Review Article

Kaldor's Response to Monetarism

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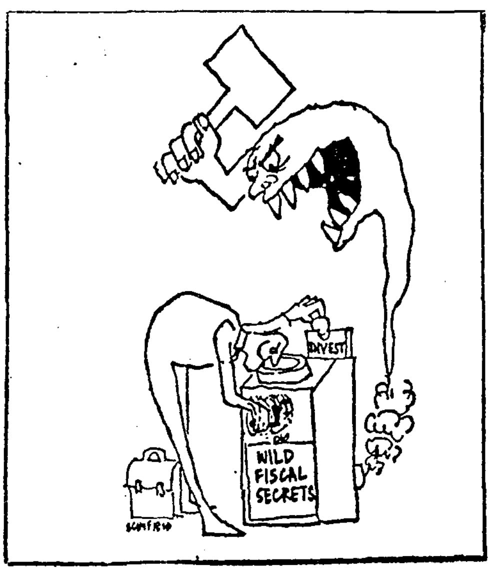
Introduction

The world-wide inflation of the last two decades has provided the setting for the emergence of debates on both monetarist policy and the Quantity Theory of money upon which modern-day monetarism is based. In investigating the background to the arguments concerning monetarism, the initial surprise is the fact that these arguments have been a persistent theme in classical political economy for the last two centuries.[1] This in turn draws attention to the more important point that the modern debates between Keynesians and monetarists are really arguments within the framework of the same theory of value. (In this article the term 'Keynesian' refers to the neoclassical synthesis interpretation of Keynes, sometimes also referred to as 'Neo-Keynesian'.)

Both the monetarist and Keynesian schools of thought adhere to the neoclassical theory of value that was developed primarily in the 1870s. This theory maintains that prices are determined solely by supply and demand and that all markets are cleared in the process, including the labour market. In other words, the free market economy allocates resources efficiently and reveals an automatic tendency towards full employment, provided no imperfections are present.[2] The main imperfection identified by the neoclassicals is 'sticky' wages, which cannot be forced down to a level that in their view would be compatible with full employment.



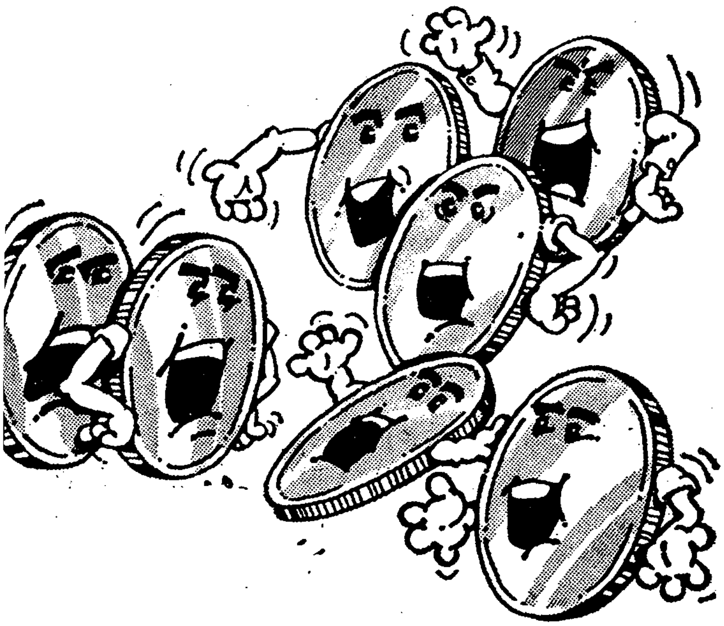
Because of this shared framework, it is not surprising that the subtleties of the debate between monetarists and Keynesians have been both difficult to follow and devoid of definite results. At least partly as a result of the fact that Keynesians have been unable to conclusively refute the arguments of the monetarists, deflationary monetarist policies have been tried out by both conservative and allegedly progressive politicians (if only as a desperate last resort when all other policies have failed to deal with the profitability crisis currently afflicting capitalism[3]). The results have far from confirmed monetarist theory and the policy of austerity has had a devastating impact on many eceonomies. The argument between these two schools of neoclassical theory nevertheless continues, as each scrambles for empirical validation of its bankrupt model. As the noisy squabble subsides, the question arises as to where to turn next.

