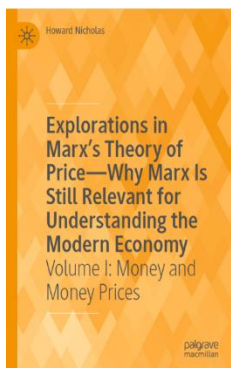


BOOK REVIEW



Howard Nicholas. (2023)

*Explorations in Marx's
Theory of Price - Why
Marx is Still Relevant for
Understanding the
Modern Economy -
Volume I: Money and
Money Prices*

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INTRODUCTION

The role of labour productivity or value of labour in the determination of prices has been given importance in different ways in the theoretical expositions of different schools of thoughts, primarily by Marx, and this is effectively illustrated by Howard Nicholas in the above book. According to Marx, the price of a good or a service is determined by the value of labour (based on the time allocated to produce that commodity) and the exchange value of the commodity is determined by market forces. Profit in a capitalist economy will be determined by the surplus value of labour, the gap between the value of labour and the cost of labour. The existence of labour exploitation in the market economy causes an increase in the surplus value of labour, the central issue highlighted by Marx. If the economy fails to generate profits continuously for a considerable period, the warning is that it could lead to an economic crisis. However, there are different arguments and interpretations regarding the theories of price and the economy as presented by Marx, and different authors, and these are clearly illustrated by Howard Nicholas here by focusing on the different aspects of the theories presented in relation to Marx's views.

The book on "Explorations in Marx's Theory of Price - Why Marx Is Still Relevant for Understanding the Modern Economy - Volume 1: Money and Money Price" by Howard Nicholas (2023), focused on in this book review is the first volume out of three in the "Marx's Theory of Price" series, and is an expansion of Nicholas' (2011) "Marx's theory of price and its modern rivals". This discussed the theory of price in relation to Marx in comparison with other schools of thought, including Classical, Post-Keynesians and Neo-Classical economics with different explanations of price determination. However, there

were some limitations to the ideas presented by Nicholas (2011) on the theories of value, money and profits, and this book seeks to take a wider perspective of these issues in order to clarify the debates more clearly. The importance of money price level, money price of commodity and the labour productivity in price determination are emphasised in this book. The focus of the second volume of this series will be on illustrating the relationship between profits and price movements over business cycles, while the third will elaborate these issues in the context of the world market based on international price and the value. The volumes to follow, like this book, will be illuminating for students of economic thought, playing an important role in putting common concepts in alternative schools of economic thought comparatively, to help understand their relevance as well as the evolution of thought that has occurred over time.

This book consists of nine chapters starting with the introduction to Marx's price theory based on Nicholas (2011). The shortcomings of the earlier explanation by Nicholas (2011) are identified in the introductory chapter to make readers aware of the inconsistencies regarding theoretical aspects that Nicholas seeks to rectify by this more comprehensive approach in Nicholas (2023). The second chapter discusses Marx's explanation of money price with the key focus on production, value and exchange value of the commodity, touching on the money and its functions, value and exchange value of money and the money price of a commodity. The third, fourth and fifth chapters discuss the same elements in terms of the work of Adam Smith, David Ricardo and Sraffa respectively. Post-Keynesian, Marxist and the neo-classical interpretations of the same integral elements are discussed in chapters six to eight. Chapter nine concludes the book by presenting the key arguments of Marx on the role of money vs. those of the other schools of thought.

This book review, due to its limited length, will discuss only four selected elements of Marx's theory of price, although this is challenging to do, as the other components discussed in the book are all interrelated with one another as well. The elements focused on are production, value of money, exchange value of money and the money price of a commodity. These concepts are explored here in line with the arguments made by Marx in comparison to Smith, Ricardo, Sraffa, Post-Keynesians, Marxists and Neo-classical economists.

ANALYTICAL REVIEW

Alternative Conceptualisations of Production

The concept of production has been focused on by the author through analysing the ideas of Smith, Ricardo, Sraffa, Post-Keynesians, Marxists and Neo-classical economists in comparison to the perspective presented by Marx. In order to achieve this outcome, the author begins by discussing Marx's ideas first and then critiquing the ideas in other schools of thought later in the book in relation to these views. Cooperation and division

of labour are considered as key facets in Marx's conceptualisation of production. Economic systems are divided into two, as class-based and non-class based by Marx, with surplus product explained as an outcome of the class-based system. Labour time is emphasized as being central to production though subdivided as simple and skilled labour by Marx. Smith as Nicholas points out in Chapter 3, and the Neo-classicals (in Chapter 8) give importance to land, capital and labour as factors of production. Smith argued that labour is an essential factor when explaining profits in capitalism, even though he believes labour is on an equal footing as capital and land when analysing production. Ricardo too considered labour as the central factor of production. As Marx, Smith too underlined the importance of division of labour as central to the functioning of the economic system.

