Cambridge Journal of Economics 2000, **24,** 113–117

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New solution or re(in)statement? A reply

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Introduction

The formalisations of the labour theory of value that culminated in Morishima (1973), Pasinetti (1977) and Steedman (1977) merely served to show that the labour theory of value had no operational significance in the explanation of observable phenomena. The standard interpretation of the Marxian account of labour values, monetary prices and the relation between them, has technology and labour input requirements determining labour values, the same technology and labour input requirements plus a specification of the wage determining relative prices, and a normalisation condition determining price levels. But this approach leads precisely nowhere. The only meaningful relation between labour values and prices is through the proposition that a positive rate of exploitation is a necessary and sufficient condition for a positive rate of profit, a proposition that can evidently be reversed and whose empirical implications are meagre in the extreme. And issues of joint production and choice of technique problematise the whole approach. All of this is well known.

A further issue with the traditional interpretation has always been troubling. Most of the first three chapters of *Capital 1* are concerned with the relations between value and money; yet, in the usual interpretation, money is conspicuous by its absence. Whether and how prices are determined by labour values is not the same issue as whether and how money represents social labour time. When the former issue takes centre stage, the question becomes whether and how ratios of embodied labour determine relative prices, and money altogether disappears. It is, after all, only a *numéraire*. It is not obvious that this is a correct interpretation of Marx's writings; more importantly, neither is it obvious that such an approach gives any handle on the empirical analysis of a capitalist economy.

The sense in which money represents social labour-time was a central focus of an interpretation proposed towards the end of the 1970s by Duménil (1980) and (independently) by Foley (1982). The nomenclature for this interpretation was preempted by Lipietz (1982), who proposed an explicit linkage to the transformation problem via the 'New Solution'. This is not a helpful characterisation, because it obscures how this new interpretation is *radically different* from the traditional interpretation, and thereby encourages a reading that focuses on choice of normalisation. This has led to very considerable confusion. I shall therefore summarise neutrally the approach taken by Duménil and Foley as the 'D–F approach'.

Manuscript received 24 March 1999; final version received 30 July 1999
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The central point of the D–F approach is that it provides a theoretically coherent and rigorous framework that enables a direct focus on the measurement of values in terms of readily available data. The advantage of this approach is at least twofold. First, the history of the development of Marxist economics, while replete with doctrinal controversy, is a history both of heroic but untheorised leaps into the empirical, and of failures to confront the empirical. The former fails to take theory seriously, while the latter is open to the charge of continually constructing immunising stratagems. The D–F approach avoids both of these pitfalls. Second, and as a consequence, the D–F approach enables serious empirical investigation of the claim that an approach predicated on class as its fundamental category has something interesting to say about the development of capitalism which cannot be captured by an approach based on methodological individualism.

What Mohun (1994) sought to do was to explain the D–F approach in terms that emphasised its radical difference from the traditional interpretation, asserting at the outset that,

> its comprehension and acceptance requires the overturning of nearly ninety years of economic theorising in the Marxist tradition . . . the dead-weight of tradition makes these changes proposed to traditional theory very difficult to grasp. (Mohun, 1994, p. 391)

In what follows, I will use Febrero's equations and his numerical example.

Febrero's critique and example

Febrero argues that unless the composition of net output remains constant, the approach advocated in Mohun (1994) yields paradoxical results. In particular, consider two economies with identical technologies, labour input requirements and total labour supply. It immediately follows that the vector of labour values will be the same in each economy. And if wage and profit rates are the same, the Sraffian price equations will determine identical prices for each good in each economy. But at these prices, aggregate money value added will differ in each economy, since the net output vectors differ. Hence, all Marxian variables (the value of money, the value of labour-power and the rate of surplus value) will differ across the two economies, despite their having the same technology, the same labour input requirements and the same distributive relations. In particular, in Febrero's numerical example, there is a more than 30% difference in the rate of surplus value (exploitation) in the two economies. For Febrero, this is paradoxical. Table 1 illustrates.

For Febrero, Economies A and B are plainly identical: the same technology and the same labour input requirements must determine the same labour values, and since wages are fixed, the rate of surplus value cannot meaningfully differ, whatever net outputs are. However, Febrero's paper is locked within an understanding of the meaning of the labour theory of value with which Mohun (1994) was concerned sharply to break. It is not that Febrero's numbers are wrong, but his approach as a criticism of Mohun (1994) is just misconceived.

In the D–F approach, the starting point is not how individual labour values are expressed as prices, but how aggregate labour performed is expressed in money terms. Febrero needs labour input requirements to determine this as $a_n Q$ in his equation (3), but there is no need to adopt a linear framework; one can more easily determine aggregate labour performed just by measuring it. Similarly, the money value of net output is whatever it happens to be, and no concept of equilibrium is necessary. For Febrero, the