At the height of the monetarists' ascendancy, the arguments put forward against monetarism by the Cambridge economist Nicholas Kaldor[4] (as well as by some post-Keynesian writers with whom Kaldor is often associated) were eagerly seized upon by some progressive policy makers. In this article I present a brief outline and critique of Kaldor's ideas. I argue that he merely adduces arguments against monetarism on empirical and institutional grounds and that he fails to advance an alternative to the neoclassical theory of value. Kaldor's only alternative to deflationary monetarist policies is in terms of incomes policies. Such policies are also supported by many post-Keynesian theorists and these policies are often seen as a panacea for economic ills. An important recent example is the National Accord in Australia. It is suggested in this article that such incomes policies fail to address the main elements of economic crisis and are doomed to failure.

It is subsequently argued that the inadequacies of Kaldor's arguments can be redressed by resorting to the principles of classical political economy, including the theory of money elaborated by Marx. In the final section it is argued that classical theory, which is the basis of Marx's theory of crisis, provides a far more credible theory of inflation and stagnation in capitalist economies.

The Quantity Theory

The Quantity Theory of money provides both the basis of monetarism and the focal point for Kaldor's critique of monetarism.



The fundamental proposition of the so-called simple or crude Quantity Theory is that the absolute price level is determined by the supply of nominal money balances.[5] This amounts to saying that inflation depends on the money supply. It is interesting to note that this apparently modern version of the theory is called the **simple** Quantity Theory because it overlooks even such valid insights as are contained in the classical versions of the theory.[6]

The Quantity Theory starts out with the tautology that, in equilibrium, the amount of money in circulation (M) multiplied by the velocity of circulation (V) is equal to the price level (P) times the level of income (Y):

$$MV = PY$$

This formulation is a tautology because V is defined for the purposes of the equation as $V = PY/M$. The Quantity Theory goes on to convert the formulation into a causal relationship by maintaining that the price level is determined by the amount of money in circulation times the velocity of money, divided by the level of income:

$$P = MV/Y$$

Hence the Quantity Theory says that, given a constant velocity V (due effectively to the assumption of a constant level of transactions in the economy), and given a fixed level of income (the economy at its natural rate of employment), the price level will be a direct function of the quantity of money in circulation. Friedman's influential version of the Quantity Theory has become considerably more sophisticated than the above but in essence it remains the same. He has 'proved' it empirically by demonstrating an apparent historical correlation between the money supply and the price level (or inflation).

Kaldor's Critique of Monetarism

To set the stage for his critique of monetarism, Kaldor outlines his own conception of Keynes's theory.[7] However, he does propose some slight modifications to the Keynesian theory and he also argues that Keynes himself erred in two respects. He suggests first of all that Keynes developed the liquidity preference function (his model of the demand and supply of money) as a modification of the Quantity Theory, rather than its abandonment. Secondly, he continued to consider that the money supply was a exogenous variable, the level of which is determined by the monetary authorities. Kaldor argues that it is this failure to totally abandon the Quantity Theory, and the adoption of the concept of an exogenous money supply, that allowed the monetarists to successfully counterpose their model.

Kaldor moves on to his critique of monetarism by rejecting the historical correlations between M and Y that Friedman points to as evidence that changes in the money supply lead to variations in the level of income (and also to inflation). This is the issue of whether changes in the money supply lead to changes in income or vice versa. First, Kaldor contends that causation cannot be established from the correlation between two variables that are continually rising, because leads and lags can only be established at the turning points of statistical series. (The point is which series turns first and therefore causes the other to follow.) This is a good point, which serves as a refutation of Friedman's empirical argument.

Secondly, and more fundamentally, Kaldor maintains that Friedman's re-assertion of the Quantity Theory is inappropriate where the money supply is no longer an exogenous supply of a commodity-money such as gold. This criticism starts from the fact that a commodity-money analysis was used in the classical political economy where the Quantity Theory originated. In essence, Kaldor suggests that the issue is whether money comes from gold mines and pirate plunder or whether it comes from businesses writing IOUs (credit money) and governments printing currency. He argues that the use of Friedman's Quantity Theory is restricted to the era when money was commodity-money that came from gold mines.

