Crossroads: Recollections of my Marxian Encounters with Anwar Shaikh and Duncan Foley*

By Riccardo Bellofiore†

In this comment piece, Professor Ricardo Bellofiore reflects upon the intersections between the work of Duncan Foley and Anwar Shaikh and his own theoretical development.

I. Introduction

In 1973 I was studying Law at the University of Turin. I had some knowledge of Marx, of economic theory (from reading Sweezy and Dobb) and on politics (via Rosa Luxemburg). I was the son of a police officer but became a militant in a left communist group, *il manifesto*, and there I came in contact with Fiat workers. It was the long Italian "hot Autumn": years of lively struggles in universities, schools, and factories, but also in civil society more generally. I must confess that a lot of what I know about Marx comes from the workers I met then. A friend alerted me that in the academic year 1973-74 Claudio Napoleoni was teaching a not-to-be-missed course in Economic Policy. The topic of the course was the Italian economy after World War II through the different interpretations of competing theories.

I decided to follow the course, and my life choices were changed. I could exploit the radical liberalization of the curricula (it was possible to change the list of exams of the degree almost at will) and inserted many courses in economics and economic policy. In the early 1970s Napoleoni was also teaching a course in History of Economic Doctrines, where he read in succession Marx's economic works: from the *Grundrisse* to the *Theories of Surplus Value*, from *Capital* to the unpublished *Chapter VI* . His research program was to rescue Marx's abstract labor theory of value, having forged in those years an alliance with the philosopher Lucio Colletti. Some traces of that period of reflection can be found in the introduction and in the chapter on Marx included in the second edition of *Smith Ricardo Marx.* The year after, Napoleoni's course was on Piero Sraffa and Marxian Economic Theory; he disappeared after the first month, being substituted by a young assistant. In the meantime, I had chosen him supervisor in a dissertation on Rosa Luxemburg and the Marxian theory of crisis.

When I saw him again, in December 1976 for the defense of my dissertation, he was a member of parliament for the Communist Party, as part of the Independent Left. His positions in economic policy were more moderate than in the early 1970s when he was politically near *il manifesto.* His theoretical positions had also changed after Colletti's abandonment of Marxism, but in a specular way. Napoleoni abandoned his earlier attempt to develop the labor theory of value as a scientific inquiry about capital and confined its validity to a philosophical theory of alienation and fetishism. These views are documented in that great but flawed book that is *Valore*, published in 1976 and unfortunately untranslated in English.

In the 1970s the Italian debate on Marx was marked by a divide between the Marxian position represented by Napoleoni and the Sraffian position represented by Garegnani, but also by some younger scholars like Andrea Ginzburg, Marco Lippi, and Fernando Vianello teaching at the just inaugurated Faculty of Economics at The University of Modena. The irony is that I, who studied with Napoleoni, while I am writing this contribution am teaching History of Economic Thought in Modena. One of the missions I feel I have to fulfill is to help the students at that university, who nowadays are ignorant of its past, come to know how significant the economic thinking of their faculty was in the early years.

* This article engages on the thread of memory in a discussion with Anwar Shaikh and Duncan Foley, to whom my debt is substantial. As in any true dialogue, it is still ongoing, and through agreements and disagreements it has shaped my way into critical political economy until today. Given the nature of the intervention, it is impossible to append a bibliography at the end, which would be too massive not to become unmanageable. The reader is also alerted that when speaking of the capitalist dynamics I do not conform to the gender-neutral way of writing, since I find capitalist reality very much biased towards male non-inclusive behaviors.

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Three big debates marked that decade. The first was opened in 1973 by Ginzburg and Vianello who proposed a Marx-Sraffa-Keynes synthesis along Neoricardian lines; many reactions followed in the weekly magazine *Rinascita*. The second was in 1976 after the publication of Marco Lippi's book on the supposed naturalism in Marx, soon translated into English. The third was in 1978, following a conference at Modena University on Marx's value theory, with articles again in *Rinascita*.

My first article in Italian, "On the Notion of Labor in Marx," was an intervention in the debate opened at Modena. It was published in 1979 and included a critique of both Lippi and Napoleoni. In 1997, I edited a special issue of the *International Journal of Political Economy* edited by Paul Mattick Jr., collecting the translation in English of the main interventions at the Modena conference (Napoleoni, Vianello, Garegnani, Lippi, Colletti, but also a joint paper of three German economists, Altvater, Hoffmann, and Willi Semmler, who later came to the New School of Social Research), and a translation of my 1979 article. The draft of the Italian article included a section on Marx and Sraffa, which was cut in the original Italian publication in 1979, and that I re-inserted in the English translation, where I referred to Shaikh and Semmler.

II. Luxemburghiana and the unhappy ending of the Italian debate

Before going into my theoretical encounters with Anwar Shaikh in the second half of the 1970s and with Duncan Foley in the 1980s, it is useful to return to my dissertation. I was more or less taking as presupposed the theoretical foundation in Marx's and Luxemburg's discourse on the abstract labor theory of value. I did not go into the traditional dispute about the transformation problem. I was instead interested in the evolutionary aspects of the theory of value as an out-of-equilibrium theory of capitalist qualitative development and at the same time a theory of crisis.

My dissertation tried to disentangle Luxemburg's perspective from a collapse theory and to unearth the hidden links between her major book, *The Accumulation of Capital*, and two less studied works: the lectures she gave at the school party, published posthumously as *Introduction to Political Economy*, and her answer to the critics of her book, the *Anti-Critique*. I was helped by two circumstances. The first is that in Italian the *Accumulation of Capital* was published in a single volume with the *Anti-Critique*; in English they are available separately by different publishers, the latter being too conveniently paired with the harsh criticism of Bukharin. The second is that the *Introduction* had been translated in Italian and French in the late 1960s; in English a complete translation was printed only in 2015. Kowalik's Polish book on Luxemburg was translated in Italian the month after I defended my dissertation and in English only in 2014.

