BOOK REVIEW

MARX’S THEORY OF PRICE AND ITS MODERN RIVALS,
BY HOWARD NICHOLAS

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In recent years, there has been a growing interest in the writings of Karl Marx, particularly, in his unfinished theory of economic crisis. This appears to be a response to the failure of orthodox economic theory in diagnosing the financial meltdown that commenced in September 2008 and the first depression of the 21st century that followed it. Reflecting the recent renaissance of Marxism, some of Marx’s writings have been rushed back into print and new research programs within the Marxist paradigm have begun in many parts of the world. Naturally, the focus of most of these researches has been on Marx’s writings on fictitious capital, financialization and economic crisis. In this context, one may wonder why a revival of Marx’s theory of price has been attempted and how it could contribute to the immediate need of explaining the financial and economic crisis. In Marx’s Theory of Price and Its Modern Rivals Howard Nicholas seems to think differently.
as he shifts the focus to a rather neglected area of Marx’s work in contemporary discourse, namely, the theory of price. In his own words:

In attempting to answer some of these questions [relating to the theory of crisis] in my post-doctoral research work, I kept being drawn to the theory of price, Marx’s theory of price, as the necessary point of departure for a fuller understanding of not only his theory of money and role it played for him in the cyclical movement of the capitalist system but, more fundamentally, its importance for his general explanation of the latter. Hence, the present work. (p. ix)

For Nicholas then, Marx’s theory of capital accumulation and crisis needs to be well grounded in his theory of price (and money). The two are inseparably intertwined. Because of the centrality of Marx’s theory of price in the architecture of Capital, Marx’s magnum opus, one may legitimately argue that the book under review is not an argument for this or that aspect of Marx’s economics but rather a defense of its very foundations.

Nicholas sets out his aim in writing the book as being to provide an interpretation of Marx’s theory of price “which is consistent with the logic, if not the written word, of Marx’s analysis in Capital, his most developed work in political economy” (p. 1). He legitimizes this focus on price on two grounds:

First, to contribute to the recent revival in interest in Marx’s economic analysis of capitalism, noting in passing that any theory intended to explain the dynamics of the capitalist system…requires most fundamentally a theory of price…. Secondly, to shift the focus of economic debate back to its foundations, there being nothing more foundational than the theory of price. (p. 1)

As Nicholas notes, Marx’s theory of price has of course been subject to intense criticisms from many quarters since the publication of Capital. An early criticism followed the publication of Capital Vol. 3, when Böhm-Bawerk argued Marx failed to show that values determine prices in the capitalist system because he failed to transform input values into prices (see Böhm-Bawerk 1975). The failure of Marxists to respond adequately to this criticism of Marx over what came to be known as the transformation problem led some Marxists to either abandon Marx’s theory of price or dilute it in one form or another. Other critics, in the line of Joan Robinson, have focused on what they see as Marx’s metaphysical theory of value (see Robinson 1964). And yet others have questioned the entire premise of competitive capitalism underlying Marx’s economics in general and his theory of price in particular, arguing that the modern capitalism system is better characterized as one dominated by monopolies (see Baran and Sweezy 1966).
Responding to these criticisms of Marx’s theory of price in his book, Nicholas sets himself the task of affirming five principal positions:

(a) Marx has an intelligible, logical and consistent theory of price; (b) his concept of value is at the very heart of this explanation; (c) his theory of price is neither a mere repetition of Ricardo’s theory, nor has it been made redundant by Sraffa’s Post Keynesian contributions; (d) it has not been invalidated by tendencies towards concentration and centralisation [of capital] in capitalism, and (e) it warrants more serious consideration than it has hitherto been accorded by those interested in understanding the economy—whether or not they are sympathetic to Marx’s purpose in the study of capitalism, viz. its overthrow, and especially given the growing dissatisfaction with the foundations of mainstream economic thinking. (pp. 4–5)

The re-interpretation and defense of Marx’s theory of price is articulated in the book by deploying two presentational methods. In the first two chapters, chapter 2 and 3, Marx’s theory of price is sketched first in the context of simple commodity circulation and then in the context of the capitalist mode of production. In chapters 4 and 6–8 Marx’s theory of prices as interpreted by Nicholas is compared and contrasted with theories of prices advanced by writers associated with different theoretical perspectives. Nicholas’s intention appears not to be to critique those theories per se but to confront them in order to elaborate and defend his own interpretation of Marx’s theory of price. Chapter 4 delineates how Marx’s theory of price is influenced by the writings of his predecessors, Adam Smith and David Ricardo, and at the same time how it supersedes them. Chapter 5 reviews various other Marxist interpretations of Marx’s theory of price and demonstrates that they either misinterpret or reject the latter. Chapters 6, 7 and 8 examine critically the Neoclassical, Post Keynesian and Sraffa’s theories of price, respectively, in order to demonstrate the superiority of Marx’s theory.

