REVIEW of ***Marxian Political Economy: Theory, History and Contemporary Relevance***

by Bob Milward. London: Macmillan. 2000. 219 pages.

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This book is intended as a textbook for undergraduate students in economics, politics, sociology, and philosophy. Its aim is to demonstrate that Marx's theory is still relevant to understanding contemporary capitalism. I think the book succeeds fairly well in this important objective, although I think much more could be done along these lines. I teach a course on Marxian economics, so that is my perspective in reviewing the book.

The book is divided into two parts: the first part is an introduction to Marxian theory (eight chapters) and the second part presents applications of this theory to various important problems in advanced capitalist economies today (monopolies, unemployment, the public sector, and the crisis of the welfare state).

The book argues that the main way that Marx's theory is relevant to contemporary capitalism is that it implies that sustained full employment is not compatible with capitalist property relations. Full employment increases the power of workers, and thereby threatens both the power and the profits of the capitalist class. Full employment helps workers secure higher wages and also a lower intensity of labor, both of which threaten the profits of capitalists. Sooner or later, capitalists will reassert their power over government policies (employing here a Marxian theory of the state) and force the abandonment of full employment policies. Therefore, attempts to manage capitalism by government intervention in order to provide full employment are fundamentally misguided and inevitably will always fail. The rise and fall of Keynesian policies in the post World War II period is one important example of this inevitable failure. Milward's main target is current proposals for a "third way" that would aim to achieve full employment and greater equality within capitalism by a revival of social democracy; e.g. Giddens. This is an important message and Milward delivers it well.

On other aspects of Marx's theory, the book is less successful. Marx's theory of surplus-value, the foundation of the rest of Marx's theory, is presented in two pages. I would prefer a much more thorough presentation, with numerical examples and/or algebraic formulations, of the determination of surplus-value by surplus labor, which is so important for the later critique of the "third way". I would also prefer a more systematic presentation of the main conclusions that Marx derived from his theory of surplus-value in Volume 1 of *Capital*: conflict over the length of the working day and over the intensity of labor (absolute surplus-value) and inherent technological change (relative surplus-value).

Milward spends quite a bit of space on the "transformation problem" (one full chapter and more) and presents an unusual defense of Marx. Milward agrees with the critics of Marx who argue that Marx failed in his attempt to derive equilibrium prices from given values, because he "forgot to transform the inputs" of constant capital and variable capital from values to prices of production. However, Milward argues that this omission is not important, because Marx's aim was not to derive equilibrium prices from values, but was only to show how the profits received by individual capitals is different from the surplus-values produced by these individual capitals.

In my opinion, Milward's defense is weak, because it implies that Marx's two aggregate equalities (sum of prices = sum of values and sum of profits = sum of surplus-values) are not both true simultaneously, and also implies that the price rate of profit is not equal to the value rate of profit (and the two rates of profit could have different trends). I think a stronger defense of Marx's theory of prices of production could be given. I have argued in several papers: (1) that the prices of production determined by Marx in Part 2 of Volume 3 are indeed long-run equilibrium prices (in the classical sense of long-run "center-of-gravity" prices) ("Marx's Concept of Price of Production as Long-run 'Center of Gravity' Price", available at www.mtholyoke.edu/~fmoseley) and (2) that Marx *succeeded* in deriving these long-run equilibrium prices in Part 2. In other words, Marx *did not forget to transform the inputs* ("Marx's Logical Method and the Transformation Problem," in Moseley (ed.), *Marx's Method in 'Capital': A Reexamination*, 1993; and "The New Solution to the Transformation Problem: A Sympathetic Critique,"*Review of Radical Political Economics*, 2001). It follows from this interpretation that both of Marx's aggregate equalities are true simultaneously and that there is only one rate of profit, the price rate of profit, that is determined by the analysis of capital in general in Volume 1 and then taken as given in the analysis of competition and the distribution of surplus-value in Volume 3.

Milward presents an eclectic interpretation of Marx's crisis theory - a combination of the falling rate of profit and realization crisis, plus at times technological unemployment (labor-saving technological change). Milward reconciles the falling rate of profit with realization crisis by arguing that capitalists respond to the falling rate of profit by cutting wages, which leads to underconsumption and a realization crisis. It seems to me that there is a fundamental flaw in this argument: lower wages are offset by higher profits. This leads to a realization crisis only if capitalists do not spend all of their extra profit, neither on consumption, nor on investment; i.e. only if capitalists hoard some of the extra profit in the form of money. In general (and especially in an inflationary environment), I consider this possibility highly unlikely. Therefore, cutting wages is not likely to lead to a realization crisis.

Rather, according to Marx's theory of the falling rate of profit, cutting wages is one way to restore the rate of profit, by increasing the rate of surplus-value. However, and most strikingly, cutting wages by itself is not likely to fully restore the rate of profit, according to Marx's theory, because the cause of the decline of the rate of profit is not rising wages, but rather a rising composition of capital. Therefore, a full restoration of the rate of profit requires, above all else, a significant reduction in the composition of capital, i.e. a significant devaluation of capital brought about by means of widespread bankruptcies, liquidations, etc. This necessity of bankruptcies, etc. to restore the rate of profit is a very important and unique implication of Marx's crisis theory, including for the current crisis of the world economy, and this crucial implication is missing in Milward's presentation.

Furthermore, Milward does not apply his interpretation of Marx's crisis theory to the stagflation of the world economy since the 1970s. Such an explanation of this stagflation would seem to be one of the most important ways in which Marx's theory is relevant to contemporary capitalism. The chapter on unemployment is almost entirely about mainstream theories. Only the first two pages are about Marx's theory of unemployment, which is presented as caused by labor-saving technological change (as in Chapter 25 of Volume 1), with no connection to the falling rate of profit and/or realization crisis. Milward asserts in the next-to-last chapter that "late 20th century capitalism is on the brink of yet another crisis," (p. 182), but he presents no explanation of the causes of this impending crisis.

So, in the end, would I use this book in my course on Marxian Economics? Probably not, but others might find the book more useful. I prefer that students read Marx in the original, and I consider the best secondary source to be Duncan Foley's *Understanding Capital*.