

# Political Economy After Economics

Scientific method and radical  
imagination

David Laibman



Routledge Frontiers of Political Economy

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# Political Economy After Economics

The “magnificent dynamics” and broad social focus of the classical political economists were replaced, at the end of the nineteenth century, by mathematically structured abstract models of competition among “individuals” and “firms.” Should we reject modern economics and go back to the grand philosophical approaches of Adam Smith and Karl Marx (among others)? Or should we redevelop and strengthen those approaches by incorporating the more recent model-building methods? The question answers itself.

Chapter by chapter, this book examines a wide range of economic problems, among other things: technical change and the rate of profit, value and price formation in capitalist economies, classical (as opposed to textbook) approaches to supply and demand, rationing and price control, the impact of government policy on economic activity, and the nature and role of incentives in a model of socialist planning that is both central and decentralized. In each case, it is shown that formal economic-theoretical methods can be used to support, rather than to obscure, the core insight of critical political economics: the “economy” is really an aspect of a deeper system of social relations, with huge implications for power, conflict, and social transformation.

This re-incorporation of economics into political economy is one (small, but not insignificant) element in a larger project: to place all of the resources of present-day social-scientific research at the service of increasing democracy, in an ultimate direction toward socialism in the classic sense. A politics-enriched political economy is, above all, empowering; working people in general can calculate, build models, think theoretically, and contribute to a human-worthy future, rather than leaving all this to their “betters.”

**David Laibman** is Professor of Economics (retired) at Brooklyn College and the Graduate Center, City University of New York. He is also Editor of *Science & Society*.

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**For HENRY JAY LARKIN**

**My grandson, born around the same time as this book A new life, open to all the possibilities of science and social imagination**

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# Preface

The ten chapters that comprise this book were (with one exception) all previously published. They cover topics ranging from Marxist concerns with value, accumulation and crisis in capitalist economies, through various issues in micro-and macroeconomics, to the theory of the socialist economy. They all, to varying degrees, use quantitative methods – the formal models of economic theory, in the form of simple algebra, analytic geometry and two-dimensional geometric representations of relations among variables, calculus and optimization, matrix algebra, and ordinary differential and difference equations.

Readers who have no prior contact with quantitative analysis may find some of this to be tough sledding. I venture to think, however, that other readers, with strong mathematical backgrounds but perhaps less acquaintance with the Marxist tradition in social thought, may find other aspects of the arguments difficult to follow, as these involve rigorous use of *qualitative* abstractions and tackle the less familiar (and more controversial!) inner layers of social reality. I hope both groups will come away with a sense that encounter with the previously unexperienced dimensions (whichever they are) has been worthwhile. Without wanting to seem presumptuous, I would like to repeat Marx's warning from the Preface to the French edition of *Capital*: “There is no royal road to science.” I will leave it to others to decide whether the works collected here do indeed contribute to science, and (need I say?) to human progress (the general philosophy tying this collection together is developed in the Introduction). I also, of course, wonder whether my arguments (validity aside) could be made more simply. I do, however, insist that the investigatory techniques are themselves worth pursuing, and like Aristotle's Third Class of Goods – not merely a means to an exterior end.

I have supplied short “Introductory perspectives” sections at the heads of the chapters. Each of these provides, in an informal voice, some context for the argument of its chapter, and tries to capture the core of that argument in non-technical terms. Readers who wish to approach the formal models cautiously may want to read through all of the “Introductory perspectives” pieces first, to get a sense of the whole. There is no substitute for tackling the actual arguments themselves, however; otherwise you have to “take my word for” too much. Perhaps the material can be approached in three stages. First, the introductory pieces. Second, read a chapter through to the end, to get a sense of the whole. Finally – at least this is what I have to do when I read similar literature – take paper and pen, write out the models, noting in your own hand the definitions of every item of notation (so you can easily find them) and deriving for yourself the various steps in the exposition. I sincerely hope that you will *not* find any errors! (But if you do, let me know; that is also part of the “royal road to science.”) I also sincerely hope that you *will* find weaknesses, simplifying assumptions that you would like to drop, new avenues that I do not pursue but that are suggested by my argument, and so on.

Another hint: don't be afraid to work out numerical examples and cases of your own, so that you become completely certain about some property or other. The intimate synergy between *scientific method* and *radical imagination* is the unifying theme of this book, which is otherwise devoted to

rather bewildering variety of topics. The habit of *calculating* is essential to the capacity to prevision and democratic prevision—the shared vision of an alternative social path—therefore requires wide dissemination of that habit. John Reed once described the Russia of 1917 as a “nation of orators.” Perhaps we could turn this into a more general prescription: we need a world full of nations of orators, *and* calculators.

