

## ECS4413 CPE II

### Session 1

#### Quantitative Marxism

Have been through Marxist theory and radical political economy in CPE I and this term we will focus on attempts to apply the theory to analyse real world problems.

Can argue that from the perspective of Marxist economics can understand orthodox economics

- why developments take place
- why it is the dominant paradigm, particularly given its failures by its own criteria in forecasting and policy prescription

This was particularly transparent in the shamble of Eastern \Europe's transition. Took 'free market' advice and used simple text book models without proviso

Have argued that the orthodoxy deal with phenomenological forms and not the essence of processes. Marxist economics goes deeper and provides a better understanding. Marxist economics has had a chequered post war pattern, with periods of growth and stagnation that reflect at least partly the state of the international capitalist economy.

1950s and 60s was a period of growth and stability and optimism.

There was an acceptance of the mainstream in the form of the Keynesian neo-classical synthesis as exemplified by the IS-LM framework

Applied economics used econometric models and developed interventionist Keynesian policies. (Interesting that Keynes was hostile to econometrics)

Growth of large firms >>> control of production and distribution and with the increase in intervention by the state gave State Monopoly Capitalism.

1970s >>> recession -inflation and stagnation

- developments in orthodoxy less cohesive and more conflict
- anti Keynesian attacks more impact
- government control, interventionist economic policy, no longer providing the solution
- Keynesian consensus collapsed -increasingly absorbed within the neo-classical paradigm of microfoundations and market clearing
- revival of interest in Marxist economics

Late 60s early 70s

Debate over value theory: abstract / interpretation of Marx but laid groundwork for theoretical and empirical analyses

- Anti quantitative views -subject matter and methodology
- Inward looking, though some critique

1980s Marxist economics increasingly marginalised

- general malaise of left
- failure to enter terrain of orthodox economics

Within the left anti quantitative views becoming increasingly rare and at same time failure of the orthodox consensus to:

explain recession/structural change

provide policies that work

led to more interest in alternative approaches during the decade

Keynesianism still not accepted but even the previous Tory administration started to take alternative views seriously once the blindfold of monetarism lifted from their eyes

Radical side of this was post Keynesian, which we have seen is a rather vague umbrella term and can include Marxists. Kalecki developed from Marx more than Keynes.

Marxists developed their own macroeconomics

Empirical work on crisis from SSA and Regulation schools

Developments of Marxist economics in a form which allows it to confront the orthodoxy.

### **Empirical Marxism:**

There are three types of empirical analysis

1. Historical/institutional
2. Descriptive analysis of quantitative data
3. Statistical analysis using formal statistical modelling -probability based techniques of inference

The first two were clearly important to Marx as a glance at Capital will show, but the third less so and has little effort by Marxists -seldom used though there are imp exceptions as we shall see.

### **Clear bias against empirical; analysis in many strands of Marxist analysis**

#### **Reasons why?**

1. Belief that Marxist variables are non-quantifiable and non operational in any absolute sense
- ?? May be true, but true for all theories. Theoretical constructs are never directly observed and any measurement process must add subjectivity.
- ?? Operationalising Marxist concepts no worse than the orthodoxy: consider unemployment demand, equilibrium price. These are not objective and value free.
- ?? Natural rates, permanent income are all unobservable concepts and much use is made of principal components and qualitative variables
- ?? Radical statistics group (see Dorling and Simpson) argue that data and data collection are subjective, socially produced, ideologically non neutral. Even the techniques are non-neutral
- ?? Orthodoxy starts with theory and assumption, both implicit and explicit, moves to data collection and processing. This is same requirement for operationalisation of Marxist

theory.

- ?? Indeed, Marxist theory is more productive of quantitative implications than neo-classical as it relates more directly to aggregate social processes with predictions, with direct quantitative implications.
- 2. In the past there has often been a defensive response to the transformation problem
  - ?? but now static problem has been solved ( see Desai)
  - ?? studies suggest values approx. prop to prices of production
  - ?? In particular Monopoly Capital (MRP) saw Marx's value categories as unquantifiable and replaced them with directly observable quantities. Focus on surplus rather than surplus value
- 4. Value national accounts are not possible.
  - ?? But in principle no more difficult than usual ones -just need the resources
  - ?? Orthodox accounts require complex theoretical structure, assumptions and conventions and face severe measurement problems

### **Three Approaches**

1. Measure Marxist categories directly: the least practically feasible but in principle achievable.
2. Adjust orthodox categories to make them closer to the required Marxist categories
3. Use Marxist categories to explain the movement in orthodox statistics: less practical problems but greater conceptual difficulties.

No obvious reason why cant use probabilistic methods of statistical inference

Do share the techniques with orthodox analysis

Linearity doesn't reflect dialectical interaction and crisis

Ahistorical nature of the parts of Marx's work that have been formalised

### **Past Empirical Marxism:**

- ?? Historically there has been the development of empirical Marxism. An attempt to synthesise Marxism and empirical science (Gorman (1981) provides a valuable overview and see Dunne (1991):
- ?? Bernstein: Moved from orthodox abstract to empirical verification; methods of verification bourgeois inspired; drifted into reformism
- ?? Austro Marxists Adler and Hilferding: Marx/Kant; confront Marx with post Marxist trends.
- ?? Della Volpe and Colletti: deterministic abstraction - theories need to be part of the reality they try to explain; Colletti attacked Hegelianism and preferred Kant.
- ?? Marxist methodology: Gunn argues that by definition Marxist's must do empirical and methodological research at the same time; theorisation linked to practice -Praxis; unity of

theory and metatheory (philosophy); reflexive theorising = immanent critique (challenge theory from within) and determinate abstraction.

?? Desai argues that if techniques of time series analysis had been available Marx would have used them and provide interesting quote in his chapter in Quantitative Marxism.

### **Empirical Analysis: Falling Rate of Profit**

Obviously and important part of any empirical analysis from a Marxist perspective so worth considering the problems and issues. The first problem is that profits are observed in market prices and they are not the 'natural' rates of classical economics. Could use trend profit to get at long run, but there are problems. We can distinguish conceptual problems from accounting problems:

#### **Conceptual:**

1. Are rent and interest included?
2. Does the denominator include circulating capital
3. Aggregation problem: normally use prices but the reswitching debate tells us that prices are not independent of the distribution of income,
4. How to distinguish cycle from trend. Marx refers to the long run, but what is the long run?
5. What is the relation of the rate of profit in the price system to the internal rate of return

#### **Accounting:**

1. Valuation of the capital stock: historic/replacement cost
2. Measurement of depreciation: how compute?
3. Treatment of stock appreciation in an inflationary world.

#### **Methods of Measurement Possible:**

1. Attempt to measure the Marxian categories directly.
2. Identify value with price categories
3. Adjust price categories

All have been used as we shall discuss in the next session.