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**ALTERNATIVE APPROACHES
TO A THEORY OF
ECONOMIC GROWTH: Marx,
Marshall and Schumpeter**

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ORIENT LONGMAN

Alternative Approaches to a Theory of Economic Growth: Marx, Marshall and Schumpeter

I

IF I SURVEY the multiplicity of growth models whose ostensible purpose is to elucidate the laws of motion of an economic system undergoing sustained increase in population, capital stock, national product and such other crucial aggregates, I can discern two major types of conceptual approaches. One may be designated as the Mill-Marshall approach which has been extended in recent years by authors who claim to have worked out a neo-classical theory of growth. The second may be called the Marx-Schumpeter approach. This tradition has also its contemporary adherents amongst whom we can mention especially Joan Robinson and Nicholas Kaldor.

A legitimate question is, Where do the early classical authors belong, such as Smith, or Ricardo?¹ We would be justified in saying that they belong to both traditions inasmuch as they provided the discipline with certain indispensable tools which have been found serviceable by either tradition. The real parting of the ways comes with Mill, on the one hand, and with Marx, on the other. Both thinkers drew heavily on the classical tradition but each did it in his own characteristic way. For example, Mill's comprehensive summing up of the classical tradition left out those insights of Smith which much later Allyn Young did so much to emphasize. In other words, we refer to Mill's neglect of the doctrine of increasing returns in the context of historical changes or more appropriately all elements of cumulative change other than the ones

Notes

1. Malthus, of course, was a dissenter within the classical tradition. He failed, however, to evolve a systematic apparatus of thought as his highly interesting but somewhat disjointed treatment of growth in the second book of *Principles of Political Economy* clearly shows. His influence as a general economist faded away in the 1830s only to be revived in the 1930s and that too in the context of an economics of the short period such as Keynes developed. His theory of population was taken over by Mill, although in a somewhat diluted form.
2. L. von Bortkiewicz, 'Wert Rechnung und Preis Rechnung im Marx-schen System', *Archiv für Sozial Wissenschaft und Sozial Politik*, 35 (1907): 10-51, 445-88; also available in English as 'Value and Price in the Marxian System', *International Economic Papers*, vol. 2 (London: Macmillan, 1952), pp. 1-60. Bortkiewicz would seem to be primarily thinking in terms of Mill's early essays which came out in 1844, even though they were written in the late 1820s.
3. Marshall showed an appreciation of the problem of irreversibility in his famous Appendix H of *Principles*, 8th ed. (London: Macmillan, 1920). We shall be referring to it later.
4. J. K. Whitaker, *The Early Writings of Alfred Marshall*, vols. 1, 2 (London: Macmillan, 1975).
5. See review of W. T. Thornton, 'On Labour', in *Collected Works of J. S. Mill*, vol. 5 (Toronto, 1967), pp. 633-68.
6. J. R. Hicks, *Capital and Time: A Neo-Austrian Theory* (Oxford: Clarendon Press, 1973).
7. Joan Robinson has also drawn special attention to this aspect of Marshall's work. Compare her 'Marx, Marshall and Keynes' in her *Collected Economic Papers*, vol. 2 (Oxford: Basil Blackwell, 1960).
8. Marshall himself placed some of these observed features of a growing economy under the general rubric of 'external economics'. But even here his objective was not as much connected with the elucidation of a growth process in time as with attempts to salvage the concept of competitive industry equilibrium under conditions of increasing returns to scale. Sraffa's famous critique of 1926 demonstrates how hopeless the attempt was: P. Sraffa, 'The Laws of Return under Competitive Conditions', *Economic Journal*, 36 (1926): 535-50.
9. When I use the expression 'Hegelian tradition', I think that it is only appropriate to warn the reader that there are many fundamental differences between Marx and Hegel. For Hegel, evolution is, in fact, an 'involution' and the dialectic works itself out in the realm of *Begriff*

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(‘concept’). Historical knowledge is only gained *post festum* (‘after the event’). In Hegel’s words, ‘The owl of Minerva flies out at dusk’. But Marx is concerned with conceptualizing the process that takes place in the sphere of real history as distinguished from the realm of logic. Marx is, therefore, interested in prediction and not in ‘retro-diction’, excepting as an aid to testing out his model of change. The chapter on ‘Pre-Capitalist Formations’ in the *Grundrisse: Foundations of the Critique of Political Economy*, trans. M. Nicolaus (Harmondsworth: Penguin, 1973), is an illustration of such a model. In his earlier writings Marx was, of course, very much more under the influence of Hegel, an influence which in a manner of speaking always persisted. But as his *Theories of Surplus Value*, vol. 3 (Moscow: Foreign Languages Publishing House, n.d.), indicates, in the 1860s he found himself in a position which was evolutionary almost in the same sense as R. Jones, the English economist, understood it. It is also important to bear in mind Marx’s numerous references to Darwin in *Capital*, vol. 1 (Harmondsworth: Penguin, 1976). It was not an act of aberration on the part of Engels that in his speech at the graveside of his friend he compared Marx’s work with that of Darwin. Marxist philosophers with a strong Hegelian bias tend these days to ignore the empirical side in Marx very much the same way as the earlier generation ignored his Hegelian origins.