I maintained that the Marxist critics did not really understand the problem presented by Luxemburg. Hers was an *under-investment*, not an *under-consumptionist*, theory of the crisis. The starting point could be her contention in the *Introduction* that the real wage for the working class has to be taken as given and that the relative wage had a tendency to fall. This "law" is the consequence of the endogenous innovations determined not only by the capital-labor antagonism in the immediate valorization process, but also by the competition among the many capitals struggling to get extra surplus value. This pushes the wage share down, and hence opens the question of whether investment could fill the gap. The solution she is looking for couldn't be generic demand or worse consumption; it had necessarily to be higher investment leading to capitalist production, not production as such. Hence, her (undoubtedly confused, but anticipatory) interrogation about the motives for investment – which Joan Robinson rightly welcomed.

The context where the drama is performed is the capitalist economy as a monetary production economy; in fact, the *Anti-Critique*, much more brilliant than the *Accumulation of Capital*, is centered on a monetary circuit revisitation of the schemes of reproduction. From there follows her translation of the original concern of "where the demand comes from" to sell the surplus value into that of "where the money comes from" to allow for a monetary realization of the gross profits. To advance the question about the monetary inflows at the closure of the cycle of money capital, she had to engage in a monetary analysis of capital's reproduction and to consider the fundamental issue of how money enters the circuit at its opening, i.e. *finance to production.*[1] Whatever the limits and missteps of her reasoning, once again

[1] Note that "circuit" and "cycle" are the same, being different translations of the German word used by Marx, *Kreislauf*.

she was ahead of her times. The truth of her position about the schemes of reproduction was partially rescued by Kalecki, though he was quite unable to appreciate her insight on the monetary circuit.

Moving from there, I suggested that a better approach to the problem she posed could be found in the *Grundrisse* where Marx's (admittedly rough) view can be summarized in the statement that the relative surplus value extraction leading to a *higher rate of surplus value* brings about *disproportionalities* among branches of production which may easily degenerate in a general glut or *overproduction* of commodities. It is not a circulationist crisis, since the roots are in the unbalanced dynamics of production. I went on towards a non-canonical reconstruction of the tendential fall in the rate of profit, which I read as a meta-theory integrating the several (and only seemingly contradictory) versions of crisis theory we may recognize in Marx's writings. In this attempt I was initially guided by a few occasional hints by Napoleoni, more in lectures of early 1970s (that I read in students' transcripts) than in published texts. Later I developed these themes in many contributions. This standpoint became an outline of capitalism's succession of stages, a Marxian sketch very much indebted to the "conservative Marxist" Schumpeter-Keynes plus Minsky line. Shaikh on crisis theory, though he would not recognize himself, was a constant source of inspiration and confrontation.

After I ended my dissertation in 1977-1978, I already felt that the abstract labor version of the Marxian theory of value was disintegrating, at least in Italy (but the problems were general, as surveys by de Vroey and Lipietz may confirm). Seen from my window, the debate on Marx and Sraffa had an unhappy ending in those years. The death declaration was postponed after 1983, the year marking the centenary of the death of Marx and the births of Keynes and Schumpeter.

The discussion was mostly focused on the transformation problem and *Production of Commodities* as its culmination. Already in the 1960s Napoleoni had anticipated Steedman's 1977 conclusion about the redundancy of labor-values in Sraffa. Even in his Marxian phase, Napoleoni's dualist reading of value theory – i.e., "exchange value" vs "production price" – was locked up in the belief that Sraffa's prices were not the prices of production. He then had to promise a new transformation procedure if Marx's quantitative side had to be reclaimed. Lippi's accusation of naturalism against Marx's absolute value seemed to fit some Marx's propositions, and a qualitative theory of fetishism wasn't sufficient as a basis for a different conclusion. What's for sure, after the Modena conference Napoleoni's pupils were dispersed. The only exceptions were Marcello Messori and me, who wanted to recast the abstract labor view within a monetary perspective. In Italy almost everybody else accepted that Marx's value theory had been proven wrong: that there was nothing in it to be saved. This did not mean an outright victory for the Sraffian position. After the 1980s, their central role in the economic theory debate was supplanted, and they found a place in a niche of the profession. The few Italian Marxians were out in the wilderness: individuals, more than a current.

III. The encounter with Anwar Shaikh

In the second half of the 1970s my attempt to find a way out from this theoretical juncture – which I saw as a deadlock, representative of the difficulties and dead ends of the abstract labor version of Marx's value theory – led me to meet Shaikh. I concluded from my dissertation on Luxemburg that Marx's value theory was *a theory of capitalist qualitative development* (and not a theory of quantitative growth) and at one and the same stroke a *theory of crisis* (and not a theory of collapse), and that it was from the beginning a theory where *money was a constituent of value* and capital's reproduction had to be framed from the outset as a *monetary cycle or circuit*. When I asked myself how to move forward theoretically, the answer was clear-cut. My orthodoxy had to be a "creative" one: that is, I had to become a *heretic* (a term that growingly I prefer to heterodox). Being Marxian more and more meant for me not to be a Marxist and take inspiration from bourgeois economic high theory. The political economy to be developed and critiqued in my time was to be found, first of all, in Schumpeter. Soon this meant meeting Augusto Graziani; the path forward was to consider and incorporate in my reconstruction of Marx the other monetary circuitists, like the Wicksell of *Interest and Prices*, the Robertson of *Banking Policy and the Price Level*, and the Keynes of before and after his *General Theory*, the authors that Graziani defined as the hidden Marxian stream in bourgeois economic theory.

Soon after my degree, thanks to my association and friendship with Piero Ferri, I was lucky enough to find a position at the University of Trento (in 1977), and then at the University of Bergamo (in 1978).

Thanks to Marcello Messori, who preceded me in his interest in the monetary circuit, I participated in the Naples Seminar led by Augusto Graziani. In the late 1970s I was also introduced to Hyman P. Minsky; the common theme with Graziani, with different accents, was "finance." I saw them as complementary ingredients of a financial structural Keynesianism which, together with Schumpeter's credit theory of money and innovation, could provide the skeleton of a Marxian critical political economy (I cannot go into the Minskyian aspect of my reconstruction in the following). This attempt to pursue a Marxian monetary value approach was shared for some years with Marcello Messori, but after 1985 he considered this project as leading nowhere.[2] Since the early 1980s my endeavor remains the same: a tentative reconstruction of Marx's value theory of labor as a *monetary theory of capitalist production*, which I am even now pursuing.