In presenting his interpretation of Marx’s theory of price, Nicholas follows Marx’s trajectory in his presentation in Capital by beginning with his take on Marx’s explanation of price in the context of simple commodity circulation. Nicholas sees this explanation as a foundation for Marx’s subsequent explanation of prices in capitalism because, according to Nicholas, Marx considers simple commodity circulation as representing the essence of commodity circulation in capitalism, rather than something that is historically prior to capitalism. The key elements of Marx’s theory of price which Nicholas highlights in the first two chapters of the book are:

• Value simply means “worth,” and the value of a commodity refers to its worth in relation to another. Commodities come to acquire worth in relation
to one another when they are produced on the basis of a division of labor. This worth is measured by the labor time required to produce a commodity since the mass of commodities in any society are produced on the basis of a certain allocation of labor time.

- Commodities acquire exchangeable worth (exchange value or price) measured by money when the division of labor is mediated by money-based exchange. It is money and not labor time that directly regulates price, although money reflects labor time.

- When money is a commodity it is not just any commodity but is rather the universal equivalent commodity whose worth is given by the average labor time required to produce the commodities it exchanges with over a given period of time and not the labor time required for its own production. As measure of exchange value or price money represents abstract and social labor *par excellence*. Although Nicholas is at pains to deny it, there is a suggestion that he is in effect attributing to Marx a quantity theory of money. The reasons for this denial only become clearer in chapter 3 when discussing price formation in capitalism, but could have been usefully given an airing in the chapter on price formation in simple commodity circulation.

- The value of inputs is given by the value of money which needs to be paid for the inputs at the commencement of the production process and not the historic costs of the inputs, not even the historic labor costs of the inputs.

On the basis of this interpretation of Marx’s explanation of price in simple commodity circulation Nicholas proceeds to build in chapter 3 of his book his interpretation of Marx’s explanation of price in capitalism. This, of course, brings him to the so-called *transformation problem* in Marx’s theory of price. To recap briefly, the transformation problem in Marx’s theory is alleged to arise because the prices formed on the basis of direct and indirect labor inputs, assuming equalized rates of surplus value production in all sectors as Marx does, would not yield an average rate of profit. Prices of production must deviate from values, suggesting that the commodity inputs into production (which are also outputs) should also be valued in terms of prices of production for the sake of consistency. This, so it is argued, is something Marx failed to do. For Nicholas there is in fact no transformation problem. He argues that for Marx to transform values into prices of production would have been to tautologically explain *prices in terms of prices* (see pp. 39–40).

While I sympathize with Nicholas’s interpretation of what Marx was trying to do with his transformation procedure, I feel his arguments would have been more convincing had he elaborated on how one is to understand the cost of inputs and labor in terms of value. He could have done this by bringing together and repeating
some of the salient points he makes regarding Marx’s theory of value leading up to the section in which he discusses the transformation problem in chapter 3. For example, given that prices of production comprise material and labor input costs and profits, Nicholas could well have elaborated on why value is required to understand these components. In this regard he should perhaps have repeated and elaborated on the point he made in chapter 2 regarding the importance of seeing the value of inputs as given by the value of money required for their purchase and, correspondingly, the error of reducing input costs to layered or historic costs. He could have followed this up by repeating the point about unit wage costs requiring a prior knowledge of direct unit physical labor inputs. And, he might have concluded this elaboration by repeating the point about the necessity of value for understanding profit in the sense that the measure of the relative worth of the goods that comprise profits can only really be in terms of the labor time required for their production.

Aside from the transformation problem, Nicholas also elaborates on how and why Marx’s theory of value is indispensable for an understanding of the value of money in capitalism when money evolves as intrinsically valueless pieces of paper. Nicholas argues this form of money does not create a problem for Marx’s explanation of the value of money since for him money’s value is not given by its own cost of production but rather by the average worth of the commodities it exchanges within a given period of time. Unfortunately, it has to be said that this important point is somewhat lost in the complexity of Nicholas’s presentation in his chapter 3. Actually, it is to be found scattered in several different sections of the chapter including those on the magnitude of money prices of production, changes in these magnitudes, and the divergences of (money) market prices from their equilibrium levels.

