ECONOMIC CRISSES AND EFFECTIVE DEMAND IN RICARDO, MARX, AND KEYNES

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Ricardo held that general overproduction crises are impossible, that is to say, that there could not be an overall overproduction crisis.

Ricardo's point of view is based upon his acceptance of Say's law, which in turn, rests upon some specific characteristics of Ricardo's analysis. More precisely, he was able to reach his conclusions because of his concept of money; the idea that the effects of effective demand upon production and accumulation must be studied separately from the factors which determine investment; the idea that, even if there occur phenomena which make supply and demand diverge, the system as a whole will give rise to adjustment processes which will eliminate the consequences of those phenomena.

Malthus was the first classical economist who questioned Ricardo's ideas on the problem of effective demand. However, Malthus, in my opinion, was not able to provide a consistent critique of Ricardo and an alternative approach to the analysis of effective demand and crises. I argue that Marx was the first economist who, from within the classical tradition of thought, succeeded in carrying out a more satisfactory critique of Say's law and Ricardo's analysis.

Marx, on the one hand, developed the analysis of the conditions which have to be fulfilled in order that the supply of and the demand for all produced commodities be equal. On the other hand, he showed that within a capitalist economy there exists an inherent tendency to
have crises which are caused by an insufficiency of effective demand.

Marx's critique of Say's law and Ricardo is essentially based upon a concept of money and its role which is very different from the concept of money of Ricardo. Money is no longer regarded as a mere medium of exchange but also as a store of value which capitalist entrepreneurs may hoard when the inducement to investment is weak.

Marx's analysis of crises, effective demand, and money certainly is more developed and rigorous than Malthus' attempts to criticise Ricardo, but, none the less, it also leaves some problems unsolved and requires some necessary qualifications in order to be consistent. The main problem which is left unsolved by Marx is that unemployment of labour along with unemployment of productive capacity can be explained only by general over-production crises.

It is only with Keynes, almost a century after Marx, that the critique of Say's law assumed a more general character. I argue, however, that there exist significant affinities between Marx's and Keynes' critiques of the law.

To point out the existence of similarities between Marx and Keynes does not mean that one ignores or overlooks the existence of other differences: Marx's critique of Say and Ricardo only allowed him to show that, during an overproduction crisis, the capitalist system is affected by unemployment of productive capacity along with unemployment of labour. On the other hand, the critique of Say's law and neoclassical economics enabled Keynes to show that unemployment is not necessarily caused by general overproduction crises. Although the economy is experiencing equilibrium conditions, unemployment may well occur.
I argue that this difference between Marx and Keynes may be explained if we take account of the different micro-foundations on which their analyses rest. The analytical conclusions reached by Marx crucially depend on his assumption that firms (in the short-period) produce in conditions of constant variable costs, while the different analytical conclusions of Keynes (which apply to an economy in perfect competition) crucially depend on his hypothesis of increasing short-period marginal costs and on his theory of investment.

However, both Keynes' theory of the firm and his theory of investment are subject to very relevant criticisms, for they are based upon either unrealistic or inconsistent hypotheses. Both Sraffa and Kalecki, in the 1920's and 1930's, provided the fundamental contributions for a critique of Keynes' micro-foundations, and pointed out that the classical, and Marxian, micro-foundations must be regarded as more realistic and consistent.

Such an outcome is somewhat paradoxical: the more realistic micro-foundations of Marx's theory lead to analytical results that are less realistic and less consistent with the reality of capitalist economy, where unemployment of productive capacity along with unemployment of labour represent the normal conditions in which the economy works, while general overproduction crises, in the form envisaged by Marx, are not very frequent.

The solution to such a difficulty is to be found in the relinquishment of the hypothesis that the economy as a whole is in a condition of free competition.

It was Sraffa who first suggested the idea that the economy as a whole does not operate in free competition, and he outlined the more
concrete features which characterise capitalist markets. Kalecki developed some of Sraffa's ideas and provided a general analysis of the problem of effective demand in a non-competitive framework, where investment is explained in a way which is not subject to the criticisms to which Keynes' own theory is.

Sraffa and Kalecki provide a more general analytical context within which it is possible to carry out the study of actual economies, and where the fundamental insights of both the classical economists, Marx, and Keynes acquire a greater strength.

In the present work, I deal only with some aspects of the more general problem of the relationships between the classical and Marxian thought and Keynes. However, it is my opinion that they are so important, and relevant to the comprehension of the actual working of capitalist economies, that they deserve a wide and detailed analysis.