The articles reproduced in this volume had footnotes in the original published versions, not for documentation but for tangential remarks: qualifying comments, warnings about possible misinterpretations, suggestions about wider issues, definitions (where needed). There are not too many of these, and I always tried to avoid the literary excess of “footnotes for footnotes’ sake.” Some notes remain, however, and I found, while preparing the manuscript, that it would be awkward and distracting to incorporate them into the main text. But I also hesitated to have them placed as endnotes. As a reader of books, I have often been bothered by the imposed need to toggle constantly back and forth between main text and endnotes, and I do want to encourage readers to read the notes in context. The editors at Routledge have kindly agreed to allow me to present the tangential remarks as *sidenotes*. These appear within the main text, at the end of the paragraph following the passage to which they refer. They are separated from the main text by being set in a smaller point size, and both the paragraph and the sidenote are marked with a dagger (†). This small editorial innovation thus makes it possible to combine ease of book production (page formatting) with ease of reading.

I cannot hope to acknowledge the help of every person whose advice and insight I have received and hopefully absorbed, over the years during which these papers were produced. With apologies to everyone I am leaving out, I would like to mention David Barkin, Al Campbell, Ann Davis, Alan Freeman, Harvey Gram, Robin Hahnel, Julio Huato, Andrew Kliman, Michael Lebowitz, Dimitris Milonakis, Gary Mongiovi, Bertell Ollman, Paddy Quick, Alejandro Ramos, Anwar Shaikh, George Skillman, Frank Thompson, Thom Thurston, Yanis Varoufakis, Andriana Vlachou, Vivian Walsh, and Richard D. Wolff, numerous anonymous referees, and several generations of students. As always, everyone who has contributed to my work is absolved from any responsibility for choices I have made, or errors committed.

Brooklyn, New York  
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## Permissions and original sources

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*Chapter 1:* “Value and the Quest for the Core of Capitalism,” *Review of Radical Political Economics*, Vol. 34, No. 2 (Spring 2002), pp. 159–178. (Permission from Union for Radical Political Economics.)

*Chapter 2:* “Rhetoric and Substance in Value Theory: An Appraisal of the New Orthodox Marxism,” *Science & Society*, Vol. 64, No. 3 (Fall 2000), pp. 310–332.

*Chapter 3:* “Technical Change, Accumulation and the Rate of Profit Revisited,” *Review of Radical Political Economics*, Vol. 28, No. 2 (June 1996), pp. 33–53; “Accumulation, Technical Change and Prisoners’ Dilemmas: A Rejoinder to Frank Thompson,” *Review of Radical Political Economics*, Vol. 30, No. 2 (June 1998), pp. 87–101. (Permissions from Union for Radical Political Economics.)

*Chapter 4:* “Okishio and His Critics: Historical Cost Vs. Replacement Cost,” *Research in Political Economy*, Vol. 17 (1999), pp. 207–227; “Two of Everything: A Response,” *Research in Political Economy*, Vol. 18 (2000), pp. 269–278.

*Chapter 5:* “Is There a Classical Theory of Supply and Demand?” In *Growth, Distribution and Effective Demand: Alternatives to Economic Orthodoxy (Essays in Honor of Edward J. Nell)*, edited by George Argyrous, Mathew Forstater, and Gary Mongiovi. M.E. Sharpe, Inc. (2004), pp. 279–292.

*Chapter 6*: previously unpublished.

*Chapter 7*: “Non-Constant Returns, Pareto Optimality and Competitive Equilibrium,” *Review of Political Economy*, Vol. 13, No. 4 (2001), pp. 471–481.

*Chapter 8*: “Broadening the Theory of Aggregate Supply: A ‘New Critical’ Proposal,” *Eastern Economic Journal*, Vol. 32, No. 1 (Spring 2006), pp. 241–257. (Permission from Palgrave Macmillan.)

*Chapter 9*: “Revisioning Socialism: The Cherry Esplanade Conjecture.” In *Contemporary Economic Theory: Radical Critiques of Neoliberalism*, edited by Andriana Vlachou. Macmillan Press (1999), pp. 113–132.

*Chapter 10*: “Incentive Design, Iterative Planning and Local Knowledge in a Maturing Socialist Economy,” *International Critical Thought*, Vol. 1, No. 1 (March 2011), pp. 1–22.

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# Introduction

This Introduction seems to want to begin in an autobiographical register.

Recently retired from full-time teaching (at the City University of New York), I naturally gave some thought to producing a collection of articles, written over a number of years and not previously brought together, which might have some claim to lasting relevance (“The collected scientific papers of ...” – but that would be begging a question!).

