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Book Reviews

CLASSICAL POLITICAL ECONOMICS AND MODERN CAPITALISM. THEORIES OF VALUE, COMPETITION, TRADE AND LONG CYCLE, CHAM: SPRINGER, 2019, 469 PAGES. ISBN: 9783030179663 BY LEFTERIS TSOULFIDIS AND PERSEFONI TSALIKI.

The modern classical approach is a strand of investigation in political economy originated by Sraffa (1960) with the purpose to restore and rehabilitate the analysis of classical economists in particular Smith, Ricardo and Marx. Thus far, most of the contributions proposed have been theoretical. The empirical part of the inquiries explicitly linked to this approach is still being developed. The monography written by Tsoulfidis and Tsaliki constitutes a significant step forward. It contains a theoretical analysis of modern capitalistic systems together with a broad empirical analysis of the workings of some important capitalistic economies (Greece, US, Japan, Germany, etc.). More specifically, the authors develop their research through a strictly Marxian lens.

The book is divided into two parts: "Theories of Value and Empirical Evidence" and "Competition, Trade and Long Cycle: Theory and Empirical Evidence". The analysis contained in the first part of the book (especially chapters 1, 3 and 4) broadly focuses on the notion of 'labour value' and its relationship(/superiority) with the notion of 'price of production'. The theory of labour value was a milestone in classical political economy. Adam Smith referred to it as the 'early and rude state of society which precedes both the accumulation of stock and the appropriation of land' (Smith 1776, chap. VI). In this case, it is the quantity of labour *embodied* in any commodity which regulates the quantity of labour that that commodity can *command*; therefore, a labour theory of value is considered to hold for these primitive societies. But '[a]s soon as stock has accumulated in the hands of particular persons' and 'the land of any country has all become private property' the 'natural price' of each commodity resolves into three components: wages, profits and rents. Ricardo initially rejected the Smithian definition of natural price because it overlooks the inevitable trade-off between any pair of the above distributive variables. He thus returned to the labour theory of value in order to evaluate the aggregates that enter into the determination of profits and the rate of profit. The criticisms of his commentators against

this 'simple rule' led him towards a more general notion of prices, which includes profits over capital advanced. But this generalization gives rise to a logical problem that Ricardo could not handle: the prices used to evaluate the aggregate entering into the determination of profits and the rate of profit would require previous knowledge of profits or of the rate of profit, which was precisely what Ricardo aimed to determine by using those prices. He tried to develop some devices to manage these problems but never reached a satisfactory solution. Marx, on the other hand, *defined* the value of a commodity as the quantity of labour (directly and indirectly) embodied in it; that is, he accepted a labour theory of value. This definition of value is at the core of his accusation of exploitation of labour force. In fact, exploitation is measured by the difference between the labour provided by a worker (the exchange-value of labour) and the labour embodied in his subsistence (the use-value of labour). He called this difference 'surplus value' and argued that it is appropriated by capitalists in the form of profits. He then derived the main part of his findings by using this notion of value, but in Volume III of *Capital* he felt the need to adopt a notion of price that is more compatible with the capitalistic set-up. He thus worked out a process of 'transformation' of values into 'prices of production': while in the labour-value of a commodity the profit component is proportional to what Marx called 'variable capital', that is, the value of the wages advanced to workers, in the price of production the profit component must be proportional to the *total* capital advanced by capitalists, that is, wages and the fixed capital. According to Marx, the fundamental magnitudes to understanding the structure of the economic system are labour values. But competition among capitalists ensures that production prices are the levels around which the exchange relationships between goods are regulated. Subsequently, Sraffa proposed a rigorous notion of price of production and was thus able to solve Ricardo's problems referred to above, as well as deal with the relation between prices of production and income distributive variables (wages and the rate of profit). He showed that only in very special cases are prices of production proportional to labour values.