Let me show how Anwar Shaikh fit the beginnings of this journey, by showing the use I made of his approach in the late 1970s and early 1980s. My persuasion, contrary to most Marxists of the time (including Napoleoni and Messori, with all their differences), was that it had to be recognized that Sraffa's prices were the prices of production. Shaikh showed in his 1974 dissertation and later in an article in 1977 why Marx's transformation procedure is only the first step in the correct determination of production prices, which can be arrived at by the iterative application of that first step (the point had been already advanced in Italy by the physicist Marcello Cini and was also argued by Morishima). However, in the case of Marx and in the case of Sraffa, the way in which production prices are arrived at is different, because the *object of analysis is different*, and this was explicit in Shaikh's writings in the 1970s and early 1980s.

In the case of Sraffa, the production configuration is assumed to be known; both the commodities used as means of production and the quantity of commodities produced are taken as data. The production process is considered to have *already* taken place and it is not analyzed in its peculiar historical determinations; the object of analysis is therefore restricted to the circulation of commodities and the distribution of the value produced. As Luxemburg clarifies in her chapter on the Wage in her *Introduction to Political Economy*[3] capitalism is a mode of production in which at the beginning of each circuit the amount of the means of subsistence necessary for the reproduction of the working class has to be assumed as a *pre-determined* magnitude, while the amount of value added during the period is *yet-to-be-determined* until the production process occurs. The capital relation in its historical specificity can only be analyzed if we look at the way in which, through the struggles over working effort (length and intensity) and through technology, valorization socially shapes techniques and the organization of labor. This approach entails an understanding of living labor as *fluid*, as it is in most of *Capital Volume I.*

Based on this viewpoint, I rejected the thesis that tested the soundness of the labor theory of value on the essentiality of the so-called labor-values as the givens in the transformation, since after Seton and Sraffa it was clear that the measurement in labor amounts can be replaced with the measurement in physical units. Marx's exchange values (or "direct prices", as Shaikh named them) are the data from which to start the transformation not because they cannot be supplanted by some other technical measure, but because through their *mediation* it is possible to relate the sphere of circulation and distribution to the historically determined characteristics of the production process, for whose analysis *only* the argument in terms of value is indispensable.

Shaikh showed that the analysis of the *generation* of technical progress is carried out by Marx in relation to the capitalist nature of the labor process, and I saw this as compatible with my view of the endogeneity of innovation in class struggle in production. But he also showed that the analysis of the *diffusion* of technical progress cannot be carried out by considering the uniform profit rate as given, and thereby comparing the price systems of production before and after the innovation. The reason is that the capitalist who first introduces the innovation can potentially sell the product at a lower cost price (including the interest rate), and thus force competitors to follow in his footsteps. This is what Shaikh in his most recent book calls *real competition*, and I saw this as compatible with my stress on a Schumpeterian view of competition distant from the Ricardian view. *Static competition among*

[2] In the successive decades he coherently tracked several other theoretical paths, which one after the other landed him nowhere, leaving alive a practical interest in economic policy on uncertain theoretical grounds—so I am not sure he gained too much.

[3] English readers can get a taste of this from Rosdolsky.

industries, either of the Ricardian or the Neoclassical kind, makes all industries like each other, and insists on the tendency to earn a unique uniform rate of return among industries. *Dynamic competition* instead identifies a differentiation of production conditions among firms with the emergence of a range of profit rates, due to the inner drive of many capitals to gain an extra surplus value *within the industry.* In thinking about these two different perspectives – which in my view are mostly alternative and may lead in opposite directions – Henryk Grossmann's long article on *Marx, die klassische Nationalökonomie und das Problem der Dynamik*, was quite helpful.

My characterization of competition was surely an overstatement and exaggeration in relation to Shaikh's own conclusions. Before clarifying that, however, I want to come back to the Marx-Sraffa debate. The insights I took (and thoroughly transformed) from Shaikh were parallel to my agreement with the assessment of Altvater-Hoffmann-Semmler in the Modena debate. They argued that starting from a given "productive configuration", as Sraffa seems to do, obliterates the theory of value from the analyses. Abstracting from accumulation and hence changes in the productive configuration means abstracting from capital itself. In that case, abstract labor cannot but be reduced to physical and concrete labor, surplus value to a surplus product that mysteriously springs from the technical structure of production, and the crisis to a mere possibility for the reproduction of that configuration to be interrupted because of the anarchy of the market.

I also concurred with their comment that in a Neo-Ricardian setting the assumption of the *real* wage as *given* means the simultaneous determination of the wage share. Hence, in that setting, distribution seems independent of production. In Marx's approach, in contrast, where there is a continual revolution of production methods expressing and determining the reproduction of the relation of capital as a social relation, the assumption of the real wage as given means that there is a distinction between the real wage and the relative wage. The determination of the wage depends on the accumulation of capital, and while the tendency of the relative wage is to fall, the real wage may increase.[4]

What I concluded was that the new configuration of prices in Sraffa's 1960 book expresses that hypothetical configuration of equilibrium prices to which the system would tend once the old configuration is broken and innovation generalized, but it provides us with neither an analysis of the immediate process of valorization nor an analysis of competition or the market; for that the reference cannot but be Marx's theory of (surplus) value and (capitalist) crisis.

Though at the time this argument of mine was put forward in hostile terms toward Neo-Ricardianism, already then it could be argued that it wasn't so much conflicting with Sraffa's own conclusions but with the way his 1960 contribution was abused. The alternative was between seeing Sraffa as the core of a renewed critical political economy or more modestly, but maybe more effectively, as an analytical scheme which makes sense only as a snapshot of a moment of time. "After the harvest" was Sraffa's own expression: after production and before final commodity circulation, i.e., before realization on the market. As Giorgio Lunghini put it a few years later, we must read Sraffa *after Marx*, not Marx after Sraffa.

