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The Marxian and Veblenesque elements in how I do economics*

G. C. Harcourt

I

I count it a great privilege to contribute an essay to the volume for John Henry. I have known him since he was a doctoral student at McGill in the 1970s. John was supervised by my old and dear friend, the late Athanasios (Tom) Asimakopulos. (Tom and I were Ph.D students at King's, Cambridge in the 1950s.) I read John's dissertation on J.B. Clark and the origins of neoclassical economics and was bowled over by his scholarship, critical ability, analytical strength, enthusiasm and radical humanity.

By the time John was awarded his Ph.D, to be a true radical was starting to become a liability as far as getting a permanent academic post was concerned. Thank goodness, John found a niche at the California State University at Sacramento and then at the University of Missouri at Kansas City. He became a much admired teacher and colleague as well as an outstanding scholar. Reading his C.V. in which is set out his remarkable contributions takes breath away. He surely must be one of the greatest all round scholars in modern economics, with important things to say on so many crucial issues within boundaries so generously drawn by our classical pioneers (my favorite saying of Maurice Dobb, see Dobb 1973, 261).

John knows far more about Karl Marx, Thorstein Veblen and religious and theological matters than I ever will[1] and I have greatly benefitted by drawing on his wise knowledge. In this essay I document the impact of the contributions of Marx and Veblen, two of John's and my favorite economists, on how I have done economics over my lifetime as an academic economist, teaching principally at Adelaide and Cambridge.

II

I start with a confession. My absorption and understanding of Marx and Veblen are mostly the outcomes of the process of osmosis. When I was an undergraduate at Melbourne University, in 1952, my third year, I took History of Economic Thought as one of my two Honours options (the other was Mathematical Economics). The lecturer (who shall remain nameless) was one of Joseph Schumpeter's last graduate students at Harvard. He was a lazy sod who never prepared for lectures/classes. Instead, he outsourced (as we say now) each of the greats of our trade to members of the class to prepare and then give the background lectures on them.[2]

As well as preparing our allocated lectures, we had to read all the greats in the original texts, an excellent, indeed, essential requirement, of course. John McCarty, alas now dead, introduced us to Marx and did an excellent job. I must confess, though, that Marx's *Capital* was the only one of the great books, those by Smith, Ricardo, Malthus, Marshall, Keynes, that completely defeated me.[3] In desperation, when preparing for the final exam, I read Paul Sweezy's *The Theory of Capitalist Development* ([1942] 1969), still an excellent introduction to the great man's ideas. But it was not until I supervised three wonderful Ph.D students who were scholars of Marx—Prue Kerr, Allen Oakley and Claudio Sardoni—that I started to grasp what Marx was on about.[4]

I doubt if I read much of Veblen as an undergraduate, though living in Melbourne from the 1930s to the 1950s certainly imprinted on me the vulgarity of conspicuous consumption and the hostilities between well-demarcated classes in what was then a snobby, stuffy, sectarian environment. I came to his ideas tangentially, first, through the writings of John Kenneth Galbraith, especially *American Capitalism. The Concept of Countervailing Power* (1952), *The Affluent Society* (1958) and *The New Industrial State* (1967); and, secondly, through Nicky Kaldor's development of the concept of cumulative causation. Kaldor initially obtained his understanding of the concept from Allyn Young, his teacher and

mentor at the London School of Economics in the 1920s. The concept had been thoroughly developed by Veblen, independently, by Gunnar Myrdal, and, of course, by Adam Smith, on whom Young drew, albeit he presented his arguments in terms of Marshallian concepts and analysis (see Young 1928). As I discuss below, it was to become an integral part of my teaching and research.