In contrast, Kaldor argues that the money supply is now generated by, or endogenous to, the economic system because all money is now credit money. Contrary to classical political economy, he does not see a link between commodity-money and credit money; instead he adheres strictly to the neoclassical theory of value where money is merely a convenient **numeraire**.

Kaldor asserts that any increase in the money supply that creates an excess amount of money in the economy merely leads to the extinction of that money through either debt repayment or conversion into interest-bearing assets. Because all money is credit money that is endogenously generated and extinguished by the system, in accordance with the needs of the system, the Quantity Theory is theoretically inapplicable. There can never be an unwanted increase in the money supply and thus it cannot be the cause of increases in the price level.

Kaldor opens up a further line of criticism by arguing strongly that the central banking authorities cannot control the money supply. Hence the monetarists' central policy prescription is also flawed. To establish this argument Kaldor relies on the same credit money argument. He argues that the supply of credit money is self-generated by private capitals, in accordance with their needs, as they extend credit to each other in the form of bills of exchange. It is of course true that this credit money must be matched by a certain amount of currency to meet the needs of the public. This is the so-called currency/credit money ratio. At the same time the commercial banks are required to maintain a certain ratio between their reserves and their total liabilities to the public (the reserve/deposit ratio). Although these two ratios are controlled by the public and the commercial banks respectively, empirical work indicates that they are stable over the long-term.[8]

The issue of central bank control revolves around control of the high-powered monetary base of the money supply. This is the paper currency and coin held by the non-bank public, the reserves of commercial banks, and central bank deposit liabilities held outside the government. Monetarists such as Friedman and Schwartz[9] argue that the central bank has the power to control the monetary base because it clearly dominates "the source of the base" of the money supply.[10] That is, given that the currency/credit money ratio and the reserve/deposit ratio are stable, monetarists argue that the Government can control the rate at which new money is dispersed into the economy through the system of discounting bills (or turning IOUs into cash).

However, together with many post-Keynesians, Kaldor argues that the central bank cannot in fact control the money supply because its paramount role is to ensure the liquidity and stability of the banking system. Kaldor emphasizes that the only way that the central bank could exogenously control the money supply would be by methods such as a refusal to discount any bills after a certain target had been met each day. The central bank's political role as lender of last resort prevents the adoption of such a position (otherwise the banks could well crash). Hence the money supply is determined endogenously by the demand for money to meet the needs of the particular economic system.

Kaldor cites three ancillary reasons in support of his argument that central banks cannot control the money supply. First, the central bank cannot prevent the public from economizing on the use of cash in times of high interest rates. Hence, this may frustrate the object of a tight monetary policy. Secondly, there is a continuing rise in the use of money substitutes (with the spread of credit cards being a recent example). Thirdly, access of private capitals to Euro-market loan funds is an external source of increase in the money supply. These offer powerful institutional arguments against the possibility of central bank control.

As empirical evidence in support of his critique, Kaldor cites the lack of success that the Bank of England has had in controlling the money supply. This has prompted Friedman to denounce the Bank of England as 'incompetent'. However, De Brunhoff has also cited a similar inability to control the money supply in France,[11] and there has been a similar problem in the USA.[12]

Kaldor maintains that the increase in the money supply to meet the needs of any advanced economy is determined by the increase in money wages that is in excess of the increase in productivity. He cites the need for the central bank to ultimately guarantee the credit extended by banks to individual capitals in order to meet the (wage) costs of production. He considers that inflation is primarily cost-push and that an incomes policy is the most appropriate means of combating it. He would presumably support theoretical work that details the mechanism by which the increase in money wages leads to an increase in the money supply, as well as empirical work adduced in support of such theory.[13]

As Kaldor starts from the IS/LM model of Keynes's theory, which was developed by the neoclassical synthesis of Keynesian theory,[14] it is apparent that Kaldor's model inherits the same neoclassical underpinnings as the latter. The incorporation of the neoclassical theory is also evidenced by his discussion of the nature of money.

