Foley and Shaikh: Nobles of Economics without Nobels

By Michael Roberts*

In this comment piece, Michael Roberts draws upon Duncan Foley and Anwar Shaikh's autobiographies to reflect upon the significant and wide-reaching contributions made by each.

If ever there were two deserved candidates for the so-called Nobel prize in economics, it must be Duncan Foley and Anwar Shaikh. But instead, the Riksbank prize is awarded to mainstream economists, often with the most obscure claim to illuminating any of the burning economic and social issues of our time.

In contrast, throughout their long careers, Foley and Shaikh have applied their extensive theoretical knowledge to the macro and micro issues that matter: Foley on the role of money, growth, cycles, and inequality; Shaikh on crises, international trade, profits and even the stock market.

Both Foley and Shaikh have based much of their contributions on Marx's value analysis of capitalism. Yet both prefer not to be considered Marxist economists. Why is this? Where do both Foley and Shaikh follow Marx and develop his analysis and where do they diverge? Let me draw on their own short autobiographies to be found in the excellent *A Biographical Dictionary of Dissenting Economists*, edited by Philip Arestis and Malcolm Sawyer (2001).[1]

Foley has said that "my intellectual project was then (and still is) to find firm foundations for the economic theories of money and macroeconomic stability." In collaboration with Miguel Sidrauski, in their book, *Monetary and Fiscal Policy in a Growing Economy* (1971), he showed that the neo-Keynesian IS-LM structure is incompatible with any conception of an independent demand for investment. "We were able to introduce money and financial assets only in an ad hoc manner and our rigorous treatment of stock-flow equilibrium seemed to rule out an autonomous role for firms and firm investment decisions in this type of model." In other words, the neoclassical/new Keynesian equilibrium model could not explain the drivers of investment under capitalism. No sign of profit motive here!

Foley adopted a unique role in trying to unify Walrasian equilibrium economics to the classical political economy of Malthus and Ricardo—and Marx. He virtually brought general-equilibrium theory to MIT. Foley hoped that by weaving money into general equilibrium he could show how economies really work.

Drawing from Marx, Foley recognizes that economies are profit-led. A higher profit share boosts growth—not something appreciated by post-Keynesian and heterodox economics, which sees capitalist economies as 'wage-led' ie. dependent on the consumption of the masses ('effective demand') and not on the profits of capital.

On moving to Stanford, he engaged for the first time in a revival of Marxian and Sraffian economic theory. As Foley put it: "I undertook a study of Marx, to see whether he offered a coherent alternative approach to economics, and whether this approach could address the problems of money and macroeconomic stability that had gripped me." The culmination of this study was Foley's seminal works, *Money, Accumulation and Crisis* (1986*a*),and *Understanding Capital: Marx's Economic Theory* (1986*b*). Indeed, in 1976, Foley wrote one of the most succinct and clear explanations of Marx's monetary theory in his preface to Suzanne de Brunhoff's masterpiece, *Marx on Money.*

Foley says that "I concluded that there was a coherent and consistent economic theory in Marx. The Marxian conception of the circuit of capital is an alternative to Walrasian equilibrium as a conception of the economic system as a whole and addresses some important weaknesses of the Walrasian paradigm. The circuit of capital is at root a dynamic, rather than static, conception of economic interaction. Marx also correctly accounts for the emergence of money simultaneously with the development of exchange

* Independent researcher.

[1]Except where otherwise noted, all below quotations from Foley and Shaikh are from Foley (2001) and Shaikh (2001), respectively.

and the commodity system, rather than inserting money and finance into a barter economy, as many monetary theorists do," (1976). In my view, it was this realization by Foley that led to the success of his books on capitalist crises.

However, Foley considers that "in Marx there was no complete solution to my problems of money and macroeconomic stability. Marx addresses only tentatively and incompletely the problem of the articulation of the microeconomic and macroeconomic aspects of the economy. The monetary theory of a commodity standard money that he developed on the basis of Tooke's work needs fundamental revision to address modern financial institutions and problems." For me, rather than a revision of Marx's monetary theory, I would see the task of developing that theory in the world of fiat economies. Indeed, such work by Marxist authors has shown that Marx's approach is superior to any other, including the much-hyped Modern Monetary Theory (Roberts 2019).

