

Essay on comparing the analytical methods in Karl Marx, Neoclassical, Keynesian
and Austrian School economics

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“Being, however, only derived from an advance in wages, that increase of their purchasing power must exactly correspond to the decrease of the purchasing power of the capitalists. The *aggregate demand* for commodities would, therefore, not increase, but the constituent parts of the demand would *change*.

Karl Marx, *Production, Wages and Profit* 1865, emphasis in original

We will start with a general overview of comparisons, then proceed to some specific examples.¹ Because of the inter-relationships in economic analysis for our subject categories (aggregate demand, labor supply, income distribution, capital accumulation, technical change, stability and resource allocation) the discourse is necessarily less structured than a “question and answer” method of response for each requested subject category. Also because a helpful definitional technique is the use of the Other we also introduce the Austrian School in certain instances to help define the commonalties in Marx, Keynes and the neoclassicals.

To begin, Marx, the neoclassicals and the Keynesians all use in their analyses the conservation of value in exchange (this is diametrically opposed to the Austrian School analysis of mutual gains through trade). For Marx *value* is created by productive labor, for the neoclassicals and Keynesians value (price) in production is the marginal productivity of factor inputs. For the neoclassicals in the Walrasian system, a ‘starting-point’ of endowments then returns factor productivity

¹ To simplify synthesis and exposition in a field (economics) filled with often-differing analytical visions even within ‘schools’ of thought, our responses are derived most fundamentally from Foley, *Understanding Capital* 1986, Kurz and Salvadori, *Theory of Production* 1995 and Taylor, *Reconstructing Macroeconomics* 2004.

determining distribution. Both Keynesians and Marxists use a power-based concept of income distribution, one between wage- and profit-share in the economy, where the ability to “markup” over input costs, including wages, helps to determine distribution between capital and labor. The neoclassicals too, bring in the labor-share, profit-share analysis of distribution, appearing in macro-economic modeling, specifically the aggregate production function. Although using neoclassical economics as a starting-point, Keynes himself did not use an aggregate production function (Kurz and Salvadori, 433).

In terms of aggregate demand (AD), we can see specifically from the quote above that Marx introduced the concept of AD into his economic analysis. Like the Keynesians for Marx the use of AD depends upon a micro-macro divide in analytics. We know that value is only created through the capitalist exploitation of labor, thus, again from the quote, how this determined (see circuit of capital) AD is distributed depends on how the surplus is distributed, more for capitalists less for workers and vice versa (this again can be juxtaposed with the Austrian School where the entrepreneur is both worker and capitalist and both profit and wages can rise - or fall - together).

To further understand the use of AD in analysis we will juxtapose the neoclassicals with Marx and Keynes. The neoclassicals (unless we are defining neoclassicals as the Samuelsonian ‘synthesis’, which we are not) do not use AD in their analysis. Supply and Demand equalize in equilibrium to use all the available resources (full-employment) in an economy, therefore the need to separate-out AD to understand market dynamics is non-existent. For Marx (here also addressing stability) we can have a crisis in capitalism due to AD problems, not least deriving from a compositional effect between subsistence-determined worker consumption-demand at the micro-level and accumulation-oriented micro behavior by capitalists; at the macro-level this results in a structurally-created violation of Say’s Law. For the Keynesians also compositional effects (the liquidity trap or herd-like animal spirits increasing lagtimes for investment) can prevent the full utilization of resources in an economy due lack of adequate aggregate (effective) demand. Thus unlike both Marx (at least in my reading) and the neoclassicals, the Keynesians see a role for government in “demand management”.

As opposed to the equilibrium modeling used by both the neoclassicals and the Keynesians, Marx's analysis was one of understanding the laws of motion of history. Over-accumulation of capital (and the increasing use of constant over variable capital – labor – which in turn relates to Marx's concept of the progressivity of technical change under capitalism) leads to a falling rate of profit and an increasing surplus army of labor, or, in today's language, unemployment. Thus (an excess) labor supply in Marx is due to technical progress and capital accumulation, whereas in the Keynesians we have learned it is due to lack of adequate demand at equilibrium. For the neoclassicals it is factor rigidities, the inability for prices of inputs to adjust in the short-term, which create temporary unemployment. (This analytical vision is in part shared by the Austrian School.) For Marx (and the Austrians) it is 'crisis' which is needed to cleanse-out the over-investment in capitals which have lead to structural imbalances in order for the process of growth and accumulation to recommence. As far as I know the neoclassicals, with the axiomatic assumption of perfectly functioning markets, does not address the 'restarting' of growth, for Keynesians it is needed government intervention in demand, or, "stimulus".²

Marx's analysis of capitalism lead him to believe that it is technically progressive, that competition will continually force capitalists to seek improved production techniques. For the neoclassical (macro) theories of growth and development it is the savings rate which determines the amount of investment and thus the amount of technical progressivity (and growth) in an economy. For Keynes it was the "animal spirits" of investors which drive technical innovation and growth, e.g., in a "Keynesian closure" to Marx's circuit of capital model, capital outlays would be exogenous. It is also worth noting too the similarities between Marx's "equation" for steady-state growth, $g = pq$, or growth is equal to the rate of reinvestment of the surplus product times a function of exploitation, and the Keynesian "Cambridge equation", $g = sr$, where growth is equal to the savings rate times the profit rate. (The Austrian School, for example, does not have a concept in its analysis of equilibrium – except that not being in equilibrium, ever, is what then creates incentives to meet unmet needs, nor do the Austrian School have a notion of the steady-state).

² "Coordinated investment across many sectors in a Big Push may be required to give balanced output and demand expansion..." (Taylor 361).

Finally, stability. Marx, as stated, was specifically interested in viewing capitalism as an unstable and unsustainable stage of human development (the Austrian School too views the market as necessarily unstable, but does not view this as “unstable”; change, risk, experiential learning and socially-constructed (even herd-like) behavior is the cost of non-coercion). For Marx capitalism and the wealth created under capitalism would usher in a new stage of history, one without the necessity of a division of labor and property rights. For the neoclassicals property rights form a basis for ensuring that the market works for allocating resources and minimizing externalities. For Marx too it is competition in the market which determines the allocations of capital and labor at the micro-level, but, as we learned, periodic crisis occurs at the macro-level due to compositional effects (for example, like Keynes, Marx saw “money hoards” (“liquidity traps”) as one macro-determined cause of crisis). For the Austrian School too there are compositional effects at the macro-level, policy-created pricing distortions, which can exacerbate already existing ‘natural cycles’. This can be counter-juxtaposed with the neoclassicals, who as far as I can tell, do not have a theory of crisis and stability (there is no movement from equilibrium without “shocks”). Finally, all three schools – Marxist-Neoclassicals-Keynesians – have the concept of a normal rate of economic profit which the market tends toward in the long-term. This again can be juxtaposed with the Austrian School who theorizes that profits are not normal at all and are due to entrepreneurial discovery; adverse compositional effects are not endemic to the market but policy-created and exogenous.