I think I overplay Shaikh's argument, going against his intentions, because he (like Garegnani) has always felt a fascination with the notion of centers of gravitation that I do not share. I would advance a similar concern towards his adherence to the Classical long period method. Here I share Roncaglia's doubts expressed at least since his 1985 book on *Sraffa and the Theory of Prices*, and the assessment about the animated French debate on the gravitation offered by Arena (but key interventions were presented by Egidi and Steedman). Where I discover, and look for, discontinuity, Shaikh and Foley recognize continuity.

Specifically, Shaikh considers the two views of competition I identify in Marx as complementary aspects of one and the same notion, although adding the important qualification that the centers around which actual outcomes gravitate for Shaikh are moving and ever-shifting. I think that the divergence among us comes down to a different attitude towards Schumpeter. For Shaikh, Schumpeter's theory amounts to nothing but a temporary disruption of a Walrasian perfect competition equilibrium (Napoleoni held a similar view).

[4] The seeming empirical disconfirmation of the tendential fall of the relative wage in the past did not consider the distinction between productive and unproductive labor. On this, even though I do not share his overall crisis theory, I think that Paul Mattick Sr. made important contributions.

For me, it is very much the reverse. Schumpeter's positions of near-equilibrium, before innovations set in and after *Statisierung* [re-equilibration] has made its course, are *transient* resting points within an out-of-equilibrium structurally unstable process. Vercelli made relevant contributions on structural instability versus dynamic instability in Graziani's Seminar, and a wonderful contemporary book in Italian by Egidi on Schumpeter could be also quoted here, though unfortunately it overlooks the essential monetary dimension. The given productive configuration of the circular flow is defined not by consumers' sovereignty but *by the joint action of bankers and entrepreneurs* through innovation, and hence is molded by real competition and the complementary monetary financing of innovation.

This first dissent thus hides another one, also related to Schumpeter. Shaikh's monetary analysis is far from a credit view of money like in old and new circuitists, and Minsky too, to which I adhere. I cannot go into this other terrain, for reasons of space.

IV. Abstract labor and money, and their complications

Colletti and Napoleoni presented a richer abstract labor version of Marx's value theory. They wanted to overcome the inherited embodied labor version of the Dobb-Sweezy-Meek "traditional Marxism". Marcello Messori and I agreed with them, but in the late 1970s we realized that their position stumbled upon two serious difficulties. The first was that in that approach the link between money and value was only qualitative, and more specifically philosophical, without bringing up substantial effects on the articulation of the theory. Hans-Georg Backhaus would say that the approach was still trapped in a *pre-monetary* interpretation of Marx's value theory. The second was that it never resolved in a satisfying way the ambiguity built into the notion of abstract labor itself. Abstract labor, on the one hand, is the *immediately private labor* which is *becoming* social in circulation; on the other hand, it is the private labor which *has become socialized* on the commodity market.

This second complication is related to the circumstance that in a fully monetary exchange society like capitalism the *real abstraction* of labor is only completed *ex-post* in the final circulation of commodities. But this puts at risk the determination of the commodity output in terms of the labor contained in it *before* the final buying and selling on market against money. I think Marx's value argument requires maintaining the two allegations *together*, and this effort has structured both my interpretation and reconstruction. The origin of the trouble goes back to the fact that Marx mostly deduces abstract labor from exchange "as such," but he also sometimes defines it as the *labor which is opposed to capital*. The practical abstraction encompasses production and circulation. It is a unity but at the same time a movement *from the inner to outer*. Cut this dual aspect and you lose Marx altogether, at least my Marx.

In the early 1970s it became clear that this conundrum is connected to the elucidation of Sraffa's relation to Marx. As Suzanne de Brunhoff – who was both a friend and inspiration for Foley at least since the 1980s, and who I too was lucky to have as a friend since 1990 – wrote with Benetti and Cartelier in 1973: the allocation of abstract labor among branches of production can only be effected through the market, and *it cannot be considered as a technological given*. However, Sraffa seems to imply just that. Consequently, the quantity of the total annual labor expended in society in his theoretical scheme is not abstract labor. If it is thought as concrete labor, we would certainly have a technological given. But in this case, we could not conceive the quantities of labor employed in the different industries as fractions of the total abstract annual labor of society. Thus, what appears explicitly as "labor" in Sraffa is in fact the multiplication of amounts of concrete labor with the wage rate. This puzzle is of course related to the invisibility of the distinction between labor power and living labor in *Production of Commodities* (inevitable, in my view, because of the chosen object of analysis).

In the early 1970s Napoleoni brilliantly tried to overcome the perplexity relative to Marx's exposition by pointing out that for Marx commodity circulation happens to be *universal* – and hence capable of establishing that "unsocial sociability" (recalling Kant's *ungesellige Geselligkeit*), which is, for Marx against Smith, generalized market exchange – only when production is ruled by capital. But, for those following the French and German debate like me, it became clear in the early 1980s that Napoleoni's suggestion had to be developed significantly. Both Marxologists and monetary heretics were realizing that the monetary aspects of Marx's critique of political economy had been muted all along, distorting the understanding of the critique of political economy. The *ex-post* socialization in commodity circulation comes into being through money as the *universal equivalent*. With some resistance, the idea that money was not to be conceived as a (special) commodity but as sign-money gained ground. If money is not a commodity (in that it is not produced by labor), then you are headed towards a *dichotomy* between production as the world of concrete and circulation as the world of abstract. Michael Heinrich contends in his 1991 *Wissenschaft vom Wert* that Marx's is a monetary theory of value. This is an important theoretical acquisition. But that conclusion has been reached at the cost of severing production (where labor is only spent as concrete labor) and circulation (where labor is socially recognized as abstract). This breaks with Marx's view that labor is *both* concrete and *abstract already* in production. With more coherence, Benetti and Cartelier in their 1980 *Marchands, Salariat et Capitalistes* (followed soon by Aglietta and Orlèan in their 1982 *La Violence de la Monnaie*) abandoned any reference to Marx's labor theory of value, opposing monetary views to value theories of any kind.