10. Marx’s ideas on the question of realization have often been the subject matter of very heated discussions. It is, of course, not possible to describe Marx as a simple ‘underconsumptionist’ even though he described Say’s Law as merely childish ‘babble’. The following extract states the complex character of Marx’s argument quite well:

Those economists, who, like Ricardo, conceived production as directly identical with the self-realization of capital and hence were heedless of the barriers to consumption or of the existing barriers of circulation itself, to the extent that it must represent counter-values at all points, having in view only the development of the forces of production and the growth of industrial population—supply without regard to demand—have, therefore, grasped the positive essence of capital more correctly and deeply than those who, like Sismondi, emphasized the barriers of consumption and of the available circle of counter-values, although the latter have better grasped the limited nature of production based on capital, its negative one-sidedness. The former more its universal tendency, the latter its particular restrictedness. (*Grundrisse*, p. 410)

11. T. Sowell, ‘Marx’s “increasing misery” doctrine’, *American Economic Review*, 50 (1960): 111–20.
12. Marx, *Theories of Surplus Value*, Part III, p. 364.
13. *Ibid.*, pp. 368–69.
14. G. Haberler, ‘Schumpeter’s Theory of Interest’, special issue on Schumpeter, *Review of Economics and Statistics*, 33 (1951): 122–29.

Schumpeter himself took different positions on this question on different occasions. Beginning with his strong version, which gave rise to major controversies in which people like Robbins and later Samuelson intervened, he moved to a weaker position. Thus, he wrote, 'Readers who hold any theory of interest according to which that phenomenon would be present also in a perfectly stationary state (which the writer does not believe) are free to insert here also interest as a payment for the productive service which the particular theory chosen holds to be responsible for it'. See J. A. Schumpeter, *Business Cycles*, vol. 1 (New York: McGraw-Hill, 1939), p. 41. This statement while not conceding any ground for the existence of a positive interest rate would seem to imply that Schumpeter came to the conclusion that his theory of economic development did not in any way depend critically on the 'theorem' that the rate of interest is necessarily zero in a stationary circular flow.

15. Schumpeter was quite emphatic that he was in disagreement with J. B. Clark in denying to *Capital* the merit of bringing about the synchronization. See his *Theory of Economic Development* (New York: Oxford University Press, 1961), p. 38, n. 2.
16. This terminological difference does not by itself connote very much. We may as well ignore it and replace it by the terms 'growth *simpliciter*' and 'growth *proper*'.
17. Schumpeter devotes considerable attention to what precisely constitutes an innovation both in his *Theory* as well as in his work on *Business Cycles*. See especially *Theory*, ch. 2.
18. Schumpeter, 'Capitalism in the Postwar World', in *Essays* edited by R. V. Clemence (Reading, Mass.: Addison Wesley, 1951), p. 170.
19. The element of historic 'time' has recently been very strongly stressed by Joan Robinson. See especially her article, 'History versus Equilibrium', *Collected Economic Papers*, vol. 5.
20. Schumpeter, *Business Cycles*, vol. 1, p. 412.
21. *Ibid.*, p. 112.
22. The concept is used by Schumpeter to designate the repayment of loans by entrepreneurs to banks during the recessionary phase. It is an important concept in his model of cyclical growth.
23. R. Frisch, 'Propagation and Impulse Problems in Dynamic Economics', in *Essays in Honour of Gustav Cassel* (London: Allen and Unwin, 1933); see also R. M. Goodwin, 'Innovations and the Irregularity of Economic Cycles', *Review of Economic Studies*, 28 (1946): 95-104.
24. Schumpeter felt this theory was wrong but granted that it had an appealing unity of conception; see especially his *Business Cycles*, vol. 2, p. 1067. See also his assessment in 'Capitalism', a contribution he prepared for *Encyclopaedia Britannica*, 14th ed., 1946.
25. 'It was not clear to me at the outset what to the reader will perhaps be obvious at once, namely, that the idea and the aim are exactly the same as the idea and the aim which underlie the economic teachings of Karl

Marx. In fact, what distinguishes him from the economists of his own time and those who preceded him was precisely a vision of economic evolution as a distinct process generated by the economic system itself. In every other respect he only used and adapted the concepts and propositions of Ricardian economics, but the concept of economic evolution which he put into an unessential Hegelian setting, is quite his own. It is probably due to this fact that one generation of economists after another turns back to him again although they may find plenty to criticise in him. I am not saying this in order to associate anything that I say in this book with his great name. Intention and results are much too different to give me a right to do so. Such similarities in result as undoubtedly exist (compare, for instance, the thesis of this book that in perfect equilibrium interest rate will be zero with Marx's proposition that constant capital does not produce any surplus value) are not only obliterated by a very wide difference in general outlook but also reached by such different methods that showing parallel lines would be highly unsatisfactory to Marxians. But I wish to point to their presence because readers trained in Marxian economics may find the reading of the book facilitated by this reference and also may be interested in comparisons.⁷ See Schumpeter, *Essays*, ed. Clemence, pp. 160-61.