Kaldor's neoclassical theory prevents him from advancing beyond the simple observation that the money supply is endogenous. But the classical political economy of Smith, Ricardo, and Marx would not disagree with evidence that the money supply is endogenous. Nor do his arguments address the fact that there is both an exogenous and an endogenous money supply school even in neoclassical theory. Although earlier neoclassical theory was based on the assumption of an exogenous money supply, Wicksell later introduced an endogenous money supply model where banks can create an unlimited amount of credit money.[15]

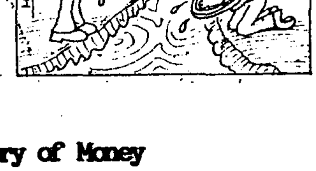
In addition, Kaldor confuses the issue further by falling back on wage-push arguments in developing his alternative to monetarist policies. Income policies are politically unworkable in the medium- to long-term, because workers will not accept the decline in real wages that such policies inevitably involve. (even under the National Accord[16]). In terms of a political critique, Kaldor is simply left with the observation that Monetarism 'works' because it decreases the cost of labour by increasing its supply as deflation forces businesses to close. Monetarism is in fact generally supported by capital and the capitalist state because it apparently promotes efficiency in business (or rather, in those businesses that remain after the ravages of monetarism).

An Alternative Critique of Monetarism

A critique of monetarism that Kaldor ignores, perhaps because it also undermines his own neoclassical model, emerges from the so-called capital debates of the 1960s.[17] Although it is a complex debate, a glimpse of its significance can be obtained by approaching it in the following simple manner.

Neoclassical economics solves the basic question of economics - the determination of prices - by commencing with endowments of land, labour and capital. Taken together with the other basic data of the neoclassical system (preferences of individuals and existing technology), the system is solved for the price of commodities. It is pointed out, however, that although land and labour can be measured in terms of physical quantities, capital can only be measured in terms of its value - which depends on price. This presumes the existence of the very prices that the system is meant to derive. Hence the reasoning is circular and neoclassical theory may be regarded as logically flawed.

This critique has a serious impact on all neoclassical and Walrasian general equilibrium models, as it undermines their foundations in the concept of endowments and hence undermines such fundamental postulates as the demand curves for capital and labour. In this sense it challenges the basis of most neoclassical Keynesian models. If the critique is sustained, it also applies to Friedman's monetarist model, as the latter is merely the long-run neoclassical model, freed of the imperfections of 'sticky' wages, prices, and interest rates that the neoclassical Keynesians rely upon.[18] As Kaldor utilizes an essentially neoclassical Keynesian model, the critique also threatens his own arguments, including his wage-push model.



Marx's Theory of Money

Having discussed the monetarist model, Kaldor's critique of monetarism, and his alternative to it, the alternative theory within political economy will now be addressed.

To assess Kaldor's arguments from the

perspective of political economy, it is necessary to review some basic aspects of Marx's theory of money, particularly those that distinguish it from the **numeraire** nature of money in neoclassical theory. At the outset, it should be noted that Marx analysed capitalism at a time when, in addition to gold, token money and credit money were extensively used. Marx's theory (which for current purposes simply represents the highest development of classical political economy) cannot be dismissed by the assertion that it was an expression of its time and that the contemporary system is qualitatively different in this respect.19

According to Marx, money is a general equivalent form of value; a form in which the value of commodities appears as pure exchange value.[20]

The general equivalent must be socially accepted and is thus always the particular commodity which emerges historically to play that role. Such a money form of value is inherent in the commodity form of production organized by exchange.

Marx argues that gold, due to its particular properties of durability, uniformity, divisibility, etc., has emerged as this measure of pure exchange value. The production of gold determines its value in accordance with the same laws of value that determine the value of other commodities. In particular, its value changes as the conditions of production change. Thus, although the State may at times regulate the standard of price (e.g. the amount of gold in the dollar), it cannot regulate the value of gold.

As a medium of circulation, money mediates the exchange of commodities (Commodity-Money-Commodity). Hence, a certain amount of money is needed to circulate a particular quantity of commodities. This amount depends on the value of the commodities and the value of the money-commodity (gold); together, both determine the money price of the mass of commodities circulated, in accordance with the transformation process (where, in contrast to neoclassical theory, supply and demand only play a limited short-run role). The means by which the required amount of money are provided is a separate issue.