A better starting point than Napoleoni would have been Rubin, but incredibly his mutilated 3rd edition of his *Essays on Marx's Theory of Value* was interpreted, by friends and foes, as circulationist. *Mutilated*, because the English translation was partial: a long introduction and substantial postscripts answering the critics were expunged from the translation (the German translation had even more cuts!); a 4th edition, with another relevant postscript, was unknown at the time. *Incredibly*, because the 2nd edition of Rubin books was indeed circulationist, but the 3rd edition saw a definite shift towards a sound *processual* view of the abstraction of labor, as *latent* in production and *actualized* in final circulation; with the bonus that in Rubin it is the potential and not the realized leading the show. To me, it was (and still is) an appealing perspective. Abstract labor as a process – from "labor power" as the *capacity* to work, to "*living labor*" as the *fluid* extracted from it; and then from "direct labor", which is the *objectification* of living labor, to the "monetary expression of labor" in final circulation – mirrored the circular monetary sequence of Graziani's circuit – from finance to production opened by bank credit-to firms, to actual *production*; and then to the outlays of capitalists and workers leading to the *destruction* of money flows, which may leave money as *stock of wealth* as a residue.

Therefore, I began to conceptualize "exploitation" first of all as a synonym for the consumption of the *living bearers of labor power* (i.e., total capital as a vampire sucking the living labor objectified in total direct labor); and only secondarily as the surplus labor behind surplus value (i.e., the labor contained in the commodities that the capitalist class do *not* make available to workers, using Keynes' expression in the *Treatise on Money*). The capitalist process is monetary from the start, and money is ultimately grounded in the debt-credit relationship, with money as a commodity as an historical accident relative to the inner logic of capital. The emphasis on my part moved *backwards* in the monetary sequence, both for labor and for money: from the abstraction of labor in commodity circulation to the abstraction of labor in the capital relation (i.e., the buying and selling of labor power and the use of labor power in the immediate valorization process); and from money as universal equivalent to money as initial finance.

That is why in the second half of the 1980s I wrote a paper entitled "A Monetary Labor Theory of Value." At this point it was clear to me that labor could not be expelled from the expression, reducing it to *A Monetary Theory of Value* because the core was abstract labor in production, and that likewise it could not be condensed to *A Labor Theory of Value*, because money was constitutive of value. The abstraction of labor as the consumption of "living labor power", as Marx also calls workers as human bearers of labor power, required *formal* subsumption of labor to capital due to the *monetary subjection of them via variable capital*, (i.e., *via the money wage*). In a sense, this is Marx's synthesis of Smith and Ricardo, the two Classicals being completely reformulated by him, just like Keynes had to reformulate his own Classics to advance his *General Theory*. Both Marx and Keynes were making a *backwards* history of economic analysis, as part of their effort to move forward to their own heretical economic theory.

V. The encounter with Duncan Foley

Answering a call for papers for a special issue about "Modern Approaches to the Theory of Value II", I sent the paper to the *Review of Radical Economics*, where it was published as the first article in 1989. In the long and fruitful refereeing process, one referee[5] commented that my argument had some points of contact with what at the time was referred to as the *New Solution* of the transformation problem,

[5]This was Mark Glick, if I remember well (RRPE referees were known). Glick had published a couple of years before an "obituary" of the transformation problem with Hans Ehrbar.

and later on became known as the *New Interpretation* (NI). Other labels were tried, but none has lasted for long or has been so effective, though I think it is more a Reconstruction, like mine, and not really an Interpretation. The early proponents, as is well known, were Gérard Duménil, whose 1980 book I had read in French, Alain Lipietz, who I had read since the late 1970s, and Duncan Foley. Embarrassingly, I had not yet read Foley's contributions, so I went into a full immersion on his writings. I'm not sure I've finished it since then. Lipietz disappeared from the references about the New Interpretation very soon. A reason may be that his article on the subject in the *Journal of Economic Theory* was too indebted to Duménil's book (but Lipietz's notion of a tensor of exploitation was important, and his surveys of the literature and interventions on regulation and Marx influential).

I think that Duménil and Foley, at least at the time, were not exactly on the same page. To put it too quickly, Duménil's approach was more labor-oriented, Foley's more money-oriented. And to put it too bluntly, Duménil's was more an interpretation, and (as I have already hinted) Foley's was more a reconstruction. It is a pity that Duménil's *De la Valeur aux Prix de Production: Une Reinterpretation de la Transformation* has never been translated in English: that's why you find him quoted mostly from a short article in *Science & Society*. What is for sure is that what remained more influential, it seems to me, is Foley's version. To me, however, Foley's variety had also the bonus of presenting itself as a macro-monetary perspective, and that was what I wanted to do: a value theory of labor (to borrow the well-chosen Diane Elson's turn of phrase) in a truly monetary perspective.

When I finally read Foley, the points of contact that the referee had identified were clear to me. It was also straightforward to understand some key differences. To shed light on these differences, it is necessary to go back once again to my *Bildungsroman* in the late 1970s, but first I will give a quick presentation of how I see NI in Foley's version, with some translation into my vocabulary.

The fundamental kernel of NI can be seen in two assumptions. The first is what has been called the *normalization assumption*: the price of the net product is posited as equal to the net product expressed in values. Wages and gross profits are identical to the amount of the living labor which has been expended in the period, whose objectification is direct (or present) labor. The second is what has been called the *distribution assumption*: surplus value is defined as the difference between the value of the net product and the value of the money wage. The value of money is defined as the ratio of the total amount of labor which has been spent during the year (direct labor) to the money price of net output. The total money income minus the value of labor power (or the money wage) multiplied by the value of money gives the *necessary labor*. In the aggregate, the value of labor power is thus nothing but the share of wages in the value added. According to this view, the rate of surplus value is defined "operationally", *ex-post*, in terms of prices of production.