III

I start with Marx. From early on I think I realized, but only vaguely, that Marx classified the march of history by the ways in which the surplus was created, extracted, distributed and used in the specific mode of production that dominated each historical period. Such a view implied that each mode carried within it, its own unique source of contradiction so that one mode would inevitably be succeeded by another, and that, at any moment of time, there would be fossils left over from preceding modes and the beginnings of the embryo of the mode that was to follow.[5]

Such a viewpoint further implies that one task of a theorist was to abstract dominant relationships from actual surface historical observations in order to construct ideal abstract models of dominant modes of production. Such models would produce inferences that could be observed in the hurly-burly of the actual historical happenings just because they were, in their pure form, the dominant processes at work.[6] Allied with this vision was the proposition that all modes contain within them different classes characterized by the nature of the dominance of one class over another. This gave rise to different forms of the exploitation of one class by another. This process was obvious in Feudalism where history and institutions combined to allow the Lords of the Manor to make the serfs not only produce a surplus on the Lords' lands but also to pass much of it to the Lords for their use.

In the pure competitive capitalist mode of production, such exploitation was neither obvious nor indeed even present in the surface phenomena of its sphere of distribution and exchange. In the competitive mode, all members of the class of property-less wage-earners would nevertheless be paid the same wage for every hour that they worked. (For simplicity we assume homogenous labor.) Any capitalist who organized production and accumulation and who tried not to do this would find that wage-earners could and would be able to move to others who did. How then could there be exploitation and how was a surplus created?

The answer is the essence of the labor theory of value. Because the capitalists *as a class* had a monopoly of the means of production, as a class they could make wage-earners *as a class* work longer in the sphere of production than was needed with existing techniques and capital stocks to produce the wage goods the wage-earners received (and earned). The extra hours worked was surplus labor, the source of surplus value and the surplus commodities emanating in the sphere of production, and the source of profits observed in the sphere of distribution and exchange. Their size so created was reflected in the uniform rate of profits and in the profit component of the prices of production which, it was argued, underlay observed market prices. One to one correspondence of direct and indirect labor embodiment in each commodity was not implied, only that deviations of prices of production from underlying labor values could be predicted—the (in)famous transformation problem.

This basic vision still illuminates our understanding of the capitalist world today. To it we must add the realization problem, sensed by Marx and his despised predecessor, Thomas Robert Malthus, and independently solved in the modern age by Maynard Keynes (but in an inappropriate Marshallian setting) and Michal Kalecki within an appropriate Marxian structure. This requires a distinction between the *potential* surplus created in the sphere of production by the current state of the class war and the inherited technical structure created by past accumulation, on the one hand, and the *actual* surplus realized as an outcome of

establishing the point of effective demand combined with the distribution of the product between profits and wages in the sphere of distribution and exchange, on the other. The clearest exposition of these interrelated processes is in the writings of Donald Harris (1975; 1978). Harris drew on Marx, Kalecki, Keynes and Joan Robinson in arriving at his synthesis, to which he added his own original take on the processes involved.

The other major extensions are, first, to include the role of the multi-national oligopolies that have come to dominate production, trade, accumulation and government policy in our modern world (here Galbraith through Veblen joins Marx[7]); secondly, the rise to dominance of national and international finance capital over industrial and commercial capital, both in activity and in influencing government policy, nationally and internationally. Marx had warned us long ago that such events could lead to instability and often to crises.

There, as well as on Marx and these other influences, I draw on Kurt Rothschild's 1947 classic, "Price theory and oligopoly". It was the single most influential article I read as an undergraduate and it has been integrated into the structure of my thought ever since.

Indeed, my first ever major research project resulted from the requirement that in our fourth undergraduate year as Honours students at Melbourne, we write a 30,000 word honors thesis. Mine was on the implications of having Rothschild's oligopolists, who were as interested in receiving secure as in receiving maximum profits, as the dominant market structure, for systemic behavior within the framework of Keynes's *General Theory*. In particular, I analyzed the effects of "financial prudence"—writing off through depreciation allowances the book values of fixed assets long before the need to spend on their replacement occurred (see Keynes [1936] 1973, 98-106)—as evidenced in the reserve policies of a sample of Australian public companies over the years of the Great Depression.