Foley does not consider himself a Marxist. He makes that clear in his very ambiguity on the question. When he joined the Stanford Economics department, "I found myself under pressure to define myself either as a Marxist or as a neoclassical economist. I am afraid I was unable to satisfy either side. There are many fundamental ideas in Marx that I agree with: the general approach of historical materialism to the study of human societies; the insistence on the importance of class divisions and exploitation in analysing social dynamics; the links between money and social labour-time enunciated by Marx's theory of value; the circuit of capital; the centrality of technological change to capitalist economic development; the critique of the commodity form as a social organizing principle; and the analysis of social theory in terms of ideological context, for example. But other parts of Marx's discourse seem off the track to me: his explanation of the evolution of workers' standards of living in capitalist development is self-contradictory; his account of revolutionary change based on class conflict is inconsistent; and his presumptions about the institutions of socialist economies seem naive to the point of irresponsibility."

Foley appears to reject the Marxian idea of class conflict being the motor of human history; and considers any image of socialism without classes as 'irresponsible and naïve'. Indeed, in a recent SOAS-NSSR YouTube broadcast (Foley 2022), he said that "Marx wanted central planning top down. And Marx was wrong about that because exploitation would continue with the new political class." He went on to say that given that achieving socialism "was more difficult than stopping global warming", leftist economists need to develop policies to "make things better within the system", just as labour managed with the Factory Acts in Marx's Victorian England to regulate hours and conditions. As then, it was finding divisions within the capitalist class that enabled reform. Now, with climate change, he advocated building alliances with sections of capital to improve the lot of labour.

Foley has aimed to develop economic models in the tradition of Kaldor, Hicks and Goodwin "in viewing the macroeconomy as locally unstable because of accelerator effects on investment. This local instability is limited by financial and liquidity effects, giving rise to limit cycle behaviour." Rather than develop Marxian economic ideas on profitability, Foley has studied the statistical properties of economics as complex systems (Foley 1994) and engaged in a reconsideration of the role of rationality in economic explanations. This is very much in the post-Keynesian tradition rather than the Marxist.

Indeed, Foley rejects the view that Keynesian theory is conservative and part of the mainstream support for the capitalist system. Mainstream Keynesian theory still sees economies as inherently moving to an optimal equilibrium, as Wicksell did. It still says demand causes short-run fluctuations, but only supply factors, such as the capital stock and technology, can affect long-run growth. But Foley sees Keynes differently. Keynes sees "dark forces of time and ignorance" enveloping the future. Speculators chase after what they think other speculators think, sometimes wreaking disaster. Firms may fail to sell goods and workers may fail to find jobs.[2] Foley reckons "Keynes saw capitalism's general state as allowing almost arbitrary unemployment: hence his General Theory. Full employment was a lucky exception... calling full employment the general state and allowing one unlucky exception turns Keynes upside down" (Schlefer 2015).

This positive appreciation of Keynes seems different to Foley's comments on Keynes in his preface to the Brunhoff book cited above. There he says that there "is the question of the degree to which the monetary policy of the state can create or moderate crises in the accumulation of capital. Keynes'

[2]On March 23, 2015, Duncan Foley and Lance Taylor received the 2015 Leontief Prize for their research in understanding the relationship between macroeconomics and environmental quality.

analysis of this question, which concludes that within broad limits monetary policy can alter the rate of investment and determine aggregate demand, is at sharp variance with the presumption we arrive at on the basis of Marx's discussion". He goes further: "Those who are engaged in these struggles on the side of the working class can only be weakened by relying on a monetary analysis adopted from Keynes or other bourgeois economists to the extent that this analysis is incorrect. A correct theory of money firmly based on the principles of the materialist conception of history is essential," (Foley 1976).

Trying to blend Keynesian economics and its demand side bias with Marxian economics and its supply side bias is no easy task—especially when Keynesians look to a wage-led rather a profit-led economy. It is even harder to conflate general equilibrium economics with the dynamic model of crises that Marxian economics proposes. But Duncan Foley makes a profound effort to achieve that.

Anwar Shaikh's contribution to the economics of reality—i.e. the political economy of capitalism—is immeasurable, but as an empirical economist, I shall try to measure it. Shaikh was unconvinced of the mainstream economics taught in universities. Starting at first with those in the heterodox tradition, like Kalecki, Sraffa, Robinson and Pasinetti, he gravitated to the classical school. Shaikh calls himself a classical economist, not a Marxist one, as he appears to consider Marx as having the same basic economic theory and concepts as the likes of Smith, Ricardo and Malthus. This is strange because Marx did not agree—on the contrary, Capital has the subtitle, "A Critique of Political Economy"—referring specifically the classical economists of the early 19th century, before economics became 'vulgarised' (Marx) and economists deteriorated into becoming ideological prize-fighters for the preservation of capitalism. It is also strange because Shaikh's work is infused with the Marxian analysis of capitalism and makes important additions to our understanding from a Marxist perspective with, as he says, its "trenchant analysis of the intrinsically conflictual origins, structure and reproduction of the system."