With several exceptions, the papers thus collected turned out to have two characteristics. First, they are all written from a political-economic perspective, by which I mean that they seek to grasp and explain the real social relations underlying economic phenomena. To get hold of that substratum of what is normally seen as the “economic” necessarily means to embrace the contradictory – that is, evolutionary, relative, transformational – qualities of social systems and social life.

Second, these papers make use of the sort of quantitative formalism that has become characteristic of modern economic theory. Herein lies an assumption (to which I will return) that quantification is not merely a methodological device; it is ontological, a feature of social reality itself – of both the outward, perceived experiences and the inner determinants of those experiences, related both to market forms and to other aspects of the progressive abstraction of human relations that marks the path of social development. The quantitative aspects of the objects of political-economic investigation must therefore be addressed, and gotten right, if political economy itself is to prosper and achieve its objectives. To give this book some semblance of unity and focus, I dropped several papers that do *not* have a significant quantitative model-building component. The papers that form the ten chapters of the book are what remain.

Looking them over, however, one sees another striking feature. The works presented in these chapters have an admirable (or not so admirable, depending on your point of view) characteristic: they are enormously diverse in subject matter. Not to put too fine a point on it: they are all over the place! They range from classical themes in Marxist theory (the law of value; technical change and the falling rate of profit) to topics in microeconomics (Pareto optimality, supply and demand in classical theory, rationing and price control), to macroeconomic stabilization policy, to the theory of the nature and logic of socialism. This, too, requires an attempt at explanation.

As to why so much of the work collected here is quantitative in nature, I first need to plead guilty to one count (no pun intended) of *loving mathematics*! This does *not* mean that I am particularly good at, or well trained in, math. I remember coming home one day from second grade (teacher: Mr. Brandmarker) full of wonder at the existence of *four* arithmetic operations (that I then knew of: addition, subtraction, multiplication, division), and speculating about the possibility of *inventing* yet another one! (The early formation and subsequent continuity of mental styles is an amazing thing.) My new arithmetic operation, sadly, turned out to be nothing but combinations of the four existing ones, so I lost interest in that project. I enjoyed high school algebra (teacher: Dr. Strauss), and saw, I think, the *beauty* of something as simple as  $x^2 - y^2 = (x + y)(x - y)$ . Much later, I learned to marvel

such mathematicians' delights as  $e^{i\pi} + 1 = 0$ . Perhaps most important, I knew I needed to get to the bottom of the famous "transformation problem" in Marxist value theory (see [Chapters 1](#) and [2](#)), as discovered it in college while reading Paul Sweezy's *Theory of Capitalist Development*, and remember covering *reams* of notepaper with (undoubtedly primitive) scribbling as I tried to sort out the equation systems allegedly deriving prices of production from labor values. This was where I think it really started: I had decided (unlike most of my student comrades in the 1960s left political movement, it must be said) that if we were going to build the left into a force that could truly bring about revolutionary change we would need a solidly grounded theory, carefully constructed from firm principles. *Theory was important.*<sup>‡</sup>

<sup>‡</sup> This attitude, too, had deep roots in my childhood. When I was eight years old, I attended a "lefty" summer camp in Vermont which was a converted farm. The camp director had an old rifle, and for a special treat once or twice during the summer we kids were allowed to take turns shooting the rifle, at a target across the pond. When my turn came, I dutifully (theoretically?) lined up the sight (the ball and the "v") and took aim. The counselors joyously pointed out that the rifle was pointing about 30° away from the target. Of course I missed, but I remember feeling satisfied: *in principle* I had aimed correctly! The *empirical* fact that this old gun had been lying around the farm for decades, and that its sights were no doubt bent and battered beyond all use, did not detract from my *theoretical* sense of a mission well accomplished.

Early predilections soon gave way to more mature conviction. It became apparent to me that the older literary tradition in political economy, despite its many rich contributions to understanding, could not *by itself* secure the kind of theoretical foundation I was seeking. This can be briefly illustrated. Various solutions to the "transformation problem" (better thought of as the capitalist value determination problem; see [Chapter 1](#)) relied on the use of (what I call) *persuasive semantics* to establish their claims. The burgeoning literature in Marxist economics, in the second half of the twentieth century, is filled with wordy arguments seeking profound status, as representing the most complete application of Hegelian categories to, or the most dialectically rigorous understandings of, concepts such as abstract labor, forms of value, the commodity, money, capital, etc. In some cases the arguments amount to a denial of the quantitative dimension as such, and a tacit retreat from confrontation with the dominant ideology, and its withering critiques, on this terrain.