My immediate examiners were not that impressed by my efforts but Ronald Henderson, my Ph.D supervisor at Cambridge, and John Hatch and Ray Petridis in Volume I

of the volumes in my honor edited by Philip Arestis, Gabriel Palma and Malcolm Sawyer (1997) were more positive. Hatch and Petridis wrote that the thesis "is of interest for its own sake but also because it contains themes which are echoed in much of his later writing … The conclusions to the thesis were both modest and agnostic in contrast … to the exuberant, assertive, almost brash style of earlier parts …, but he established a pattern of seeking practical policy implications for much of his subsequent work" (3).

We know that Kalecki and Keynes independently discovered the principal propositions of *The General Theory* and that Kalecki's are set within the more appropriate structure of Marx rather than Marshall as Keynes's are. While Kalecki concentrated mostly on aggregate analysis in the sphere of distribution and exchange, he took as a necessary given, happenings in the sphere of production in which the class war rages and the surplus is created. This understanding underlies his classic 1943 paper "Political aspects of full employment," the analysis and findings of which are as relevant to the happenings of the modern world as they were for the 1930s and 1940s.

Just as Marx and Marxists helped form Kalecki's original structure, so too did Marx and Kalecki help transform Joan Robinson's from her Marshallian and Keynesian beginnings to her mature understanding of the processes of distribution, accumulation and growth in capitalism as set out in *The Accumulation of Capital* (1956), *Essays in the Theory of Economic Growth* (1962), *Economic Heresies* (1971) and many articles from the 1950s to the early 1980s. Increasingly I also absorbed these influences in my own work through Joan's writings, in which *The Accumulation of Capital* held pride of place.[8] As I mentioned above, in recent years I have written papers on what would Marx and Keynes (and Kalecki) have made of the last 30 years and more, papers which both criticize mainstream analysis and set out alternative interpretations based on the above Trinity's insights and contributions.

IV

Turning now to Veblen: there are at least two major influences: the concept of cumulative causation (combined with the view that economics is or should be an evolutionary science) and his role in the Cambridge–Cambridge controversies in capital theory, most recently brought to light by Joan Robinson when she read or reread his critique of J.B. Clark's version of marginal productivity theory[9]. She pointed out that had people remembered his devastating review article (Veblen 1908; Kerr with Harcourt 2002), there would have been no need to have the controversies in the first place.

> Much is made of the doctrine that the two facts of "capital" and "capital goods" are conceptually distinct though substantially identical … "Capital is the permanent fund of productive goods, the identity of whose component elements is forever changing. Capital goods are the shifting component parts of this permanent aggregate" (p. 29). Mr Clark admits that capital is colloquially spoken and thought of in terms of value, but he insists that … the working concept of capital is … that of "a fund of productive goods" considered as an "abiding entity." … This conception of capital … breaks down in Mr Clark's own use of it when he comes … to speak of the mobility of capital, that is to say, so soon as he makes use of it … The continuum in which the "abiding entity" of capital resides is a continuity of ownership, not a physical fact. (Veblen 1908, 162-163; Kerr with Harcourt 2002, 287-288).

As in Marshall so it was all in Veblen.

I have Joan Robinson copy of her textbook with John Eatwell (1973). In it, she annotated this passage as follows: "In modern times they [mainstream economists] have

resorted to be desperate expedient of assuming machines are ‘malleable’ ” (46). With her usual deep perception she has in one sentence highlighted the central thrust of the critique, that what is at stake is so much more the *meaning* as opposed to its corollary, the *measurement* of capital. This leads to concentration on alternative takes (within the mainstream and its critics) on the characteristics of the economic society being analyzed—its “rules of the game”, institutions and, most importantly, the sources and strength of power at work in the society.

As to cumulative causation it is here that osmosis from Veblen is much to the front. The particular form it took in my thinking owes most to Kaldor’s version but also to Joan Robinson’s and, indirectly, to Dick Goodwin’s and (late) Kalecki’s theories of cyclical growth (see Goodwin 1967; Goodwin and Punzo 1987; Kalecki 1968; Harcourt 2006b). I also mentioned above Marx’s insight concerning the consequences of the dominance of finance capital over the other two forms, especially in the modern world. This may be allied with what the profession takes to be Kaldor’s most important theoretical paper, “Speculation and economic stability” (1939). In it he analyses price formation and activity in markets in which stocks dominate flows and expectations, often speculative, dominate the usual fundamentals (of neoclassical theory) in the determination of prices.