26. Schumpeter, *Theory of Economic Development*, p. 60.
27. *Ibid.*, ch. 3, p. 122.
28. Recent discussions inspired largely by the work of P. Sraffa would seem to suggest that it is logically permissible to talk of surplus income in a sense that is very close to that used by Marx without subscribing to a labour theory of value. Rigorous discussion on the point at issue would require that we distinguish between a *quantity* system, a *value* system and a *price* system. All three are used by Marx but the point at issue is whether by skipping the value system, one can still retain the basic Marxian propositions on the nature and distribution of surplus which persists in conditions of perfect competition under capitalism. I. Steedman suggests that it is indeed possible and advisable to do so; see his *Marx after Sraffa* (London: New Left Books, 1977). While his position is highly controversial, it would appear to me that Steedman overstates his case. The distinction between 'labour' and 'labour power' is crucial to some important aspects of Marx's analysis which is missed in Steedman's presentation. Whether this distinction requires us to uphold a labour theory of value is a separate matter. For our present purpose, it is, however, not necessary to enter into critical analysis of this question.
29. This is evident in Marx's treatment of the 'machine tools sector', a point that Lowe has emphasized in a different context; see his article, 'A Structural Model of Production', *Social Research*, 19 (1952): 135-76. Leontief also has made the point but he drew the wrong inference from it: W. Leontief, 'The Significance of Marxian Economics for Present-

- Day Economic Theory', *American Economic Review*, Supplement, 28 (March 1938).
30. Schumpeter, *Business Cycles*, vol. 2.
 31. Marx himself in *Capital*, vol. 3, had on numerous occasions pointed to some aspects of entrepreneurial activity in terms of accrual of surplus profit. See in particular his discussion in *Capital*, vol. 3, trans. B. Fowkes (Harmondsworth: Penguin, 1981), pp. 782-83.
 32. Schumpeter, *Business Cycles*, vol. 1, p. 274, n. 2.
 33. It is particularly important at this stage to consider the distinction that Marx had drawn between formal and material subsumptions of 'labour' by 'capital'. This is evident particularly in the unpublished ch. 6 of *Capital*, which is now available in an English translation; see K. Marx. *Capital*, vol. 1 (Harmondsworth: Penguin, 1976).
 34. O. Lange, review of *Business Cycles* in *Review of Economics and Statistics*, 23 (1941): 190-93.
 35. Schumpeter, 'Capitalism in the Postwar World', in *Essays*, ed. Clemence.
 36. This point was much emphasized by Thorstein Veblen in his analysis of modern business enterprises. It plays a crucial role in Veblen's analysis of economic development. See particularly Veblen's *Imperial Germany and Industrial Revolution* (New York: Macmillan, 1915; Viking, 1946), where he traced the relatively rapid growth of German industry to the fact that unlike Britain she was not saddled with an accumulated stock of obsolescent capital goods, a fact which had its source in Britain's early lead in industry coupled with a system of business organization where family enterprises played a major role.
 37. Perhaps the most outstanding work on the realization problem in mature capitalism is provided by J. Steindl, *Maturity and Stagnation in American Capitalism* (New York: Monthly Review Press, 1976); see also the Introduction to this edition.
 38. For a recent review of the literature on 'longwaves' which ends on a very sceptical note, see the article by K. Eklund, *Kyklos*, 33 (1980): 383-417. For an earlier exhaustive survey based on Russian sources, see G. Garvy, 'Kondratieff's theory of "long cycles"', *Review of Economics and Statistics*, 25 (1943): 203-20.
 39. This means that while Schumpeter was willing to accept the view that the interest rate was institutionally and dynamically determined, regarding the wage rate he did not find any serious fault with the principle of marginal productivity. This is in sharp contrast with much neo-classical reasoning which is willing to accept the assumption of an unlimited supply of labour at a given real wage rate in an overpopulated economy while simultaneously upholding the marginal productivity principle in regard to the determination of the rate of interest.
 40. A recent example of the fecundity of Schumpeter's approach is provided by product cycle theories in international trade as well as by

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explanations of changing industrial leadership in the world economy. On the first set of issues, see the pioneering work of R. Vernon, 'International Investment and International Trade in the Product Cycle', *Quarterly Journal of Economics*, 80 (May 1966): 190-207; on the other, see W. J. Baumol and R. D. Willig, 'Intertemporal Failures of the Invisible Hand: Theory and Implications for International Market Dominance', *Indian Economic Review* (forthcoming).

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