Perhaps the most indicative example of the non-progressive quality of the older style in Marxist political economy is the interminable debate concerning the distinction between productive and unproductive labor, which surfaces in every period with disappointing predictability. As this is written, yet another go-around on this is under way on an email discussion list of Marxist economists and there seems to be an almost inherent failure of the combatants to "cross swords" (see Laibman 1992a, [Chapter 4](#), for an earlier survey of the topic). Similarly with present-day discussions of finance, and financial structures and priorities as sources of economic crisis. The popular prints (and cybersites) are full of descriptive prose condemning financial parasitism and greed, and blaming "finance" and "financialization" for the Great Recession. We have, however, barely begun to understand what financial relations as such actually are, not as an eternal verity (any mainstream text will tell you that finance emerges "whenever someone has something but doesn't need it, while someone else needs it but doesn't have it"), but as an instance of evolving capitalist production relations. Without careful – and this means, among other things, quantitative – theoretical development, our understandings of economic phenomena will be driven by current events, and by the winds blowing from the ideological mainstream. We will wind up spinning our wheels, and reinventing them at the same time!

The key political-economic relations, in both capitalist and post-capitalist contexts, are simultaneously qualitative and quantitative. The quantitative dimension, in turn, is not just a reflection of the market, or commodity, form (although that is certainly an important component);

presents itself in social life and human experience as soon as societies evolve to a size and complexity at which social and political relations become abstract. All of this will emerge in greater detail from the contents of the various chapters of this book; here I simply record the general conclusion that, I think, motivates and ties together the various studies, and the seemingly disparate topics: Marxist political economy, if it is to make progress, cannot ignore the “economic” turn that began at the end of the nineteenth century. It must incorporate that turn, and place mathematical tools at the service of revealing, rather than obscuring, the qualitative levels of social–economic reality and the social relations underlying the surface appearances of “economic” phenomena. Hence: *Political Economy After Economics*.<sup>‡</sup>

<sup>‡</sup> Many readers will see the continuity between my title and that of the seminal work by Ian Steedman, *Marx After Sraffa* (1977). Steedman's point was also directed toward requiring rigorous formulation of the quantitative aspects of the theory of the capitalist economy, in the manner set forth in Piero Sraffa's *Production of Commodities by Means of Commodities* (1960). I disagree with Steedman, however, concerning the outcome of this confrontation. I by no means think that major components of Marx's project would have to be jettisoned if that project is subjected to careful analytical treatment – provided that treatment does not serve as (intentional or unintentional) cover for losing track of the political–economic foundations for economic theory.

The task, however, is daunting. Powerful forces are at work everywhere that drive apart the qualitative, and revolutionary, insights of Marxist political economy, on the one hand, and the skills and conceptual grids of quantitative formalism, on the other. Part of the problem is simply that ruling classes, capitalist ones in particular, have long mastered the technique of providing relative advantages to professional and technically expert strata of working populations. The entire ethos of class domination creates a favorable environment for meritocratic hierarchies, which then reinforce the class structure by depriving the subaltern sectors of leadership, and encasing expertise in an ideological web that is completely at the service of existing power and privilege. Only the wealthy “know” how to run society; consider, for example, the well-known formula from John Adams: “the rich, well born, and able.” Quantitative forms of expertise are the most explicit and measurable, and also most closely connected to the sense of actually running things. Quantitative proficiency thus comes to serve as a sorting device, and the myth arises that genuine science must necessarily confirm the eternal truth of the dominant social paradigm.

There is also the fatal attraction of equilibrium-as-ideology. Mathematical models are useless and unsatisfying unless they can be solved. “Well posed” problems therefore almost inevitably come to focus on systems that are at rest, in the sense that unique positions of all of the variables have been obtained, and the system as such does not deviate from those positions. Even when we create models of economic growth (which, after all, is inherently about change) we make them tractable by assuming that a system consisting of heterogeneous elements is in a “steady-state” configuration, one in which every element is growing at the same constant proportional rate – thus neatly separating growth from structural change, internal tension, transformation (see Halevi *et al.*, 1991; Nell, 1998). Of course many of us insist that our steady states are nothing more than methodological devices designed to highlight underlying properties of systems that are in fact in states of continuous qualitative evolution. To borrow a distinction from Jon Elster, *methodological* equilibrium must be clearly distinguished from *ontological* equilibrium (Elster, 1985; he applies the two adjectives to “individualism”). This, however, makes real change exogenous to the systems we spend so much time studying. The political economists insist that preoccupation with quantitative formalism inherently turns our attention away from genuine contradiction, internal sources of change, explosions. Does pursuit of finely tuned structure force us to miss the *essential*? Joan Robinson stated the matter well in her famous comparison of Marx and academic economists: “Marx's intellectual tools are far cruder, but his sense of reality is far stronger, and his argument towers above their intricacies.”



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