

## RELEVANCE AND IRRELEVANCE OF MARXIAN ECONOMICS

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During the last century, Marxian thought was often presented as an all comprehensive ideology, a *Weltanschauung* called “Marxism” or “Marxism-Leninism”. The process of producing this ideology started with the popular writings of the late Engels, who not only tried to present a popular version of Marxian theory, but also attempted to satisfy the desire of growing parts of the working class to have their own view of the world, which was distinguished from the dominating views of bourgeois society. The transformation of Marxian theory in *Weltanschauung* was enforced by the social democratic parties of the late 19<sup>th</sup> century, which needed short formulas and brief descriptions as weapons of propaganda. This process continued in the writings of Lenin and culminated after his death in “Marxism-Leninism”: a deterministic picture of history, an economic picture of society and a mechanical understanding of dialectics as an eternal set of “laws of development” - constructions which served above all as instruments of ideological justification for the policies of the communist parties.

Since the early 1920s criticism was raised against such dogmatic constructions. The economic focus and historical determinism were attacked by different intellectuals on the left, nowadays often gathered under the label “Western Marxism”<sup>1</sup>. But what was not questioned for decades was the economic theory of this traditional Marxism: its transformation of Marx’s “Critique of Political Economy” into *Marxist Political Economy*. Only after the 1960s did such criticism arise, which occurred with different starting points and developments in many different countries.

Reflections on method became important for the understanding of Marx’ *Capital*. The question asked was not only ‘what is the content of a certain category?’, but also ‘what is the inner connection of the categories?’ The questions posed were such as, ‘at which level of abstraction do they work?’, ‘what is the construction of the whole theory?’, ‘what is the structure of argumentation?’. As part of this rethinking, the preparatory manuscripts of *Capital* came into consideration: *Theories of Surplus Value*, *Results of the Immediate Process of Production* and above all *Grundrisse*, which became a central text by the famous study of Roman Rosdolsky<sup>2</sup>. These new discussions deeply influenced the understanding of Marxian (economic) categories and it became clear that Marxian economics is not an almost ready thing, which could be uncovered in the three volumes of *Capital*. Many authors drew the conclusion that Marxian theory needs a “reconstruction”, which not only has to refer to *Capital* but also to other writings such as *Grundrisse*.

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In the seventies and eighties these discussions were especially intensive in West Germany - the book by Rosdolsky was published in German in the late sixties, many years before its English translation. These discussions were also supported by the second *Marx Engels Gesamtausgabe* (MEGA). After the initial attempt to develop a complete edition in the twenties as a German-Russian project, which was halted in the thirties by fascism and Stalinism, a new MEGA started in the seventies in cooperation between (East) Germany and the Soviet Union. The new MEGA presented not only known texts - like *Grundrisse* - in a quite better version, but also a lot of unpublished texts, drafts and letters. Until recently important texts were published by MEGA, this included in the early nineties Marx' manuscript of volume III of *Capital*, which differs in some important aspects from the text, which was edited by Engels after the death of Marx<sup>3</sup>.

But along with the increase in the number of texts that were studied, the view, the perspective in which the texts were read, changed. In the "traditional view", Marx was seen as a great economist presenting an alternative model of political economy. For a Marxist political economy, the labor theory of value should explain the exchange relations of commodities, the theory of surplus value should prove the exploitation of the workers; the development of capitalism should be described by the law of accumulation and the law of the tendency for the rate of profit to fall. In this view Marx seems to give *different answers*, but asks roughly the *same questions* as Adam Smith, David Ricardo and the subsequent 20<sup>th</sup> century economists. Also, more subtle presentations of "Marxian economics" were formed by this common picture of Marx, like that of Paul Sweezy<sup>4</sup> or Ronald Meeks<sup>5</sup>, which were very influential during the fifties and sixties. But in this picture two very crucial points were omitted: the Marxian meaning of *critique* and the importance Marx gave to "*form analysis*".

The subtitle to *Capital* is "Critique of Political Economy" and with this subtitle Marx did not only mean the critique of certain theories or certain economists. Of course, we can find such types of criticisms in *Capital*, but criticizing other authors is quite a normal practice in science. If Marx had only this type of criticism in mind, the subtitle would be a bit of an overstatement. But it is not by accident that the subtitle "Critique of Political Economy" reminds us of a very famous title of European philosophical literature: Immanuel Kant's *Critique of Pure Reason*. This was a critique of not only specific persons or schools, but also a critique of philosophical thinking - what was seen as "philosophy" in the time before Kant - in general. In a similar way, Marx intended to criticize the *foundations* of the science of political economy. He did not only criticize single theories or results which were reached by others. He tried to criticize the forms of thinking, the conceptual foundations, which were accepted by different economic schools. This point comes out clearly from a passage at the end of the first chapter of "Capital", which deals with the commodity: "Political economy has indeed analyzed value and its magnitude, however incompletely, and has uncovered the content concealed within these forms. But it has never once asked the question, why this content has assumed that particular form [...]" (*Capital*, vol. 1, Penguin 1976, pp. 173-74). Marx criticized not only the answers; above all *he criticized the questions* of political economy. He criticized what political economy presupposed as a matter of course: the *form* of the social processes.

Similarly to political economy, traditional Marxism was mainly occupied with the content of economic categories, neglecting their form-side. In respect to value, traditional Marxism focused on its dependency on labor. In fact, in many presentations of Marxian

value theory only the first five or six pages of Chapter one of *Capital* seemed to be important. The extended value-form-analysis, which constitutes the biggest part of chapter one, was largely neglected<sup>6</sup> or was misread as an abbreviated walk through the history of the development of money<sup>7</sup>.