The preceding deficiencies notwithstanding, the merits of Nicholas’s interpretation of Marx’s theory of price are most evident in his presentation of Marx’s views on the two pillars of Classical economics, Adam Smith and David Ricardo, in chapter 4, and Nicholas’s own criticisms of what he refers to as various other sympathetic interpretations of Marx’s theory of price which have emerged over the last 50 years in the ensuing chapter. In his presentation of Marx’s critical views on Smith and Ricardo in chapter 4 Nicholas appears to be intent on reinforcing some of the points he makes in chapter 3 on Marx’s alleged transformation problem. For Nicholas the crucial point Marx makes in his criticism of Smith and Ricardo is their confusion of value with prices of production. In the work of Smith, Marx saw it leading to his abandonment of the labor theory of value explanation of price in favor of a historic factor cost explanation, while in the work of Ricardo it leads to an affirmation of the labor theory—in the sense of prices being seen as directly regulated by labor times—notwithstanding the logic
of his analysis suggesting that there should be a deviation of prices from direct labor times. In both cases Nicholas also brings out the implied faulty theories of money which the confusions lead to in the works of Smith and Ricardo, which he (Nicholas) sees as having a certain resonance in the explicit and implied theories of money associated with the modern Post Keynesian and Sraffian approaches.

In the chapter on other Marxist interpretations of Marx’s theory of price, chapter 5, Nicholas clusters the interpretations which have emerged in the post-World War II period into traditional and modern theories, presumably to avoid having to critically appraise an unmanageably long list of interpretations of individual authors. Nicholas takes the traditional interpretations (TI) to be those of authors such as Paul Sweezy, Maurice Dobb and Ronald Meek, and confines the modern interpretations to the so-called New Interpretation (NI) and the Temporal Single Systems Interpretation (TSSI). What Nicholas argues is that all these interpretations suffer from essentially the same basic flaw; a confused understanding of Marx’s concept of value. Nicholas sees this confusion as one of value with labor time—the worth of a commodity with its measure. For Nicholas, it is this confusion that leads these approaches to a mistaken understanding of Marx’s transformation procedure. It causes them to see that what Marx is trying to do with his transformation procedure is to show how prices of production can be directly computed from values. At the same time, and because of this, it leads the TI and NI to argue that Marx failed in this attempt because he did not transform the values of inputs into prices of production, and it leads the TSSI to deny that Marx failed to show this, i.e., how prices of production could be computed from values, by defining value as lagged prices of production. For the TI, as long as labor time is seen as the measure of prices of production (i.e., as reducing the prices to equivalence) then prices of production can be seen to be determined by value. For both the NI and TSSI, prices are necessarily money prices therefore the measure should additionally be money. Hence, the use of a “constant of proportionality” between labor time and money by both these approaches.

Although I am certainly partial to the view that these various sympathetic interpretations of Marx’s theory of price suffer from the problem of an understanding of the concept of value, I would argue that the real problem with them is their confusion of value with exchange value, and, correspondingly, the measure of value with money—the measure of exchange value. It is this confusion that causes the interpretations under review to jettison value while still believing that they are being faithful to Marx’s theory of value. I also feel that the message Nicholas appears to be trying to convey about the flawed interpretations of the traditional and modern interpretations of Marx would have been strengthened if he had teased out the implications these interpretations have for an understanding of money. Most obviously, if, as Nicholas argues, these interpretations see labor time as the
measure of prices of production, then money would necessarily be for them a veil in the manner of Neoclassical economics.

One further deficiency of Nicholas’s review of other Marxist approaches which requires mentioning is his omission of any significant discussion of what has come to be referred to as cognitive capitalism and its implications for Marx’s theory of value/price, aside that is from one footnote in the introductory chapter of the book. Given the considerable amount of literature which this issue has generated in the recent past (see for example Virno 1996, and Hardt and Negri 2000), it is a curious omission for a chapter purporting to review modern Marxist treatments of value price.

For the non-Marxist reader chapters 6–8 of Nicholas’s book should in principle be of the greatest interest since it is in these chapters that he turns his attention to modern theories of price. The modern theories Nicholas focuses on are the Neoclassical, Post Keynesian and Sraffian. To counter the accusation of arbitrariness in this selection of modern theories, it might have been useful if Nicholas had provided some justification for his particular choice of theories, although the breadth of coverage of theories in the Neoclassical and Post Keynesian chapters, coupled with his stated purpose of further expanding on his interpretation of Marx’s theory of price, can be taken as partly exonerating him.