Ricardo, as presented in Chapter 4 of this book, and in the history of economic thought in general, made a major contribution to Economics in terms of his theories of labour. Like Marx, but unlike other Classical economists, Ricardo highlighted the importance of expenditure of labour time in the production process. The author highlights however that the post-Keynesians refused to treat capital and labour equally and did not consider the quantity of labour time (under their labour productivity concept) as the core of the production process in the capitalist economy. They argued that the value of commodity was determined by money and not by the labour time. Production always depended on capital, with labour being merely linked to capital in the production process.

The critiquing of Ricardo, in terms of Marxist ideas, involved the failure to clearly define the role of producers, whom he merely considered managers, not differentiating them from capital owners. Post-Keynesians, on the other hand, the author notes, considered production to be entirely in the hands of entrepreneurs, with production inputs divided as prime inputs (including labour, natural resources and raw materials) while intermediate commodities and depreciation of fixed capital comes under the category of non-prime inputs. Strangely, it turns out that even the Marxists diverged from Marx's ideas on production of commodities in relation to the ownership of capital. The disagreement lay in terms of whether capital existed as commodities or as money. Marxists ignored the inclusion of the means of production in production as emphasised by Marx. Interestingly Neo-classicals do not recognize the owner of capital as the entrepreneur.

Nicholas makes an important point in highlighting Marx critiquing Smith for his ignorance of the social system that embedded labour, income distribution and the role of exchange in the division of labour. Sraffa too is critiqued in line with Marxist thought for refuting the social nature of production. He is also critiqued for his failure to distinguish between wage expenditure on subsistence activities and on luxury goods. The post-Keynesians likewise failed to situate the production process within the social system, though some scholars in this school of thought did argue on income distribution issues.

Neo-classical economists too ignore the social settings of labour; the social relationships that exist in a capitalist economy. Again, Nicholas uses Marx's perspective to critique

Neo-classical economists on their inability to recognize the linkages between society and the production process. This reflection leaves the reader contemplating how the ills of capitalism, faced primarily by labour, could be circumvented by more thought to the issue of production within a given social system.

Value of Money and Exchange Value of Money

The value of money and the exchange value of money are focused upon in the book, in comparing the views of all other schools of thought with that of Marx. The author stresses in Chapter 2 that for Marx, money performs many different functions such as being a measure of value, a means of commodity circulation, a means of payment, and even a means that allows for conducting transactions with the world. Marx's concepts of money are presented from a historical perspective. He contrasts this with the Classical Economists' perception of money: seeing money as a unit of account, a store of value, mainly as a medium of exchange and finally, as a standard of deferred payment, and surmises that this is a wider perception of money than that used by Marx. However, Ricardo is critiqued through the Marxian lens for failing to highlight the role that money could play in facilitating commodity exchange, leading to comparative advantages in trade (one of his major contributions to Economics). For post-Keynesians, the value of money depends on the commodities and labour it commands. However, Nicholas critiques the post-Keynesians for ignoring the role of money in measuring exchange values.

Marx presents two forms of money: commodity money (convertible tokens) and credit money (based on inconvertible fiat currency). The 'Exchange value of money' from Smith's perspective deals with both commodity and fiat currencies. Ricardo, similar to Marx, distinguishes the value of money as that produced and not produced (commodity, convertible tokens and inconvertible fiat currency) but goes on to argue that the value of money varies according to the form of money that results in a complex analysis. Sraffa interpreted money differently: as a numéraire commodity or as a token that facilitates the exchange process. Marxists interestingly take a different approach to the value of money than that of Marx in defining it in terms of historical (gold as a commodity) and modern (value of credit money), that then leads to two interpretations: the Traditional Interpretation of Money (TIM) the Monetary Interpretation of Money (MIM). Strikingly, the Neo-classicals are divided into two groups: Subjective Value Neo-classicals) and the Objective Value Neo-classicals, with the former accepting that the value of money is subjective though measurable while the latter argues that the value of money lies in its exchangeability.

The author has presented Marx's conceptualization of the 'Exchange value of money' clearly, taking a historical perspective and highlighting the inherent logical sequences embedded in this argument. Going further, Nicholas explains the impact of the value of money on the exchange value of money. He explains that exchange value is created before

the circulation of the commodity. According to Smith however, the value of money is an implicit explanation, measured using the quantity of production (yield) and the quantity of labour (factor of production). Money then is merely a commodity. In relation to Marx, Smith's concept may be critiqued for ignoring the concept of labour time in valuing money. The importance of labour productivity and raw material prices were not included in determining the value of money by Smith, unlike in the case of Marx. Ricardo, on the other hand, though a Classical economist, has considered labour time in determining the value of commodity money, though he too is critiqued for not discussing the role of labour productivity in affecting the magnitude of the value of money. Sraffa is, in turn critiqued for not incorporating social dimensions in determining the exchange value of money. The author highlights the post-Keynesians' approach to determining the value of money, in terms of the money wage rate that in turn is dependent on institutional factors that could affect the bargaining power of labour. Post-Keynesians further identified the exchange value of money as based on the aggregate money price levels of all commodities. However, post-Keynesians were criticised for their "mistaken conception on money as a token of labour input" (Chapter 6). Likewise, from a Marxian perspective, the author highlights that the neo-classical thinking about the exchange value of money may be critiqued for ignoring the impact of labour productivity on the exchange value of money.