Indeed, Shaikh has covered just about every area of the macro (and the micro) and has delivered new theoretical insights backed up by empirical evidence—a combination sadly lacking in mainstream economics (and even among heterodox and Marxist circles).

Shaikh rightly thinks that one of his greatest insights is his focus on the 'turbulent regulation' of capitalist competition. By this he means that "the unplanned individual activities which characterize capitalist production are made socially coherent only through real processes of oscillations, discrepancies and errors around ever moving centres of gravity such as prices of production or balanced growth."

Like Duncan Foley, he rejects equilibrium analysis, so-called comparative statics, and the analysis of individual units beginning from some assumed state of equilibrium. Having adopted a labour theory of value, first from Ricardo, i.e. that relative prices are largely determined by labour time, he developed a unique proof of Marx's transformation of labour values into prices of production as determined by the equalization of profit rates through competition of capitals. While there are now more rigorous proofs of Marx's transformation procedure and refutations of the critical Okishio theorem, Shaikh's 'iterative procedure' bears great similarity with that of Marx. And the empirical evidence for its validity (namely that market prices are ultimately determined by prices of production and labour values) has been shown by him and other scholars since. His approach, following Ricardo and Marx, is also a devastating demolition of the marginalist 'factors of production' model for price determination, what Shaikh calls the "Humbug Production Function" (1986)

Most importantly, Shaikh bases all his work on the role of profits in a system of production for profit—something ignored completely by the mainstream. Shaikh emphasizes that any proper analysis of capitalism must start with the evident point that the driving force of the capitalist mode of production is profit—not output, not income, not technology, but profit. Yes, capitalism has expanded the productive forces to unprecedented levels, but the other side of the capitalist coin is rising inequality and the recurrent destruction of capital (both in means of production: bankruptcy and closures) and labour (unemployment and loss of wages). Unemployment is permanent and cannot be removed under a capitalist system. The capitalist economy operates through what Shaikh calls "real competition" in a turbulent and conflicting process. "It's a war, not a ballet"—a conflicting struggle between capital and labour; and between capitals.

In his view, there are two quite distinct sources of aggregate profit. Profit can arise from the net transfer of wealth or value into the circuit of capital, and it can arise from the production of a surplus within the circuit of capital. Here, I consider, he diverges from Marx, who is adamant that profit (surplus value) only emerges from the exploitation of labour, more specifically, productive labour. Profit from the transfer of wealth from another part of the economy does not create new value or surplus value, but is what it says, the result of a transfer within the existing total of surplus value. As Marx put it: "This profit upon alienation therefore arises from the price of the goods being greater than their real value, or from the goods being sold above their value. Gain on the one side therefore always involves loss on the other. No addition to the general stock is created," (Marx 1969).

In my view, Shaikh's attempt to reconcile the classical economists with Marx falls at this hurdle. The classical school recognize the role of profit in a capitalist economy but neither Ricardo nor Smith reckoned this was due to the exploitative role of capital over labour or the unintended result of the capitalist drive for more profit. Their 'dismal' explanation for a falling rate of profit was either rising wage costs (Ricardo) or intense competition (Smith). The Ricardian answer of rising wage costs squeezing profits was adopted by 20th century neo-Ricardians like Piero Sraffa and post-Keynesians like Joan Robinson and Michal Kalecki who rejected Marx's value theory and his law of profitability. Their positions cannot be reconciled with Marx—and more importantly, are not correct, in my view.

Shaikh takes his view of two sources of profit from James Steuart, the classical economist, who talked about two sources of profit: positive profit from production and relative profit from transfers of value from one capital to another. Marx was clear, I think, on the validity of these dual sources of profit and Steuart's position. "Before the Physiocrats, surplus-value — that is, profit in the form of profit — was explained purely from exchange, the sale of the commodity above its value. Sir James Steuart, on the whole, did not get beyond this restricted view," (Marx 1969).

This is not to deny that a key element of Marx's transformation of labour values into prices of production and then to market prices in 'turbulent competition' is based on the concept of unequal exchange. Shaikh himself explains this well. Marx shows that "industrial profit is grounded in the extraction of surplus labour, not in the transfer of wealth via unequal exchange. But then, when he moves on to the consideration of prices which are no longer proportional to labour values (for example prices of production), unequal exchange is once again part of the issue and aggregate profit now reflects both profit-on-alienation as well as profit-on-surplus-value."