The view on capitalism presented by traditional Marxism is a rather simple one. It can be used to affect moral feelings about exploitation, but deeper analytical insights are very limited. This becomes rather obvious, especially when modern developments like a currency system without a money commodity, or the globalized finance system come into view. The traditional “Marxist” view is indeed irrelevant for the understanding of the changes of contemporary world capitalism.

But we get a different picture when Marxian economics is conceived as a critique of economic categories centered around “form-analysis”. The differences may be sketched very briefly in respect to money. In the traditional Marxist view, the main thing was to show that the value of a commodity is dependent on the amount of labor embodied. Money only counts as means of circulation. Money appears as a useful tool in everyday life, but it seems unnecessary when we investigate the basic relations of the economy. This is essentially the same view of money as in classical or neoclassical economic theory.

Like bourgeois economists, many Marxists only accentuate the different functions of money, taking for granted the starting point and neglecting the much more subtle analysis of Marx. Marx also presented the functions of money, but this is in chapter three of *Capital* after he has already dealt with money in the first two chapters. Chapter one gives the analysis of the “value-form“, which results in the “money-form” - not money but “money-form”. The main proposition here is that value needs an *independent* value form. But to express the generality of value, the money-form of value is needed - so the existence of value is impossible without the money-form.

Value-form analysis only deals with economic *forms* and not with economic *actions*. This is the issue of chapter two, the behavior of the commodity owners. The *logic of the form* forces some *behavior* to occur: the commodity owners have to use *something* as real money, a real thing, which is, by the action of the commodity owners, in “money-form”. It is not in money form as a planned and intended result of the commodity owners but as a natural-like result of the action of people, who follow the rationality of behaving as commodity owners. This structure, however, is not transparent for them, they act under fetishized conditions: *commodity fetishism*<sup>8</sup> continues to *money fetishism*. Only after dealing with the *money form*, and then with *real money* as a result of the action of the commodity owners (led by the logic of the value form), does Marx start presenting the *functions of money*<sup>9</sup>. The sketched out argumentation on money, which is often neglected, gives a much closer relation between value and money than in any other economic theory, so Marxian value theory is essentially a “monetary theory of value”<sup>10</sup>.

The prominent role of money is not restricted to the relation of value and money. When Marx explains capital as valorization of value he insists on the decisive role of money, expressed in the formula  $M - C - M'$ <sup>11</sup>. In volume two of *Capital*, a central issue is the monetary problem of realizing the surplus value and in volume three the analysis of interest and credit is one of the most important sections. Here we can find the core of a theory of credit as a way of unconsciously regulating capitalist production and

accumulation. In particular, this last point means that credit is not only an additional aspect of capitalist production, it means that capitalist production - as a dominant relation of production - is impossible without a developed system of credit. Monetary theory of value can show that not only value cannot exist without money, it can also show that capital cannot exist without credit, insofar as value and capital are dominating economic activities.

A further important part to Marxian economics is the theory of crisis. Classical and neoclassical theories suppose that market economies are inherently stable. It is supposed that markets tend to equilibrium if there is no disturbance from outside. Marx tries to show that the reverse is true: in capitalist economies we find an inherent *instability*, which does not come from the outside but is in the basic structures of capitalism itself.

In the traditional Marxist view, the cause of crisis very often is seen in the so called “law of the tendency of the rate of profit to fall”, which Marx tried to prove in volume three of *Capital*. In the past the logical consistency of Marx’s argumentation on this “law” was heavily attacked. In my view, this law cannot hold any longer<sup>12</sup>. But this loss does no harm to the theory of crisis. A “monetary theory of value” not only shows the way for analyzing capital and credit as an inseparable whole, it also gives a theory of crisis, which starts with Marx’s argument in volume one of “*Capital*”, that the most general *possibility* of crisis is given with the existence of *money* (cf. “*Capital*”, vol. I, Penguin 1976, pp. 208-209). This is an approach which is neglected in most of the traditional Marxist literature. But this approach can be continued in the theory of credit, leading to the interaction of processes of production and finance, which necessarily produces crisis.

So the simple ideas of traditional “Marxist political economy”, centered around labor and exploitation and heavily relying on the false *falling rate of profit*, cannot help very much to understand contemporary capitalism. But a “critique of political economy”, centered around “form analysis”, fetishism and a monetary theory of value and capital can help very well.

## END NOTES

1 according to the influential study of Perry Anderson “*Considerations on Western Marxism*”, New Left Books 1976

2 “*The Making of Marx’s ‘Capital’*”, Pluto 1977

3 Cf. Michael Heinrich, “Engels’ Edition of the Third Volume of ‘*Capital*’ and Marx’s Original Manuscript”, *Science & Society*, vol. 60, no. 4, Winter 1996-97)

4 “*The Theory of Capitalist Development*”, 1942

5 “*Studies in the Labor Theory of Value*”, 1956

6 see for example the already mentioned presentations of Sweezy or Meek

7 see for example presentations given by Ernest Mandel

8 one of the main issues of Marx’ analysis of the commodity

*NSER 1(1) – Articles*

9 The connection of form, fetishism, action and function, with form as the basic point, is not restricted to the analysis of the commodity, it is fundamental for the whole structure of the argument in *Capital*

10 see Michael Heinrich, *Die Wissenschaft vom Wert*, 2nd enlarged edition, Münster: Dampfboot, 1999 for an extensive discussion of this approach. A contribution in English comes from John Milios, Dimitri Dimoulis, George Economakis, “Karl Marx and the Classics. An Essay on value, crises and the capitalist mode of production”, Ashgate 2002

11 classical and neoclassical theory emphasize the role of the means of production and capital goods

12 for details cf. Michael Heinrich, *Die Wissenschaft vom Wert*, 2nd ed., chapter 7