Money Price of the Commodity

Money and the money price of commodity were the key focus of this book. Marx explains commodity price by linking it to the labour time needed for production. The author presents how Marx prioritizes the money exchange value of a commodity over the money price of a commodity. The money price of the commodity, according to Marx, is the quantity of money needed to reproduce the commodity with an appropriate profit through managing production risks. Nicholas focuses on the concepts of labour time; exchange value and other economic dynamics in explain this concept comprehensively. Smith, he notes on the other hand, had identified the money price of a commodity in terms of nominal and real prices. The author defines these terms, and it is interesting to note that using Smith's own example, real price is said to be determined using the quantity of the commodity (corn) and the quantity of labour. Ricardo explained the money price of a commodity "as the quantity of gold or even tokens of gold a commodity commands". So, though he accepted fiat currencies, showing a certain flexibility regarding the concept of money price, he avoided using money price of a commodity as a form of value. The money price of a commodity was presented by Sraffa as aligned to his explanation on the value and exchange value of money which in turn were linked to his concepts of numéraire and commodity exchange value. It is interesting to note that the Neo-classicals were once again divided on the issue in line with their original bifurcation as Subjective Value Neo-classicals) and the Objective Value Neo-classicals.

The impact of productivity of labour on money price was not highlighted by Smith, which is critiqued by Nicholas in terms of the Marxian perspective. Sraffa argues that when money is used in the process of exchange, it creates the money price, but does not consider the effect of labour productivity on money price is likewise critiqued. Post-Keynesians, while relating changes in the money price of a commodity to profit generation and cost recovery and accepting that price of a commodity did affect money wages and aggregate price levels, is yet subject to criticism from a Marxian perspective, for its perceptions on the inter-linkages between value, money and productivity. The Neo-classicals were in turn challenged by the author for their lack of interest in aggregate and relative money prices and productivity changes.

CONCLUSIONS

The concepts presented by Marx on money value and exchange value are still valid in the modern economy and are important in understanding the functions of money and the contemporary monetary system (with its fiat currencies and technological advancements), particularly in the context of modern economic dynamism. The author has played an important role in highlighting not only the financial concepts related to Marx but in reiterating the importance of focusing on labour and labour productivity, given the current economic situation, locally and globally.

The question then is how useful the comparison of Marx with other schools of economic thought was, and the opportunity given to the reader simultaneously to gain an understanding of these schools of thought as well in the process.

These Schools of Thought too, though now seen and criticised in hindsight, not only from a Marxian perspective but in general, particularly for their limited scope and lack of social consciousness, do have contributions they can make to modern day economic policy making. Here, I would like to highlight how Smith's division of labour, taken to an international plane, dominates the world economy. The ideas of Ricardo and Marx relating to valuing labour and labour productivity, remain at the heart of this process, with labour costs being a pivotal factor, and exploitation of labour going beyond national boundaries.

While the work of Smith and Ricardo are familiar to local students of Economics, the contribution of Sraffa is lesser known, and it can be argued that, given the material in this book, his perspective on the value of money is important in explaining modern economic scenarios since it facilitates the valuation of various forms of modern currencies, including digital currencies, and can be used to explain the behaviour of the modern monetary system.

The analysis of post-Keynesian thought here is most useful in terms of considering the wage dynamics in the modern day, while those of the Neo-classicals are most relevant in the context of the functioning of a market system, challenged as it is by pervading

institutional challenges, apart from the central criticism levelled at this school of thought, for its idealising an unrealistic perfect market economy, that have now been addressed to an extent by the focus on imperfect markets by New Classical Economists.

A useful approach taken by this book, which will be appreciated by even the general reader, though it is particularly a boon to students, is the use of the same structure in each chapter of the book as it follows through on the different schools of thought. This allows for easy comparison and understanding of the various rich concepts contributed by Marx. The clarity of discussion and balance in critical arguments makes this book highly attractive to the reader interested in assimilating the evolution of economic thought.

A proper understanding of the strengths and limitations of different schools of thought are important, in formulating a theoretical base through which to propound economic policies, to suit the challenges of dealing with economic crises and achieving greater economic growth and equity. This book, in particular, can play an important role in guiding monetary policy in relation to inflation and the achieving of macro-economic stability. There are policy insights to be sought in terms of labour markets and institutional behaviour in the work of Marx in particular that would be of great relevance to Sri Lanka as it seeks to emerge from its overwhelming economic crisis.

This book is therefore recommended not merely to students of Economics and academics in the field, but to research analysts and policy makers, to widen their perceptions of economic theory to enhance the foundation for rational economic policy formulation.