The concept of unequal exchange is not only relevant to competition between capitals within a national economy but for the basic explanation of the transfer of value from weaker capitals in the Global South to the technically superior capitals of the Global North. Indeed, Shaikh's contribution to a theory of international trade recognizes this. Contrary to Ricardo's law of 'comparative advantage', Marx's unequal exchange shows that international trade competition does not lead to a balance of trade between nations. On the contrary, it leads to the more developed (that is technologically advanced) producers gaining an 'absolute advantage' over their less developed competitors.

Shaikh has been a leading source for explaining Marx's law of the tendency of the rate of profit to fall, both as the result of technological progress in capitalism and as the underlying cause of regular and recurring crises in capitalist production. As Marx (1973) said, it is "the most important law in political economy" because it shows the ultimate contradiction in capitalist production—between profits and social needs. Shaikh likes to put it thus: "in the language of microeconomics namely, capitalist production displays an inherent tendency towards lower average variable and average total costs, at the expense of higher average fixed costs. I show that the resulting secular rise in the capital–output ratio is sufficient to produce a secularly falling rate of profit even if the profit-share happens to be rising. This is Marx's law."

From here, Shaikh takes us further. He argues that "such a secularly falling rate will necessarily produce a 'long wave' in total real profit, which accelerates, then decelerates, stagnates, and even falls." I have great sympathy with the long wave theory of capitalist accumulation, something first identified by the Russian economist Kondratiev and which Shaikh first cited in a paper in 1992. Long wave theory is entirely the preserve of Marxian economics—not even the Harrodian growth model takes us that far. And Shaikh has produced much powerful evidence for long waves to show what state capitalist accumulation is in.

According to Shaikh, Kondratiev's main point is that business cycles are recurrent and "organically inherent" in the capitalist system. They are also inherently nonlinear and turbulent: "the process of real dynamics is of a piece. But it is not linear: it does not take the form of a simple, rising line. To the contrary, its movement is irregular, with spurts and fluctuations". There are cyclical fluctuations in profitability. These are expressed in business and fixed capital cycles inherent in capitalist production.

Crises are normal in capitalism. The history of market systems reveals recurrent patterns of booms and busts over centuries, emanating precisely from the developed world. The key crises under capitalism are 'depressions', such as that of the 1840s, the "Long Depression" 1873-1893, the "Great Depression" of the 1930s, the "Stagflation Crises" of the 1970s and the Great Global Crisis now.

In a paper that Shaikh presented in 2014, he updated his analysis on long waves, which is also developed in his magisterial book, *Capitalism: Competition, Conflict, Crises* (Shaikh 2016). Shaikh shows how capitalism lurches forward with regular crises, sometimes turning into deep depressions. It was this analysis that led Shaikh to predict back in 2003 that a major slump, i.e. the Great Recession, was coming.

For those of us in the Marxist tradition, Shaikh's work in conjunction with Ahmet Tonak (1994) on national accounts to reveal the Marxist categories from within the neoclassical veil of official statistics has proven invaluable. At issue here is a distinction between productive labor (such as those who produce a concert) and unproductive labor (such as the sales people who take money in return for access and the guards who prevent the rest from attending). Such distinctions profoundly affect our measures of national production and our understanding of the 'health' of a capitalist economy.

And then there is inflation—the topic of the post-pandemic period. Conventional mainstream economics has floundered in trying to explain the sudden surge in the prices of goods and services globally. Its main theories ('too much money supply' or 'wage cost-push' or 'inflation expectations') have proved inadequate and empirically wrong. Mainstream policy action has thus been reduced to monetary tightening with little effect on inflation, but instead to reduce 'profits of enterprise', as well as to dampen household consumption through the rising cost of borrowing and so provoke a new slump.

Shaikh offers us an alternative theory of inflation: "the maximum growth rate is the rate of profit. That being the case, one can interpret the ratio of the actual growth rate to the maximum growth rate (the 'throughput ratio') as an indicator of the degree to which the growth-potential of the economy is being utilized. The greater this ratio, the greater the likelihood that excess demand will end up accelerating inflation rather than growth," (Shaikh 1999). While Shaikh's inflation theory seems closer to a cost-push explanation (albeit based on profitability) than a Marxist value approach, he does find "a very striking correlation" between the 'throughput ratio' and the inflation rate in the US and in other OECD countries.

Perhaps, for me, one of Shaikh's most important contributions is to debunk the post-Keynesian thesis of monopoly. Shaikh says that his "approach is very different from both orthodox economics and the dominant heterodox tradition." Capitalism is based on 'real competition' rather than 'perfect competition'. The source of exploitation is not monopoly power: profit is not the result of some 'mark-up' over costs that monopolies obtain (Kalecki).