In my teaching in the 1980s I began to illustrate by means of a wolf pack analogy, the essential difference between cumulative causation processes, on the one hand, and mainstream equilibrium analysis with its sharp distinction between existence and stability, on the other. I stressed the claim by the mainstream that the factors responsible for existence (whether unique or multiple) were independent of those responsible for stability (local or global). I illustrated this by a wolf pack running along. If one or more wolves surged ahead or fell behind the main pack, strong forces would immediately come into play to return them to it. With cumulative causation, though, the errant wolves would either get further and further

ahead or fall further and further behind, at least for long periods of time. I asked what would we observe in actual markets or even whole systems, according to which of the processes underlay their workings, and what would be the policy implications of our findings? This led to me proposing package deals of policies based on the underlying theoretical analysis (see Harcourt 2006, Ch. 8; 2010; 2012, Ch. 14).

V

I close with a discussion of a fascinating (and, to me, startling) conjecture of Hirofumi Uzawa that Veblen's *The Theory of Business Enterprise* (1904) contains the essence of Keynes's *General Theory*, only better. In an interview that Hiro gave to Masahiro Okuno-Fujiwara and Karl Shell (2009), he discussed his admiration of Veblen, his struggles as a penetrating, clear-minded mathematician to come to terms with what Veblen's admirable and sometimes sophisticated, even dense (in the sense of subtle but complicated) prose and arguments were about. Uzawa, who also had problems with Keynes's writings, advanced the judgement that Veblen's ("almost a classic") volume not only anticipated the core of Keynes's classic—"I was shocked to find out that the book contained the essence of Keynes's *General Theory*" (Okuno-Fujiwara and Shell 2009, 399)—but also set it out more fundamentally and in a more appropriate setting than did Keynes. I read Veblen's book to see why Uzawa came to this conclusion. I also read the scholarly introductions by Charles Camic and Geoff Hodgson to their comprehensive edition of the essential writings of Veblen (2011; 2013).[10]

That Veblen's book has the business enterprise as its principal character is, I think, the clue to why these claims are made. Lorie Tarshis, who went to Keynes's lectures in the 1930s while *The General Theory* was being written, chose as a result to make the firm the principal unit of analysis in his innovative 1947 textbook on price theory and employment. This reflects the fact that in Keynes, as in Marx, it is the swash-buckling and ruthless capitalists rather than

the consumer queens that drive capitalism along, with all other entities dancing to their tune. To this considerable extent, Keynes escaped from the hold that Marshall had on him, though, to be fair, Marshall had a deep understanding of the behavior of firms and industries and their role in the evolving system he was analyzing but with his inappropriate static supply and demand functions.

So there is little doubt that Veblen and Keynes were on the same wave length. Such a view is reinforced by Veblen listing in his characteristics of capitalism the crucial role of what Keynes after the publication of *The General Theory* (Keynes 1937a; 1937b), was to call the finance motive—the absolutely essential prior role of availability of finance in order to put into effect investment plans. Veblen made this explicit in his discussion of the transition from the money economy which existed in the early stage of capitalism, the period of history on which Smith drew for his system building, to the credit economy of Veblen's time (Camic and Hodgson 2011, 342-343). It is possible therefore to extract from the detailed arguments of Veblen's book two central propositions of Keynes: Finance → Investment → Saving, and that investment is the creator of saving, the dog that wags the saving tail, as James Meade (1975) vividly put it.

Veblen also examined in great detail the nature and role of speculation in the stock market, the foreign exchange market and the futures markets for commodities. He documented, as Keynes was to do, the last's destabilizing effects in certain periods and identified its systemically harmful effects, as opposed to the conventional wisdom, with which both Marshall and Keynes originally agreed, and Milton Friedman still did, of the systemically beneficial effects of speculation.

