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Marxian Economics: A Centenary Appraisal

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MARXIAN ECONOMICS: A CENTENARY APPRAISAL

International Conference
Karl Marx's Third Volume of Capital: 1894-1994

Univerita' Degli Studi Di Bergamo
Dipartimento di Scienze Economiche

Bergamo, Italy, December 15-17 1994

Plenary Session: Money (III)
Saturday December 17, 1994
10:50 - 13:00

Discussion of:

Duncan Foley: Asset Speculation in Marx's Theory of Money

Claudio Sardoni: Marx's Theory of Money and Interest: Between Robertson and Keynes

Ernesto Screpanti: Chapters 23 and 27: A Theory of Capitalism for Modern Man

by

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4 hour discussion with the 3 authors

no important

all

private credit / self

system of finance

Federal Reserve

I AM TRYING TO GET A PRINTER AT HOME but I AM HAVING TROUBLE getting my laptop and my Epson printer to mate

For all except true believers in the gospel according to Neo Classical Theory it is clear that the study of capitalist economies requires an analysis of how monetary and financial institutions affect the macroeconomic and microeconomic characteristics of the economy. One striking aspect of the history of the one hundred years since the publication of the third volume, the 111 years since the death of Marx, has been the increasing complexity of the financial structure.

The drive for profits leads to efforts to protect markets from competition. As Joseph Schumpeter, a conservative Marxist, recognized innovating is one way of achieving market power. Science and technological driven innovations are especially prevelant in contemporary capitalism. They occur not only in products and processes but also in industrial organization, finance and financing. The financial structure - the patterns of balance sheet interrelations and the allocations of claims to income streams - of a modern capitalist economy is vastly different in detail and in significance than the financial structure of the capitalism of Marx's day.

A concrete real world capitalist economy is characterized by an interrelated set of balance sheets, income statements and statements about sources and uses of funds. These accounting statements are attached to households, business enterprises, financial institutions, government agencies and governments. The set of interrelated balance sheets of an economy arises because every entry on one balance sheet requires both offsetting entries on the same balance sheet and every financial entry on a particular balance sheet requires parallel entries on other

balance sheets. For the capitalist economies of today the set of balance sheet interrelations is now very different than it was 100 or 111 years ago. Although legislation has affected the structure of balance sheets and the legal status of financial instruments, to a very large extent the evolution of the financial structure has been driven by internal to the economy self seeking activities of various agents.[1] In particular ~~over the past century~~ the corporate form of ownership has become the dominent form so that as a first approximation we need to take it that all non government owned capital assets, except housing, are assets on the balance sheet of corporations.

Why am I emphasizing the importance of balance sheets and statements of income and sources and uses of funds as the proximate characterization of capitalist economies? It is because the papers before us, and I suspect many of the papers in this conference, would have benefited from the discipline imposed by the need to fit their analysis into a framework of interrelated balance sheets and the relations between income statements and balance sheets.

I will comment on the ~~three~~ two papers in the order in which they are listed in the program.

Duncan Foley's paper is an elegant exercise: we expect no less from him. He begins with the Marx - Post Keynesian view that prices are the means by which costs are recovered and the carriers of gross profits. Under normal functioning the level of aggregate demand and the distribution of demands among consumers, investing units, governments and international trading activities are such that producers recover their costs and earn profits. As a result

1. Agents are self seeking: they do not know f they are in fact profit maximizing.

of the analysis of the determinents of the level and distribution of incomes by Kalecki and Jerome Levy[2] we know that the profits earned by a particular firm is determined by a two step process: the first step being the determination of aggregate profits by the composition of financed demands and the second being the competetion among firms for these profits. In a simplest statement, abstracting from much detail, firms realize profits now because investment is taking place and investment is taking place now because investment is expected to take place in the future.

Accounting practice leads to entering an investment good on the balance sheet at the date of its purchase at the price for which it was purchased and allows for this purchased price to be written down as time goes by according to rules set by negotiations among standard setting bodies of the accountanting profession and tax authorities. But on the liability side of the books of the firm there are debts and entries for capital, surplus and undivided profits. The ownership of the capital, surplus and undivided profits is vested in the owners of the shares of the firm. The book entry for capital, surplus and undivided profits divided by the number of shares outstanding is the book value per share of the company.

The market prices of such shares are set in the stock markets. There always are two prices of shares: the "book value" which uses the value placed upon capital assets by the accounting-tax rules and the market price. The market price of the stock along with the market price of both long and short term debts are

2. Jerome Levy, for whom the Institute with which I am associated is named, derived the basic distributional relation "Profits = Investment" and its complications to allow for government spending etc well before World War 1. See S. Jay and David Levy Profits in the American Economy, New York, 198 .

present values of future earnings: these liability prices can be different than the book values of the firm's assets. When this is true in order for the balance sheets to balance the implicitly values the capital assets and the market power of the firm need to be adjusted: in particular when the market value of stocks are greater than the book value then there exists an "implicit" balance sheet in which the prices assigned to capital assets and to the market position of the firm are greater than the book value of these capital assets and market positions. As the firm can exploit its market power only by producing output and to the extent that there are limitations to efficient production with the existing capital assets a ratio of market value to book value that is greater than 1 is a necessary although not a sufficient condition for investment to take place.*

The above arithmetic means that once the market's evaluation of the certainty of future returns for the different issues of shares are taken into account, the rates of return on market valuations will be equal one to another. Thus the equality of returns on the market value of capital assets are a result of the way the market value of capital assets are set by market capitalization of future returns.