The "value of money" expresses the amount of the (already objectified) labor that a monetary unit can buy, or *command*, on the commodity market. The value of money is the inverse of the "monetary expression of labor", or, in other words, it is the inverse of the share of the money value added that, thanks to the law of value, can be attributed to each labor unit employed in the economy. For the "value of labor power", the crucial move is to define it no longer as the labor *contained* in the subsistence basket that the wage workers buy (or, anyhow, in the real wage they get back) but as the labor *exhibited* in the money wage.[6]

The fact that the equalities between the sum of prices and the sum of values and between the sum of profits and the sum of surplus values are *both* preserved is due to the redefinition of the former sum in terms not of the total product but of the net product. Once the normalization assumption is made, and the necessary labor is reinterpreted as previously specified, the sum of profit = sum of surplus value condition becomes a *tautology*. By definition, the total surplus value is the new value produced in the period minus the variable capital which has been advanced. The money value newly added in the period has been set equal to the money wage bill plus gross money profits, and it has been stipulated that the labor exhibited by the money national income displays the labor required for its production. The preceding means that for the aggregate in question, the direct labor *commanded* by commodities on

[6] I have no space in this paper to delve into several themes that are of some relevance: in Marx you never find a notion of "embodied labor" applied to abstract labor, only to concrete labor; in circulation the monetary exhibition of "intrinsic value" as "absolute value" is an expression from the inner (buying and selling of labour power plus immediate production) to the outer (commodity circulation); and this is perfectly coherent in his own essential theory of money "as a commodity", gold, produced by labor.

the market through their prices is equal to the labor *contained* required in their production. What is subtracted from the money value added – the variable capital – expresses nothing but the amount of labor commanded by the money wage bill.

Let me call the attention of the reader once again to a fact which usually escapes notice. Direct labor is objectified labor: *dead* labor, not living labor. It must be kept in mind that tracing back the money value added to a monetary expression of *nothing but labor* must be *justified*. Foley has always made clear that the NI results are a consequence of the aggregate equivalence between total profits and total surplus value is implicit in the definitional premises, as it is transparent in his labeling the identity between the monetary value added in the period and the monetary expression of direct labor a *postulate*. It is not something self-evident; it is rather a proposition accepted without proof, taken for granted, which definitely is not Marx's standpoint, at least as I see it.

As with Shaikh, I have to leave aside for reasons of space our different itineraries in monetary theory strictly speaking. I suspect that Foley and I may disagree about what "finance" is and how it relates with "intermediation." In his early Marxian endeavors, he was dangerously near to a loanable funds view: lately I am not sure. Remaining on the terrain of value theory strictly speaking, let me go over why, when I read Foley in the 1980s, I found myself on similar grounds. I was, and I still am, quite sympathetic, because I think that NI finally opened a promising new Marxian landscape where value and money were not confined in separate and mostly disconnected compartments.

In 1980, I had published an Italian article where an argument was sketched, which I have since further refined. In a nutshell, the point is the following. The strategic challenge is to understand why Marx's is a value theory of *labor*, and why what value exhibits in money is *only* labor. The question of *what it is* that makes commodities *identical* elements of a communal "something," and the conclusion that this "something" is nothing but labor, was fundamental in Marx's confrontation with Bailey and Ricardo in the *Theories of Surplus Value*[7] and led a few years later to the analysis of the (relative and equivalent) forms of value in *Capital I*. But I think that the proper and deeper answer is to be found in the second paragraph of Chapter 7 in *Capital I*,[8] aptly named the valorization process.

In those few pages we find a fully developed *method of comparison* (to twist an expression of Rubin for my own goals) designed to explain how the "original profits" come to life – i.e., giving an account of the *constitution* of capital. Marx begins from a situation where surplus value is assumed away, hence where profits are *nihil*. At the beginning of the capitalist circuit the "would-be capitalists" advance the value of labor-power in money (i.e., gold) with a known labor content, which corresponds to the value of labor-power. "Necessary labor" is defined as the labor time needed for the production and reproduction of this specific article, something which, according to Marx, in a given country and in a given period has to be considered a *datum*.

If the laborer's work lasts just until their living labor is equal to the necessary labor exhibited in the money (i.e., gold) advanced as variable capital, the owners of money would not become capitalists. This situation corresponds to Schumpeter's circular flow. It is hypothetical but capitalistically meaningful, because it is the state which guarantees the reproduction of workers as the human bearers of labor power. The ruling prices are the "labor-values": namely, the direct prices with a zero rate of profit. However, Marx comments ironically, these "would-be capitalists" are very smart, all-out consummated masters of their workplaces. They know that they may compel workers to spend their living labor *in excess of* the necessary labor exhibited in the money (i.e., gold) advanced. This *prolongation* of the working day relative to the circular flow situation brings forth a surplus labor, and hence generates a surplus value.

The focal point of this way of thinking rests on a *threefold* distinction of the notion of "labor." The separation between *labor power* and *living labor* is well known, but not fully appreciated in its implications, maybe even by Marx. It has to be understood in its internal relation with workers being *living labor power*, i.e. human beings considered just *as bearers of labor power*.

In the background there is the "formal" but epoch-making (even if constantly betrayed and humiliated) *freedom and equality* of human beings in bourgeois society. Workers as its *human bearers* have sold *labor power* to the capitalists. Labor power is a commodity not because it springs from a process of commodity production but in the weaker sense of being bought and sold on a market. Because of

[7]There is much Aristotle in how he framed that.
[8]There is much Hegel in how he framed that.

the buying and selling of labor power on the so-called labor market, labor power is now *of capital*, to be used up as capitalists please. At the same time, labor power remains "attached" to workers as "living labor power," and it thus persists in being *their* labor power in a quite immediate meaning. Workers as human bearers of labor power are, *without any injustice*, consumed by capital in the labor process when the fluid of living labor is sucked out of them: *but once again they are workers who work.* Here capital may meet a peculiar social problem. Obtaining a forced labor in production from free and equal subjects *cannot be taken as granted*, and its anticipation on the labor market is *inherently uncertain.* As Luxemburg argues, living labor is *not-yet-determined beforehand*, only necessary labor is, and she even makes this the watershed between capitalism and feudalism.