The general point which Nicholas tries to make in these chapters on modern theories of price is that they share the same weakness; a distorted view of how prices are formed. Thus, Nicholas sees the major problem with the Neoclassical theory of price as being its view that prices are formed in the process of exchange without reference to either production or money. Ignoring production in the first instance allows Neoclassicals to argue that prices are fundamentally determined in the process of the exchange of commodities between utility maximizing individuals naturally endowed with bundles of commodities, a line of argumentation that does not really change when production is subsequently brought into the analysis. Indeed, as Nicholas notes, the entire logic of the Neoclassical explanation of price comes into question once production is in fact brought into the picture and it is recognized that prices have to fundamentally reflect the costs of producing the goods if they are to be reproduced. For Nicholas, ignoring money in the first instance permits Neoclassicals to see money as having no relevance for the formation of relative prices and, when it is eventually brought into the picture, functioning as numéraire to reduce utility or preferences to equivalence and thereby convert relative prices into money prices. As Nicholas notes, aside from the meaning to be given to such a reduction of patently heterogeneous utilities/preferences to equivalence, the introduction of money into the analysis in this way leads Neoclassicals to mistakenly see money as a “veil” and its value, and therefore the aggregate money price level, as determined by the quantitative
relation of money and commodities in the process of exchange—the traditional quantity theory approach to the explanation of the money price level.  

For me one of the most interesting and innovative of the chapters in the book is chapter 7, on the Post Keynesian theory of price. At least in part this is because I cannot recall seeing any other critical appraisal of the Post Keynesian theory of price from a Marxist perspective. As with the Neoclassical approach, the focus of Nicholas’s criticism of this approach is its view of price formation. According to Nicholas, the Post Keynesian approach is premised on belief that prices are formed in the process of production by individual capitalists when purchasing inputs with a view to reproducing their commodities. The prices which are formed are argued to be money prices, and the aim of the individual capitalist is to acquire an adequate amount of money in the process of exchange to be able to renew production. Intriguingly, Nicholas contends that this causes Post Keynesians to see commodities as entering circulation with prices but without value, and only acquiring value when they exchange with money. Which also means, and this is the really intriguing part, that for Post Keynesians money alone is value. According to Nicholas, Post Keynesians in fact tacitly see money as acquiring its value prior to its exchange with commodities, in the context of its exchange with labor—hence the emphasis by Post Keynesians on unit wage costs as the measure of price. Certainly my own reading of Post Keynesian theory would tend to support this reading of it by Nicholas.

The last of the modern theories Nicholas deals with in the book is that arising from the work of Piero Sraffa, who Nicholas describes as “the great Italian economist,” clearly suggesting a considerable degree of respect for Sraffa. For Nicholas the error in Sraffa’s view of price formation is his omission of labor. Nicholas ascribes this lacuna to Sraffa’s desire to address some unresolved issues in the work of David Ricardo, but without recourse to the labor theory of value, which he (Sraffa) came to regard as both unnecessary and even misleading. For Nicholas, without labor in the picture there can be no explanation of why and how commodities come to acquire worth. In fact, for Nicholas the absence of labor requires Sraffa to make numerous, and increasingly dubious, assumptions and constructs in the course of his explanation of prices. The most important of these Nicholas sees, as the assumption that commodities are reducible to equivalence by the arbitrary choice of a numéraire commodity—in the case of subsistence production—or the artificial construction of a composite of commodities—the standard commodity in the case of surplus production. For Nicholas, the crucial question is why and how an arbitrarily chosen commodity or artificial composite of commodities would reduce commodity exchange values to equivalence. Although this seems to me to be a perfectly valid point, I would argue that Nicholas is missing another fundamental weakness in Sraffa’s explanation of price resulting
from the omission of labor in his analysis; a confusion of value with exchange value. Specifically, Sraffa appears to want to explain price in terms of the resources required for the production of the commodity but ends up explaining it in terms of the commodities commanded.

In conclusion, I am of the view that the book contains many new and thought-provoking insights into issues that have long been at the forefront of Marx’s theory of value. To my mind, it is also one of the few texts that attempts to lay out in any detail Marxist objections to competing modern theories of price. Like Nicholas, I too feel that the importance of the theory of price cannot be overstated since it is most certainly one of the two foundations of all economic analyses—the other being the theory of distribution. The problem with the book is, however, that many of its insights are buried in what is at times an exceedingly dense and complex presentation. In my view this presentation would have greatly benefitted from an amplification of many of the points it seeks to make, especially some of the important ones I hope I have touched upon above. I have to say that I very much doubt that the fault in this regard lies with the publishers of the book since I cannot imagine they would have balked at an expansion of what is in truth an exceedingly modest number of pages for a book of this nature. I would nevertheless suggest that these obstacles not deter those seeking a more in-depth understanding of Marx’s explanation of value/price and money from taking the plunge. I did, and I certainly feel the more enlightened for it.

References