Veblen also emphasized, as Keynes was to do, that the ultimate objective of business people is to maximize monetary amounts in a circuit akin to Marx's circuit of capital, and that the production, accumulation and employment associated with attempting to achieve this aim

may not necessarily be socially optimum as is implied in a surface reading of Smith's analysis. Moreover, many of the processes that Keynes identified in, for example, his analysis of the trade cycle in the light of his new theory, Veblen had already documented in great detail and to more powerful effect because of his understanding of the evolutionary nature of capitalism and the dominance of cumulative causation processes in actual happenings. Keynes was more restrained and restricted because of the hold which Marshall's equilibrating method still had on him.

The editors have pointed out to me that John (see, for example, Henry 2010; 2011) "has made a similar argument that Marx, Veblen and Keynes are very similar in their analytical framework. In particular, [John] notes that 1. They are embedded theorists in that social relationships dictate capitalism. 2. All three have a class framework. 3. Their analysis [is of a] monetary production economy as opposed to [a] real exchange economy. 4. They deal with [the] oligopolistic phase of capitalism.[11] 5. They are against the (marginal) productivity theory of distribution.[12] 6. Historical time is a fact in their analysis. [13] 7. Hence fundamental uncertainty is essential and… it is incompatible with the concept of equilibrium.[14] 8. Capitalism is neither universal nor natural—it has a beginning and [an] end, [it] changes [and] might transform itself into another system."

VI

I hope these reminiscences will be of interest and acceptable to John. I hope also that he will discern in them absorption of his approach to political economy and to the history of our subject.

The editors also asked me to reflect, first, on how John's absorption into his own thought and structure, the approaches of Marx, Veblen and Keynes, has contributed to heterodox thinking. I would argue that he has provided us with a much more rich and relevant

approach for analyzing modern capitalism, its malfunctions, contradictions and sources of change than has the dominant mainstream model that is principally derived from Walrasian theory in its modern Fisherian and Arrow-Debreu form. In doing so he has followed his mentor Tom Asimakopulos's insistence that the characteristics of the nature of the society being analyzed—its "rules of the game", class structures, sources of harmony and disharmony—must always be made explicit before any analysis and/or modeling begins.

Secondly, how great are the overlaps between John's values and approach to theory and policy and mine? Though, as I noted, John is way ahead of me in the richness, depth, and spread of his scholarship, I think we are in agreement on how modern economies work and on the humanitarian values that lie behind our policy proposals. Mine are derived from democratic Christian Socialist principles, always presented within what may be politically possible in fact (see, for example, Harcourt 1998; 2012a). John's are derived from his humanist, agnostic values that nevertheless lead to similar policy recommendations.

Thirdly, they asked me what I thought Tom Asimakopulos, if he were still alive, would say now to John, remembering that Tom was my close friend and John's mentor and friend. Of the three of us, Tom was the most formal and least laid back, especially when relating to his students, who, while devoted to him, respected his personal reserve and were sometimes in awe of him. Tom could be rigid on matters of principle and this sometimes lead to serious even permanent rifts with colleagues. While John is a strong principled character, his easy amiable nature would not give rise as much to unbridgeable personal clashes.

All three of us made/make teaching our top priority while recognizing that teaching and research are indissolubly mixed. Tom had a more formal approach to the integration of, for example, Marx's concepts into his own analysis than do John and I, with the result that Tom and Piero Sraffa never completely met on the same page, especially when discussing how demand factors affect price formation (see Asimakopulos 1988, n3, 142; Harcourt 2008;

2012a, 284-286). Nevertheless, like I do, I believe Tom would have approved of John's extraordinarily wide and deep knowledge of so many disciplines and of their bearing on economic analysis and policy.

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Notes

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[1] I recently reread John's superb biography of John Bates Clark (Henry 1995). The deep knowledge exhibited there of economists and economic theory and of the religious, historical and political issues that were concurrent with Clark's life witness to the statements in the text.