The equivalence of profit rates among capitals is therefor meaningless: the meaningful profit concept for any firm is the the gross capital income before taxes of an enterprize over a relevant (and usually short) accounting period: a flow. This is especially true for economies in which corporations are the proximate owner of capital assets and in which ~~prior~~ portions of this cash flow are prior committed to taxes, the payoff to mangements, and the fulfillment of debt contracts.

Alternative: Keep book value and add asset account: ~~[illegible]~~ market power. The difference between [illegible] [illegible] liabilities [illegible]

Foley treats the valuation of assets problem under a gold standard when the system is to be shocked by one or another exogenous technical change which affect the outputs per units of labor input differently. He makes some very neo classical assumptions in the argument that follows: exogeneity of technical changes and the assignment of known probabilities to each technical change. If technology is driven by competetion to establish market power it is not exogenous and in a world where innovation is a continuing ongoing process then the prior assignment of probabilities violates the uncertainty assumption.

Foley also engages in an exercise on the setting of asset prices in a state moneytary system. Ignoring the potted history of the American monetary system which underlies his position and the rather peculiar ommission of banks and bankers from his "modern" argument, the monetary and banking system and the financial market structures determines the dollar price of capital assets according to the valuation in the market of the characteristics of assets: what Keynes identified as the q,c, and ℓ characteristics of assets, where money is an asset whose value is always 1 and whose value in a portfolio is determined by the value (subjective) placed upon liquidity ℓ. The greater the value of liquidity the lower the price of assets valued solely for the income, q, they are expected to yield. The price level of assets so determined leads, along with the leverage ratios for investment, to investment demand and therefor to aggregate demand. This aggregate demand leads to changes, +. -, or 0, in the supply price of output, including the supply price of investment output. Thus it is through the indirect impact upon the conditions of supply of output of demand changes which reflect the valuation put

on the liabilities of firms in the market for bonds and shares that the price level of capital assets and of current outputs are determined.

Sardoni, Claudio

Sardoni's paper is on a less general plane than Foley's and deals with the discussion between Keynes and Robertson on loanable funds versus liquidity preference theories of interest. As we all know in the introduction to the French edition of the General Theory, which was not published in French until after World War 2, Keynes described his task in the GT as escaping from the Quantity Theory of Money. The quantity theory of money treats the theory of money as an adjunct to neo classical price theory in which price ratios are ser by preferences and production possibilities. Money's only function is to replace price ratios by nominal prices and thus establish a price level.[3] In terms of interest rates Robertson never got out of the neo-classical bag, where thrift and productivity determine interest rates (Thrift determining the supply of loanable funds and productivity determining the demand for loanable funds). The rate of interest on money loans has to conform to the interest rates as determined by productivity and thrift.

Keynes escapes from the quantity theory of money by allocating the determination of the price level of capital assets to money. Only occasionally - and in my view most clearly in the rebuttal to Jacob Viner's review - did Keynes recognize the form

3 After Jack Gurley stuck a knife in Friedman's early monetarist statement, by characterizing it as holding "Money is a veil, but when the veil flutters the economy sputters", Friedman and his follower Lucas covered being exposed by setting up structures in which the price system gives signals which are incorectly interpretted by some dumb agents as changing relative prices but which in truth, as some smart agents recognize, are but changes in price levels.

his escape had taken.4 If I interpret Foley correctly, the form Keynes' escape took was analagous to Marx's views on the determination of the prices of capital assets: Marx held that the determination of the price of capital assets was the result of an averaging process of the prices capital assets would hold if each item of an alternative set of possible outcomes would hold.

[illegible] Marx Robertson & Keynes [illegible]

the best way [illegible] that Marx recognized problem is the pricing of capital assets [illegible] finance.

Keynes in his really radical escape [illegible] in essence but two [illegible]

[illegible] problem [illegible]

Robertson [illegible]

Screpanti

Screpanti

[illegible] of capitalism private property no longer the "distinguishing character"

[illegible]

private property

[illegible] financing [illegible]

1 commercial capitalism
2) industrial capitalism
3) finance capitalism
4) managerial capitalism
5 [illegible]

4. Viner's review appeared in teh Quarterly Journal Of Economics of Febraury 1937 and Keynes' rebuttal appeared in the same Journal in November 1937.

[illegible] new [illegible] Money manager capitalism