Last year, the stock markets of the world suffered their largest falls since the Global Financial Crash of 2008. What drives the fluctuations in the prices of what Marx called 'fictitious capital'? Shaikh has made a compelling attempt to answer that question. He reckons stock price movements are regulated by corporate profitability, but not by the rate of profit on capital as such, but the rate of return on new investment. He found that the rate of return in the US stock market closely parallels the corresponding corporate rate on new investment over most of the postwar period. "The two rates fluctuate substantially, yet they display essentially the same mean and standard deviation, with the stock market rate anticipating and tracking the corporate rate in a striking fashion (Shaikh 1997). This allows me to show that (annual) stock prices are strongly governed by their 'fundamentals'."

In writing this essay, I was struck by the sheer range of subjects covered by Foley and Shaikh and their insights, which have shone a bright light on the machinations of the capitalist beast. They have been noble economists, but without any Nobel award.

REFERENCES

Arestis, Philip, and Malcolm Sawyer. 2001. *A Biographical Dictionary of Dissenting Economists.* Edward Elgar Publishing.

Foley, Duncan K. 1976. "Preface." *Marx on Money*, vii–ix. Urizen Books. Author: Suzanne de Brunhoff.

Foley, Duncan K. 1986*a*. *Money, Accumulation and Crisis.* Harwood Academic.

Foley, Duncan K. 1986*b*. *Understanding Capital: Marx's Economic Theory.* Harvard University Press.

Foley, Duncan K. 1994. "A Statistical Equilibrium Theory of Markets." *Journal of Economic Theory*, 62(2): 321–345.

Foley, Duncan K. 2001. "Duncan K Foley." In *A Biographical Dictionary of Dissenting Economists.* , ed. Philip Arestis and Malcolm Sawyer. Edward Elgar Publishing.

Foley, Duncan K. 2022. "Production & Productivity." *https://www.youtube.com/watch?v=o2yrTeY7yOE*, SOASxNSSR Lecture Series.

Foley, Duncan K., and Miguel Sidrauski. 1971. *Monetary and Fiscal Policy in a Growing Economy.* Macmillan.

Marx, Karl. 1969. *Theories of Surplus Value.* Progress Publishers.

Marx, Karl. 1973. *Grundrisse: Foundations of the Critique of Political Economy.* Vintage Books.

Roberts, Michael. 2019. "Modern Monetary Theory: A Marxist Critique." *Class, Race and Corporate Power*, 7(1): 1–16.

Schlefer, Jonathan. 2015. "Not even Paul Krugman is a real Keynesian." *https://www.bostonglobe.com/ideas/2015/03/23/not-even-paul-krugman-real-keynesian/yXWqBRxzxDx2uXHy3NBh9J/story.html*.

Shaikh, Anwar. 1986. "The Humbug Production Function." In *The New Palgrave: A Dictionary of Economic Theory and Doctrine.* , ed. John Eatwell, Murray Milgate and Peter Newman. London: Macmillan Press.

Shaikh, Anwar. 1992. "The Falling Rate of Profit and Long Waves in Accumulation: Theory and Evidence." In *New Findings in Long Wave Research.* , ed. Alfred Kleinknecht, Ernest Mandel and Immanuel Wallerstein. London: Macmillan.

Shaikh, Anwar. 1997. "The Stock Market and the Corporate Sector: A Profit-Based Approach." In *Markets, Unemployment and Economic Policy.* , ed. Philip Arestis, Gabriel Palma and Malcolm Sawyer. London: Routledge.

Shaikh, Anwar. 1999. "Explaining Inflation and Unemployment: An Alternate to Neoliberal Economic Theory." In *Contemporary Economic Theory.* , ed. Andriana Vachlou. London: Macmillan.

Shaikh, Anwar. 2001. "Anwar M Shaikh." In *A Biographical Dictionary of Dissenting Economists.* , ed. Philip Arestis and Malcolm Sawyer. Edward Elgar Publishing.

Shaikh, Anwar. 2014. "Profitability, Long Waves and the Recurrence of General Crises." *https://thenextrecession.files.wordpress.com/2016/04/profitability-long-waves-crises-2.pdf*, International Initiative for Promoting Political Economy Conference, Naples.

Shaikh, Anwar. 2016. *Capitalism: Competition, Conflict, Crises.* New York: Oxford University Press.

Tonak, E. Ahmet, and Anwar Shaikh. 1994. *Measuring the Wealth of Nations: The Political Economy of National Accounts.* Cambridge University Press.