Preface

This book arises out of our dissatisfaction with the current state of economic theory, especially after the recent financial crisis. The crisis of 2008 represented an opportunity to overturn and rethink much of the stale or misguided parts of economic theory to build a theoretically rich and empirically meaningful social science. However, this kind of reinvention has not taken place, and the response of economic theory—broadly speaking—has not done a great deal to move the discipline forward. The standard approach to economics remains largely unchanged, the only changes that appear to be taking place are some minor reconsiderations around the edges while maintaining the same core body of ideas as before the crisis. In our view, this state of affairs will not suffice to better understand the deep structural forces that drive everyday market behavior and contribute to the development of crises. Something different is needed.

This book offers an alternative to the standard, or neoclassical, approach to understanding notions of value, prices, and competition—concepts that serve as the foundation for a theoretically and empirically robust economic theory—by reconsidering the classical-Marxian tradition using the modern tools of economic analysis. The broad literature in classical-Marxian political economy has made great strides in elucidating the causes and consequences of the growth and development of capitalist economies, while forcefully showing the central importance of class conflict. However, there remain vigorous debates around key tenets of Marxian value theory. Chief among these is the longstanding debate over the saliency of Marx’s labor theory of value (LTV)—started right after the posthumous publication of volume three of Capital in 1894.

The primary arguments of this book turn specifically on these issues and where they stand today. The main objectives are to provide a formally rigorous and empirically informed approach to the classical theories of value and price and to demonstrate that Marx’s LTV remains a valuable tool to understand the structure and dynamics of capitalist economies when viewed as part of Richard Stone’s (1968)
System of National Accounts (SNA). The connection between Stone’s SNA and Marx’s LTV is likely unintentional, but the implications are of interest to those active in Marxian political economy, Keynesian macroeconomics (broadly defined) and the neo-Ricardian tradition. An added benefit of the approach detailed in this book is that Marxian value theory can be shown to provide an arguably deeper analytical framework than current mainstream theory.

The central concepts of mainstream, neoclassical economics are largely familiar. They are frequently used in the media and have entered popular discussions. Further, they are usually considered to capture directly measurable magnitudes and events of immediate empirical import. The central categories of classical and Marxian economics are less familiar nowadays and they are also more difficult to grasp, because they aim to capture deep processes occurring under the surface of observable economic events and they refer to magnitudes that often are not directly measurable.

The aim of this book is to provide a comprehensive and rigorous, but accessible, analysis of classical and Marxian price and value theory. The exposition will proceed chronologically focusing first on the classical authors and then on Marx. This will allow us to introduce the reader to some interesting and important—but often neglected—issues in the history of economic thought and provide the necessary historical context for our discussion. However, our interest is not primarily historical or exegetical, nor do we aim to prove that Marx and the classics ‘were right’, and their analyses can be straightforwardly applied to the economies of the 21st century. Rather, the book aims to show that the broad conceptual framework and methodology of the classical authors and Marx provides interesting and relevant insights on the basic structure and evolution of modern capitalist economies. It is not a matter of ‘going back to the classics’, and reading their texts in order to find replies to the urgent contemporary questions. But it is possible to reconsider the core of their approach in the light of recent developments in economics, and also in mathematical tools, and to gain a different, arguably deeper perspective into today’s problems than is offered by mainstream approaches. Our hope is to convince the reader that this exercise is indeed fruitful.

Much of what is contained within this book stems from the research program of Peter Flaschel. Peter’s efforts serve as the driving force behind bringing this body of work together, and this book builds on and extends Peter’s seminal contributions on value theory and the classical-Marxian tradition. The interpretation of Marxian theory developed in this book is part of a larger project of reconstruction of
a broad, integrated Marx-Keynes-Schumpeter model of capitalism that encompasses both microeconomics (the main topic of this book) and macroeconomic dynamics. *

This book is the product of a long-term analysis of values and prices in capitalist economies and builds on it. Thus, some material in the book is drawn from already published papers. Specifically, we reuse the following articles, with changes to notation and exposition where appropriate:


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* For an overview of Peter Flaschel’s intellectual journey, see Flaschel (2013).