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Table 1

	Economy A	Economy B
Technology	$\begin{bmatrix} 0{\cdot}15 & 0{\cdot}35 \\ 0{\cdot}4 & 0{\cdot}1 \end{bmatrix}$	$\begin{bmatrix} 0{\cdot}15 & 0{\cdot}35 \\ 0{\cdot}4 & 0{\cdot}1 \end{bmatrix}$
Labour requirements	(0·4 0·1)	(0·4 0·1)
Labour values	(0·64 0·36)	(0·64 0·36)
Total labour supply	50	50
Wage rate	1	1
Rate of profit	0·25	0·25
Prices	(0·8127 0·5206)	(0·8127 0·5206)
Net outputs	(35·9375 75)	(75 5·5556)
Rate of surplus value	0·365079	0·2769

prices at which net outputs are sold are the Sraffian equilibrium prices, determined in his equation (1), for which he needs a specification of technology and labour input requirements. But, as Mohun (1994) emphasised, there is no need to determine prices in this way; indeed, there is no need to specify any determination of prices. All that is required is a specification that net output is sold and hence is measured by the market. While total labour performed is the same, the aggregate money value of net output is different in the two economies and hence the value of money (hours per unit of money) is different. Accordingly, so is its inverse, the value in money terms created by an hour of labour. It immediately follows that, for a given common wage across the two economies, the value of labour power (per hour of labour performed) is different, and so too is the rate of surplus value. Aggregate wages are the same (by assumption), but aggregate profits are not, so that it is misleading to call common wage and profit rates 'the same distribution'. These economies are therefore by no means identical, despite their having certain features in common. Table 2 summarises.[1]

New solution or re(in)statement?

Febrero's interpretation of labour values, prices and the relation between them is different from the D–F approach. This is perhaps most apparent in his use of the phrase 'new solution', which is how he labels the approach described in Mohun (1994). But the D–F approach does not have a 'problem' that requires 'solution'. The traditional approach does; it has a 'transformation problem'; and Febrero reads Mohun (1994) through the prism of this 'transformation problem'. Hence he writes

> . . . the problem of this 'new solution' is that the normalisation condition in (4) [i.e. the equation that defines the value of money as the ratio of total labour performed to total net output in money terms—SM] cannot hold simultaneously with that of the sum of values equal to the sum of prices." (Febrero, 2000, p.110)

Setting aside the incoherence of comparing two variables with different units of measure, this is clearly a difficulty *if one wants that equality*.[2] In the traditional approach, this is an

[1] Small errors due to rounding should be ignored.

[2] Febrero continues that in Mohun (1994) 'we do not find any reference to the rate of profit in value terms' (*ibid.*); but why should we expect any reference to something that is of such dubious ontological and epistemological status?

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Table 2

	Economy A	Economy B
Prices	(0·8127 0·5206)	(0·8127 0·5206)
Net outputs	(35·9375 75)	(75 5·5556)
Net output in money terms	68·2539	63·8448
Total labour supply	50	50
Value of money	0·7326	0·7831
Monetary equivalent of value	1·365	1·2769
Wage rate	1	1
Value of labour power	0·7326	0·7831
Rate of surplus value	0·365079	0·2769
Total wages	50	50
Total profits	18·2539	13·8448
Total variable capital (in hours)	36·63	39·155
Total surplus value (in hours)	13·3728	10·8419

issue of normalisation, and indeed this issue of normalisation is at the heart of Febrero's critique. Thus, he indicts Mohun (1994) for measuring distribution in terms of a *numéraire* that is a composite commodity constructed out of the proportions comprising the net physical output vector. For any *ceteris paribus* change in these proportions alters the *numéraire* and, hence, alters the rate of surplus value, which limits the scope of the framework. But it is just *not* the case that Mohun (1994) has some determination of individual values, some other determination of price ratios and the rate of profit, a normalisation condition that determines price levels, and a problem of specifying some meaningful relation (via that condition) between individual labour values and individual prices.
The traditional approach asserts a primacy to the determination of values in the sphere of production, and these values are then supposed to determine prices in the (subordinate) sphere of circulation. The 'problem' is that they don't: hence the 'transformation problem'. But this is not the framework presented in Mohun (1994). Rather, there is

(1) a specification that total social labour time can be measured equivalently in terms of labour hours and money, with the value of money translating between the different dimensionalities;
(2) an assertion that this is the only sensible interpretation of the Marxian labour theory of value;
(3) an argument about the logic of the relation between the value of labour power (per hour of labour hired) and the wage (and indeed its illogic in the traditional interpretation).

Thus the D–F approach asserts a primacy to the consideration of aggregates and their class distribution. How this is effected by a commodity distribution is a second-order problem, which requires a theory of price determination. Then if for some specification of total labour performed the money value of net output alters, the value of money changes, and for any given money wage this changes the value of labour power (per hour of labour hired) and hence the rate of surplus value.

Febrero interprets this as a problem for the approach proposed in Mohun (1994); but it is more accurate to see it as a problem with the traditional interpretation of Marxian value theory. This latter interpretation sees the determination of labour values as logically and

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temporally prior to that of prices, and the law of value as the determination of prices by labour time. If Mohun (1994) is read through those spectacles, then he can only be presenting a 'new solution', and, as Febrero rightly points out, this is a solution with paradoxical and hence problematic properties. But the paradoxes arise out of juxtaposing Mohun (1994) with the traditional interpretation of Marxian economics. For that interpretation is not in Mohun (1994). In its place is an analysis of how labour time in the aggregate is represented in monetary form, and how the value of money thereby established provides a translation between aggregate wages and aggregate variable capital, and hence between aggregate profits and aggregate surplus value. These accounting relationships enable an account of capitalist economies as class-divided, based on class exploitation. And they pose many theoretical issues as yet unresolved, of which perhaps the most important concerns the *determination* of the value of money. But unlike that of the traditional interpretation, this is not a degenerate research agenda. Hence the resolution of Febrero's difficulties is to abandon the traditional interpretation, reject the 'new solution', and espouse the radical re(in)statement of the D–F approach.

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