[2] I was allocated John Stuart Mill which I never regretted—Mill was a wonderful human being whose *Principles of Political Economy* (1848) cried out to be presented in terms of supply and demand diagrams. Perhaps Alfred Marshall's reading of him helped Marshall to emasculate classical political economy while claiming to be evolving its basic concepts, ideas and approach (see Bharadwaj 1989, Ch. 6).

[3] I subsequently sympathized with the radical students in a BBC sketch who made up a reading group on Volume I. After struggling through an incomprehensible para, I think it was Mel Smith who said: "Oh bugger this, let's go out and blow up a factory."

[4] An essay of which I am most proud is Prue's and my essay on Marx for Malcolm Warner's *International Encyclopedia of Business and Management* (1996), reprinted in Harcourt (2001a) and drawn on for an essay, "Paul Samuelson and Karl Marx: Were the sacrificed games of tennis worth it?" (Harcourt 2006a), in the volume in honor of Paul Samuelson's 90th birthday, edited by Michael Szenberg, Lall Ramratten and Aron A. Gottesman (2006).

[5] Spending so much of my working life in Cambridge served to acquaint me first hand with the remnants of Feudalism that had survived there.

[6] Realizing this has underlaid various papers I have written in recent years on what would Marx, Keynes (and Kalecki) have made of the happenings of the last 30 years and more (see, e.g. Harcourt 2001a; 2001b; 2012a, Essay 6). These papers led in good Marxian fashion (but the other way around) to my latest critique of mainstream economics (see Harcourt 2010).

[7] I was fascinated by John's account of Clark's recognition of the rise of oligopoly to be the dominant market structure in the United States at the turn of the last century and by its impact on his marginal productivity theory of distribution.

[8] Prue Kerr and I have recently written the Introduction to the reissue of *The Accumulation of Capital* as a classic (Harcourt and Kerr 2013). In 1956 when her "big book" was first published, as a research student at Cambridge, I locked myself up for a term to try to absorb its contents. (I had been to her lectures on it the year before but had been thoroughly puzzled by much of her arguments, not least because she tended to drop her voice just when she came to a crucial step in them.) I wrote a long paper on what I took to be the book's essence and presented it over successive weeks to the weekly research students' seminar run by Piero Sraffa and Robin Marris. Joan fronted up to answer questions at a third session. She evidently approved of my interpretation, for our friendship dates from then. Alas, sometime during my many moves since then I lost my only copy of the paper. I would dearly loved to have compared its contents with those of Prue's and my Introduction of well over 50 years later.

[9] John tells us in the Preface to his book on Clark that his "interest in the work of John Bates Clark and his place within the economics profession began in the early 1970s [and that] [t]hat work was stimulated, not by Clark directly, but by the 'Cambridge Controversy' and [his] introduction to a critical view of neoclassicism under the tutelage of Tom Asimakopulos" (Henry 1995, ix). Those exciting but disturbing times—the anti-Vietnam war protests, the Civil Rights Movement, the students revolt—together with studying "a significant debate in fundamental economic theory … [g]radually and somewhat painfully [withered his] faith in neoclassical theory, in propertied democracy, in the sanctity of established institutions" (ix).

[10] There, I found out that other writers have made claims similar to Uzawa's (see Vining 1939; Raines and Leathers 1996).

[11] Keynes, though, for tactical reasons, in trying to persuade the orthodox of the rightness of his new views, mostly has Marshallian freely competitive market structures in *The General Theory*. He did not think that market structures qualitatively affected his new key theoretical propositions.

[12] Keynes though still remained a Marshallian on distribution issues so that it was Kaldor (1955-56) who perceived that in *A Treatise on Money*, Keynes had created an alternative "Keynesian" macroeconomic theory of distribution.

[13] Nevertheless, Joan Robinson (1956; 1962) and Kahn (1959) stressed that logical time, even Golden Age, analysis was a necessary precursor to historical time analysis.

[14] But see Harcourt (1981; 1982) for a discussion of the role of the concept of centers of gravitation in the works of Marshall, Sraffa and Keynes.