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Dillard on Keynes and Marx: rejoinder

Introduction

I welcome Paul Burkett's comments on my paper on Keynes and Marx. His apparent acceptance of my central theme that the economics of both Keynes and Marx may be interpreted as monetary theories of production is especially significant coming from one so obviously well versed in the economics of Marx. A monetary interpretation of Keynes is not unusual, but placing money at the center of Marx's economic thought is uncommon. For example, "money" does not appear in the index of the classic work on Marx by Paul Sweezy, *The Theory of Capitalist Development*.

Value

Burkett characterizes Keynes's labor theory of value as "a category of distribution" (Burkett, pp. 624–625, 627–628). If this means that Keynes's labor theory of value is only a category of distribution, I dissent. Keynes's main statement on this point is: "I sympathise, therefore, with the pre-classical doctrine that everything is *produced* by labour . . ." (Keynes, 1936, p. 213, Keynes's emphasis). This sentence appears in a chapter entitled "Sundry Observations on the Nature of Capital" in which the theme is that capital per se is not productive. Keynes's concept of the nature of capital is the kernel from which sprang the capital controversy and the related critical questioning of the *production* function by Joan Robinson and other neo-Keynesians. Thus

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Keynes's labor theory of value is not—is not primarily—a category of distribution. It enters *The General Theory* in connection with the nature of capital, which is the central idea of Marx. *The General Theory* does not contain a formal theory of distribution. It is a work about production, that is, output and employment.

Certainly Burkett is correct in emphasizing the important differences between the labor theories of Keynes and Marx. Value theory is central to Marx's whole system, whereas value theory is peripheral to Keynes's theory as a whole. Keynes's theory is almost entirely macroeconomic while Marx's is microeconomic as well as macroeconomic. In its micro aspect, Marx needed a theory to explain exchange ratios of commodities, which he does in terms of the socially necessary labor time needed to produce them. Keynes's units for measuring the aggregate production of heterogeneous products are labor units, that is, the wage-unit (Keynes, 1936, pp. 41–45, 214). For both Keynes and Marx, value is created in production, exclusively by labor, and not by capital, because neither views capital as productive of value. Burkett's point that value does not arise in circulation, where equals exchange for equals, is not relevant to Keynes's theory that everything is *produced* by labor.

Production

Burkett speaks of Keynes's "acceptance by default of neoclassical production theory" (p. 625), although he acquiesces in my interpretation of Keynes having a monetary theory of production. Neoclassical theory certainly does not have a monetary theory of production. Neoclassical economics is primarily a theory of the value and distribution of *given* resources (Keynes, 1971–, vol. 7, p. xxv) in which production can increase, apart from long-term growth, only by more efficient allocation of scarce resources. By contrast, Keynes's central theme is that under capitalism production can be increased by increasing effective demand. Demand creates its own production, up to full employment. To say, therefore, that Keynes accepted neoclassical production theory is inconsistent with the main thrust of his general theory of production, that is, his theory of output and employment.

Burkett acknowledges that Marx's system would be enriched by incorporating a theory of effective demand along lines developed by Keynes (1986, pp. 626–627). But nothing is easy! Burkett adds a paragraph that this would be difficult because capitalism develops dynamically through crises. But how better to explain crises than by a

theory of fluctuations in effective demand resulting from periodic failure to realize the values created in production. In *Capital* the striking passages attributing crises to deficiency of “consumer power” (e.g., Marx, 1909, vol. 3, pp. 286, 568) could be transformed from obiter dicta into a nicely formulated theory of effective demand.

Burkett speaks of the “inability of Keynes to deal with technological change” (p. 623) in the opening paragraph. Although he does not follow through with specific reasons why technological change cannot be integrated into Keynes’s theory of investment, he associates it with the shortcomings of Keynes’s labor theory of value.

Whatever the reasons, surely there is no logical barrier to integrating technological change into Keynes’s theory, with or without a labor theory of value. To some degree this integration has been done by Joan Robinson in *The Accumulation of Capital* (1950) without a labor theory of value. Burkett’s position suggests that economic theory is a strait-jacket limiting the flexible use of concepts. If Joseph Schumpeter could combine the diverse theories of Leon Walras and Karl Marx to create a significant new dynamic theory, there can be no insuperable obstacle to combining the best of Keynes (effective demand) with the best of Marx (technological change).

My paper concerns the *theories* of Keynes and Marx, and only incidentally their policies. Some of Burkett’s citations from Marx on policy suggest exaggerated differences in their theories. For example, the passage from *Critique of the Gotha Program* (Burkett, p. 626) asserts that periodic crises can only disappear under full-blown socialism. In *Capital*, however, Marx avoided sweeping claims for socialism. After all, *Capital* is a treatise about capitalism and not about socialism. There was no way for Marx to know how socialism actually works because during his lifetime socialism (in his sense) did not exist. While Marx was circumspect about policy claims for socialism in *Capital*, he was less restrained when feuding with rival political factions, as in *Critique of the Gotha Program*.

Policies are, of course, important in relation to the theories of Keynes and Marx. Can the policy issue raised by a monetary theory of production be couched in language acceptable to both Keynes and Marx? The problem of a monetary economy is that consumers, on the one hand, want goods and services, while producers, on the other hand, want money and are willing to produce goods and services only to the extent value can be realized in money, the universal equivalent, the socially recognized form of private wealth. Keynes expressed the solution to this conflict as “bringing production and consumption into a

fruitful union'' (Keynes, 1971–, vol. 27, p. 193). Mainstream economists think the fruitful union results automatically from the market. As a reformer, Keynes believed the conflict could be mitigated within the framework of a monetary economy, and his many proposals were aimed at this general objective. As a revolutionary, Marx thought the fruitful union of production and consumption could come about through social ownership of the means of production. Thus stating in broad, general terms the policy problem of a monetary economy may help to clarify the parallels between monetary theories of production.

Conclusion

Burkett has emphasized the differences between Keynes and Marx, and I have focused on the similarities. A reason for stressing the similarities is to highlight the greatness of Marx as an economic theorist. Keynes is recognized by professional economists, with exceptions, as one of the major contributors to contemporary economic analysis. Marx is not so recognized by professional economists. He is either ignored or used as a whipping boy. Viewing Marx's economics as a monetary theory of production places him in the company of other great economists including Thorstein Veblen (see Dillard, 1980) as well as Keynes. Marx is fully capable of standing alone, but the force of his findings as an economic theorist is enhanced, I believe, if it is shown that other great economists have arrived independently at similar conclusions concerning the central place of money in economic activity.

Systems of economic theory that break new ground have unity of perspective and meaning all their own. My suggestion is that, while waiting for breakthroughs by new geniuses such as Keynes and Marx, something is to be gained by combining the best of Keynes with the best of Marx. I am glad that Paul Burkett agrees with me, even if grudgingly and with reservations.

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