In *Capital* the labor process is nothing more than the *consumption* of the commodity purchased, labor power, adding the means of production to it, but the consumption of labor power is the same thing as "using up" the human beings as bearers of that commodity. It's true that Marx writes that capitalist production is a process between *things* the capitalist has purchased, things which belong to him but he is the first to show that treating workers like things is something that *may* be resisted, and anyhow must be *conquered* by capital, through coercion or consent, during each cycle of production. And that is why the answer to "what it is" grounding the identity behind capitalist commodities cannot but be the living labor sucked from the human beings as bearers of labor power.

From what I have just said, it follows that I cannot but strongly agree with the NI normalization assumption, according to which (again in my vocabulary, bending a little the original formulations of its proponents) the money value added in the period is generated only by the abstract living labor which has been spent in the period, and which has been objectified in the direct labor sanctioned as social in final circulation. But (as my reformulation above somehow evokes) this is *not* a postulate. It cannot be justified with a sort of Smithian argument about labor being the only active element in production. Nor can the origin of profit be figured out by employing a sort of *minus-wage* argument (as it is in some Sraffians, but also in many Marxists, or even in Rubin) in which you begin from a simple commodity society where all income goes to direct producers, and then imagine a *deduction* from producers' income going to gross profits.

Marx's origin of profit is very different, historically specific, and an opposed contention. It is capital that is the active subject. Gross profits spring from the prolongation of living labor over and beyond necessary labor, under its compulsion. The comparison which structures the argument moves from a simple reproduction akin to Schumpeter's circular flow. Both elements in the comparison – i.e., total net product and total necessary labor – are accounted for in direct prices.

The NI non-dualist approach to the determination of relative prices was not too distant from the world I was discovering in the late 1970s and early 1980s. In a book on Sraffa and the critique of economic theory published in 1978, my friend Marcello Messori had already made the case that the *invariance condition* in the transformation from values to prices should have been reformulated. Instead of the identity between the sum of values and the sum of prices, he proposed the equality between the net product *measured in terms of values* (i.e., value of labor power + surplus value) and *the net product measured in prices* (i.e, wages + gross profits). Once the amount of living labor is crystallized as direct labor, its monetary expression should be assumed *as invariable to any modification in the price rule.* This was, I think, a clear anticipation of the NI normalization condition, one which I have accepted since the early 1980s.

The ground for this normalization condition that I locate in Marx's inquiry about the immediate valorization process is compatible with the same quantitative *ex-post* accounting in circulation in Foley and Duménil. As a matter of fact, it fits it like a glove.

However, to some extent I think that the NI discourse about the notion of the value of labor power needs to be thoroughly problematized. The debated issue concerns the choice between expressing the value of labor power in direct prices (proportional to the labor *contained* in a real "subsistence" basket), or in production price (as the labor *commanded* in circulation by the money wage). For the NI this would mean a change in the quantitative magnitude of surplus value. The professed reason is that in a monetary economy the first definition of the value of labor power, as the labor contained in a given real wage, refers to an *a posteriori* measurement, after money wages have been spent and thus the real wage could be fixed (before that necessary labor in labor contained terms would be impossible to determine); while the second definition refers to an *a priori* measurement, as the labor commanded on the market by money wages, irrespective of what commodities are bought by workers. In other words, the commodity basket that the wage workers effectively purchase can only be known *ex-post* once their consumption choices have been carried out.

I thought that this claim could be contested from a macro-monetary circuit point of view that we were developing. The observation I am disputing is appropriate in an enquiry focused on agents' *individual* behavior. Things are however quite different within a *macro*-monetary and class analysis. In NI, "macroeconomic" seems very much co-terminus with "aggregate", and monetary refers for me to the capitalist process as a sequential circuit opened by an *ex-nihilo* financing of production, something quite different from NI.

My understanding of macro and monetary is derived from Marx, Section VII on Reproduction in *Capital I*. There he contrasted what I would call a *macro logic* – the logic of the whole, that less anachronistically could be termed as the logic of the totality – to what is a *micro logic* – the logic of the individual, as allegedly the average representative of the whole, afterwards gathered in a total amount.

For Marx, the working class is bound to total capital by a relation of slavery. The free and egalitarian necessary *appearance* of a bargaining between individual workers and single capitalists, which is presented in the previous Sections, is shown in Section VII to be a *semblance*, an illusory objectivity. The true state of affairs is that the *capitalist class advances monetary cheques to the working class, debt claims which are then returned by workers to capitalists in order to obtain a share of what they have produced.* In *Results of the Immediate Production Process* Marx comes to the point of saying that, rather than being the workers who buy the means of subsistence, it *is the means of subsistence that buy the workers as human bearers of labor power.*

I translate this in a way which is compatible with both a circuitist approach and (some of) Post-Keynesian theory. What must be taken as given is for me the real wage of *the working class.* Individual workers *do* have freedom regarding their individual choice about consumption. It is *not so*, however, for workers as a class. They can buy what capitalists' autonomous choices about the composition of output and effective demand (i.e. the level and allocation of employment) leave them as a residual. This is, by the way, an argument we find again in Keynes' *Treatise on Money* and Kalecki (but also in Robertson's *Banking Policy* and in an even bleaker way in Wicksell).

Of course, this amounts to asserting that the value of labor power has a *double definition*: when ruling prices differ from direct prices, the real wage must be re-evaluated. This second definition of the value of labor power at prices of production (or whatever) does not make the first definition of value of labor power at direct prices irrelevant.

In 2000 Foley referred to an unpublished essay by Robert F. Brinkmann, that (if I remember well) he had kindly sent to me before, after we had some conversations on a related topic. Like in my circuitist approach, this author held firm the composition of the net product, and proposed a distinction, parallel to mine, between "labor-values" (which I prefer to translate conceptually rather as Shaikh's direct prices or de Vroey's simple prices) and "essential values" (production prices). This division makes it possible, as in my outlook, to establish a difference between *necessary* labor, as the labor *required* to produce the wage goods, and *paid labor,* as the labor *commanded* on the *commodity market by the monetary wage bill.*

Ruling prices different from direct prices cannot alter the total living labor sucked by total capital out from living labor power by winning class struggle in production. This is the labor contained in the new value produced during the period. Nor can those prices alter the amount of direct labor that total capital has to give back to the workers in order for labor power to be reproduced. This is the labor contained in the commodities that returns to the working class as a result of the wage struggle.

