling rate of profit) and immediately observable phenomena. Now, with Hodgson, we agree that Marxism must 'have something to say about empirical reality, without necessarily descending into an empiricist methodology' just as we agreed that Marxism must be formally consistent. But, we equally reject the view that our 'conception of categories. . . has little or nothing to do with phenomenal appearances and little possible contact with empirical reality.' Again Hodgson cites no evidence of our holding such a conception and ignores all the evidence to the contrary. This is symptomatic of Hodgson's failure to see the relationship between abstract categories, such as value, and

exchange phenomena, such as prices, and consequently he characterises analysis of the former as bearing no relation to 'empirical reality'. In fact, we give some analysis of the correspondence between abstract laws and concrete developments in our discussion of the role of the state. Elsewhere we have done this in more detail. That we do not, like Hodgson, conceive empirical reality as observation of movements in wages and profits alone but as the historical forms taken by the cycle of production and the restructuring of capital, does not preclude our analysis from confronting such reality—it is a pre-condition for doing so in the manner of **Marx**.<sup>7</sup>

## NOTES

1. We are grateful to Sue Himmelweit and Ron Smith for **comments** on this paper. Page references to Capital Volume **III** are to the Lawrence and **Wishart** edition (1966).
2. It is, however, not arbitrary in the sense that, as Marx argued, the capitalist economy itself produces the ideology which takes exchange relations as the object of thought. Commodity fetishism involves the study of reality, but of real appearances alone.
3. Hodgson seems to think that we do not **recognise** the specifically capitalist and social nature of the equalisation of the rate of profit, or even its existence. That can only result from a misreading of our article. On the other hand, what Hodgson does not recognise is that this social mechanism is treated by all economic theories so that taking it as central is not sufficient to distinguish **neo-Ricardianism** from bourgeois theories.
4. Before leaving this section on value we should comment on the significance of joint production. For neo-Ricardians its existence is a central problem for it raises the possibility of negative values: in a joint production process that proportion of total labour time which is allocated to one of its (two or more) products may be negative. This is the result upon which we did not comment and, therefore, received Hodgson's censure. For Hodgson, it is not merely the case that this may happen, but that it **does** generally happen because most processes use fixed capital, means of production which retain some value into the next production period. At the end of the first production period, then, there are two products: the commodity produced for sale plus the remaining fixed capital ('old machine'). The 'old machine' may have a negative value but it will have a positive price of production hence, again, values are, for **neo-Ricardians**, an **irrelevant** detour on the way to deriving prices from technical relations. There are, however, several problems with their approach to this question. One is it is based on their concept of value as merely a standard of measurement; for them values comprise one accounting system and the problem they consider is whether the price of production accounting system can be obtained without it. A second is that the problem only arises if one assumes that the labour-time embodied in the commodity and the old machine are separate entities which must add up to the total labour expended in the production process which produced both simultaneously. This assumption is not only arbitrary, it is invalid. For value derives from the concept of the production of commodities for exchange whereas the old machine is not produced for exchange and hence there is no process in reality which validates the allocation of value to the old machine. Fixed capital is not unimportant in Marxist theory, but its relevance consists in the fact that it constitutes an

advance of capital, an element additional to  $c$  and  $v$  on which the rate of profit must be calculated. For the neo-Ricardians to regard it as of significance because it may give rise to negative values indicates yet again the difference between their concept of value and Marx's.

5. For Hodgson to assume that the label **neo-Ricardian** necessarily involves an identification with Ricardo in all or even many respects is insupportable. Consider the label neo-Classical, which is widely accepted as distinguishing modern bourgeois economists from Classical writers such as Smith and Ricardo.
6. Nevertheless, actual falls in the rate of profit may be predicted, but not in any simple manner. Their occurrence will be contingent upon the form in which the law expresses itself according to the relative strengths of capitals and labour in competition. In particular, it is important which fractions and forms of capital are depreciated over the cycle.
7. We do not, in the text, comment specifically on each point raised by Hodgson. The reasons for this omission will be apparent. One is that a large category are so obviously trivial that they do not require proper consideration. The following are examples. (a) We seem to claim 'to synthesise with an air of scientific moderation... this claim is unfounded.' In fact, we make no pretence at 'synthesising' fundamentalism and neo-Ricardianism. The **two** are completely irreconcilable and both are mistaken. (b) Our explanation of **Marx's** mistakes in his formal solution of the transformation problem 'is welcome' but we 'have been late in making (our) views known on this issue.' Is the implication meant to be that we have ever held other views (we have not) or that we have been recalcitrant in signing the equivalent of some manifesto on this issue? (c) The statement that we 'deal with' Sraffa by association with Ricardo. Not only does Hodgson contradict himself (in the previous paragraph he says we ignore Sraffa except in the bibliography) he also implies that we think poorly of Ricardo. On the contrary, we, like Marx, regard him as a great economist. (d) The statement that criticism of **neo-Ricardians** for 'basing their theory on "technical relations"' is wrong because embodied labour values can only be determined by reference to technology. The last point is well known, it is stated in our article, and not at all in conflict with our criticism. Hodgson has simply failed to read our article properly and hence has not read that we criticise neo-Ricardians not for relating values to technical relations but for deriving propositions directly from technical relations while ignoring the existence of values as an essential intermediate step; for treating only the quantitative aspect of values. The second reason for our omission is that a large category of Hodgson's specific criticisms are answered by our general explanation here and in the original article. Thus, it will be obvious to the reader in what sense it is the case that neo-Ricardians have a problematic different from **Marx**. It will be obvious that we do not criticise Sraffians because they choose to concentrate on a narrow issue and ignore matters such as the state and technical progress. We criticise them because their method prevents them from being able to treat such matters in any way which corresponds to **Marx's** view of the science of society. It is obvious that we do define a concept of value whose status is entirely different from Hodgson's concept despite Hodgson's assertion to the contrary.