However, Tsoulfidis and Tsaliki devote considerable space to showing that at the empirical level 'direct prices', that is, the monetary expressions of labour values, do not deviate much from prices of production. On this basis, the notion of labour value is adopted in the main part of the remaining analysis. But the preference given to labour value rather than prices of production does not seem to be well-grounded. Clearly, labour values are magnitudes easier to estimate than prices of production and some findings

can be drawn more easily if the analysis is based on labour values. But this perspective hides the occurrence of a series of effects that cannot be excluded, as Sraffa showed, due to the change in relative prices when income distribution changes. In particular, with labour values the relationship between the rate of profit and the wage rate associated with each technique becomes linear and, as is well known, this may oversimplify the obtainment of many other results. More in general, prices of production are a more evolved notion and, independently of empirical approximations, results drawn from production prices should be considered more general and rigorous than those obtained by means of labour values.

Apart from this observation, special attention should be given to Chapter 2, where the authors appropriately underline the relevance for classical analysis to consider production as a circular process. Actually, this is a founding element of classical political economy, since on it the very notion of surplus and the consequent view concerning profits are rooted. A viewpoint that disregards this element cannot but arrive at a radically different view on income distribution. Circular flow is a notion that Quesnay focused on and was subsequently well captured by Marx. According to the authors, the first classical economists were not always able to grasp its full potential (§ 2.1). Probably, an exception was Ricardo who, while not dealing with the *Tableau économique*, developed his production and distribution theory around the idea of a circular production system: see the 'method devised by Ricardo [...] of singling out corn as the one product which is required both for its own production and for the production of every other commodity' (Sraffa 1960, Appendix D, 1).

The first part of the book concludes with Chapter 5 which contains an interesting outline of the classical notion of competition, conceived as a rivalrous process characterized by predatory phenomena, increasing concentration of firms in industries, often under the role of a dominant firm. This 'dynamic' view of competition is compared to the statical neoclassical conception of competition, 'as an end-state', and clearly it appears superior and more suitable for describing the actual behaviour of competitive economies.

The second part of the book has a decidedly more of an empirical focus, and is devoted to the study of several macro-phenomena typical of capitalistic economies. In Chapter 6 we find an empirical investigation on actual competitive processes of a few actual economies. The analysis is carried out with reference to the industrial system of Greece, Japan and U.S.. No empirical regularity emerges from the profit margins on sales and

the degree of concentration. A tendency toward the equalization of the industrial rates of profit is also observed.

Chapter 7 is devoted to international trade. We find a reappraisal of Adam Smith's absolute cost advantage principle and a reappraisal of Arghiri Emmanuel's unequal exchange argument. The authors display the result of some empirical test on the Greece-Germany, U.S.-China and U.S.-Germany relations, all confirming Emmanuel's initial intuitions. This is an area, for example, where the path followed by most of the literature went in the opposite direction, preferring to base the analysis on production prices rather than on labour values. Emmanuel's (1972) result was presented initially in terms of a problem of transformation of values into prices of production. Later Gibson (1980) generalized Emmanuel's main results in terms of production prices directly, without any reference to labour values. Some more recent studies confirm this tendency (see, for example, Bellino and Fratini 2021).

Chapter 8 studies the economic cycles lasting for at least 40-45 years (long-waves) and focuses on ascertaining the law of the falling tendency of the rate of profit.

Chapter 9 proposes the distinction between productive and unproductive labour, a distinction that is deeply affected by the theoretical framework in which it is placed. Moreover, it can assume different forms within the various strands of classical schools. In Sraffian terms, it reflects the distinction between basic and non-basic commodities. For Marx, productive labour is labour that produces surplus-value. For neoclassical economists, like for example Marshall, productive labour is that labour producing any good for which there is a buyer on the market. The authors evidently favour the Marxian distinction, and this raises a relevant point concerning the need to redefine national accounting systems (for example the measurement of productivity) in accordance with the theoretical approach followed. The current national accounting systems are mostly modelled on the basis of the categories used by neoclassical economics. The authors thus propose a reclassification of national income accounts which is more coherent with the Marxian perspective adopted.

Chapter 10 provides a description of the evolution of the main macroeconomic variables for U.S.: the growth rate of GDP, a fall in the rate of profit (explained by a change in the technical composition of capital), and the rise of 'non-productive expenditure', which does not take part in surplus generation.

My overall evaluation of the book can only be positive. This is a very

challenging book. It provides an articulated, detailed and coherent analysis of the workings of some important capitalist economies according to a clear view. While one can agree partially or fully with the proposed view and perspective, the content of the book constitutes an opportunity for discussion and debate among scholars interested in the actual functioning of our capitalist economies.

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