Total living labor and total necessary labor, both in terms of labor contained, are precisely the data that Marx determines in the end through the inquiry in *Capital I*. They are what must be held *constant*, at least in a first approximation, when dealing with the concretizations of *Capital II* and *Capital III*: but their monetary exhibition can change. Yet, usually, workers and capitalists are buyers of commodities estimated with prices of production divergent from direct prices. It follows that price determination undoubtedly impacts how much labor the many capitals in competition are able to command in circulation *through the prices of their output* – i.e., what amount of the total objectified labor exhibited in the money value added those capitals may obtain on the market.

It may then seem that gross profits could be higher or lower than surplus value. It is not so. The rate of surplus value originates from class struggle on the length of the working day and the intensity of effort, and from the variations in the productive power of labor. That rate is *accurately* represented by the labor congealed in the surplus goods over the labor congealed in the wage goods; the perspective here is that of the macro and class struggle in production. The NI ratio of the labor-equivalent of gross profits over the labor-equivalent of the money wage bill does depend, on the contrary, on the microeconomic price rule, which, in turn, relies on a multitude of institutional factors and mostly on the form of competition among capitals. This second ratio, which is also representing something real, conveys how circulation distorts and dissimulates the exploitation of labor in production. In other words, in my perspective, the discrepancy between necessary labor and paid labor (as defined before) is exactly one more stage in the *mystification* of the capital relation. Rather than being an argument against Marx's value theory, it is just the necessary consequence of the transformation once it is completed, and fully confirms its inner logic.

A probable point of contention with Foley, and one which occasions further future discussions, is what seems to me a powerful drift in his later writings to displace exchange value (proportional to labor contained) from its evident centrality in *Capital I*, something which probably is a consequence of the fact that, since the beginning, direct or simple price were denied as a *necessary intermediate step* between value as such and price of production.

Marx's aim was to understand *how* capital's gross profits were generated. Capitalist production is nothing but the consumption of the workers themselves in the vampire-like extraction of living labor: there is no possible "redundancy" in this constitutive process, which is the value theory of labor. Once the stage of dead labor is reached - that is, once we are on the terrain of Ricardo's object of inquiry, the stage at which Sraffa's price and distribution theory, but also the NI is mostly situated - the given amount of direct labor is already split between the two different classes according to the outcome of class struggle in production. The vantage point of early NI is that, though set at an operational and ex-post moment in the inquiry, it could recapitulate in a quantitative accounting (monetary) scheme the results of Marx's inquiry of the capitalist *process*.

It is important that the bridges with Marx's value-oriented (in simple prices) inquiry in *Capital I* are not muddled but strengthened. While it is true that the new value created in the period is allocated in actual circulation through prices, without any need to give a role to "labor-values" as ruling prices, it is also true that the macro-distribution between classes is accurately portrayed in prices proportional to the labor contained in the money value added and in the real wage of the working class. The concept of "labor-values" or "exchange value" – simple or direct prices – as an *intermediate* rule of exchange on the way to prices of production should have a place in a non-dualist approach.

From this point of view, I think that Shaikh's early writings gave an interpretation of Marx giving more weight than Foley did to the *value-exchange value-price* sequence. At the same time, Foley, like Shaikh, seems to me too willing to adhere to the long period method of the Classicals akin to Garegnani's reading. On my part, I am rather attracted by the alternative of Pasinetti's view, which sees prices of production as an only *ideal* point of reference. This can go well together with Schumpeter's characterization of Marx's value theory, which probably goes nearer to the mark (even though he thought it could not rescue the labor theory of value and exploitation, but only because he had a conventional view of both):

> "[We] need only look at Marx's analytic aim in order to realize that he need not have accepted battle on the ground on which it is so easy to beat him [value theory as a theory of equilibrium relative prices.]. This is so easy as long as we see in the theory of surplus value nothing but a proposition about stationary economic processes in perfect equilibrium. Since what he aimed at analyzing was not a state of equilibrium which according to him capitalist society can never attain, but on the contrary a process of incessant change in the economic structure, criticism along the above lines is not completely decisive. Surplus values may be impossible in perfect equilibrium but can be ever present because that equilibrium is never allowed to establish itself. They may always tend to vanish and yet be always there because they are constantly recreated." [*Capitalism, Socialism and Democracy*, 2003, 28]

VI. Conclusion

In the mid-1990s, thanks to my friend Jean-Pierre Potier, I went to Cambridge to consult the *Sraffa Papers*. You may imagine my surprise when I read a document of November 1940, "On the use of the notion of surplus value," where Sraffa gave a reading of Marx's value theory as based on a comparison very much like mine. That document is crucial in Sraffa's long marathon to write his book.

More than that, in the Sraffa papers I recognized an author quite conscious of the (Ricardian) limits of the object of analysis he chose, but also willing to set it in a larger Marxian framework that, at least in his own words, never evacuated the labour theory of value. On the contrary, §10 and §12 of *Production of Commodities* may be read together as providing a normalization assumption akin to the NI views, a circumstance which can be seen under a different light considering the 1940 note and other documents.

Some Italian authors like Dario Preti, Giorgio Gattei, Stefano Perri and Andrea Coveri (we half-jokingly named ourselves as "those of living labor") have produced relevant works in this area, but I must especially recognize my debt with Scott Carter (also from the New School). Maybe Sraffa was not so Neo-Ricardian after all.

I have used in this article the expression "making history [of economic theories] backwards". The expression is found in the *Sraffa Papers*, from 1927. It means questioning the authors of the past from the vantage point of the problematical state of present-day economic theory. As Croce wrote, every history is contemporary history. This is how I was educated in critical political economy by the great tradition of the Italian economists in the 1960s and 1970s. It leads to doing economic theory through the history of economic thought, and the history of economic thought through economic theory.

It is how I have tried to carry out my personal project within the critique of political economy, too. I couldn't have proceeded forward much, and in fact I couldn't have formulated my own views in the past few decades, without the continuous stimulation provided since my beginnings by the contributions of, and dialogue with, Anwar and Duncan. Probably because I also found at work very much the same method.