The main results of reasoning within Marx's theory, as opposed to neoclassical theory, can now be presented. In Marx's theory, the average price level is dependent upon the relation of the values of commodities to the value of gold. The price level is determined independently of the quantity of money.

According to Marx's theory, the quantity of money necessary for circulation will vary in the following manner. For instance, if the value of commodities falls, then the money necessary will tend to fall. However, if the value of gold falls as fast as the value of other commodities (e.g. by technical change in the gold industry), then the money necessary will not change at all. Similarly, the mass of commodities may increase with no change in the price level, and that will increase the money necessary.

To consider the effect, according to Marx's theory, of an increase in the supply of gold, suppose that a new gold source is developed and that the cost of production of the new gold is lower than the existing cost of production. The new supply both increases the total supply of gold and causes a fall in its value. The result of the fall in value of gold will be a rise in the general price level. In addition, the increase in the supply of commodity-money may cause either an increase in hoards, or a rise in the mass of goods produced due to the increased purchasing power, or both. However, there will first be a rise in price due to increased demand. This price increase will probably be of a short duration until producers expand their output.

There are thus two chains of causation. On one hand there is a rise in the amount of commodity-money and thus a rise in output, which will lead to an increase in the amount of money necessary. On the other hand there is a fall in the value of gold and thus an increase in price, which will also lead to an increase in the amount of money necessary. The superficial appearance is of a correlation between the increase in the supply of money and the level of prices. This would tend to outwardly confirm the Quantity Theory. However, in fact the increase in the price level and the increase in the amount of money that is necessary for circulation has been a normal case of economic growth, which has nothing to do with any process of inflation.

This reasoning can now be extended to the modern-day situation where token or fiat money circulates in place of commodity-money. To explain this situation it is necessary to look at the historical development of token money. Token money first developed after the State introduced stamped gold coins. The gold content was gradually reduced through use and 'clipping' to a point where it was necessary that there be a difference between the mint price and the market price of coins. It is in fact inherent in the act of circulation to reduce a gold coin to a symbol of itself. This lead ultimately to the issue of coins whose value has no relation to what is represented.

As long as the number of tokens remains below the minimum level ever required for circulation, nothing will follow from their incorporation in the money stock, except that a lesser amount of gold will be required. In early stages of

development, such tokens are usually convertible to gold at their face value. In any case, such tokens are guaranteed in practice because, below the minimum level, a certain number of tokens will continue to be required and because such tokens can always be turned into gold in the gold market.

A different situation can arise where tokens are issued that are not convertible at face value and where the number of such tokens exceeds the minimum level of money necessary to circulate the total number of commodities. Marx analyses this phenomenon on the assumption that gold continues to function as money alongside the fiat currency, even if only in the sense of the State and major banks and other large capitals having a hoard of gold. This fiat money will circulate in place of gold, but if the State issues it in excess of the requirements of circulation, the fiat issue will depreciate against gold in market transactions until the gold value of the fiat issue is just sufficient to meet the requirements of circulation (i.e. there will be a change in the exchange rate between the token and gold).

In these circumstances, the fiat money price of commodities may rise in proportion to the issue of the fiat money, but the mechanism of this change is the fall in the gold value of fiat money on the market. The gold prices of commodities continue to be determined by the conditions of production of gold and the other comodities, but a larger amount of the fiat money is needed to equal that gold price.

Thus, these results have a quite different basis and mechanism from the Quantity Theory, which simply predicts a general rise of money prices of commodities due to an increase in the quantity of money. The latter fails to analyse the real mechanics of an increase in gold money or the process of a depreciation of the fiat money against a commodity-money general equivalent. In addition, the Quantity Theory makes no distinction between the effect on different types of money. The modern Quantity theorists also incorrectly maintain on empricial grounds that the direction of causation is primarily from money to price.

Nevertheless, these results also differ from Kaldor's critique of the Quantity Theory. His basic premise that the money supply is endogenous is based, not upon an understanding of the processes described above, but rather on the quite different contention that all money is now credit money. Although it is clearly true that a large amount of modern-day money is in fact credit money, this should be seen as subject to the same laws as convertible and inconvertible token money. Commodity-money is the final arbiter of the monetary system, e.g. in the sense that only gold maintains its value in times of crisis. Admittedly, more work remains to be done on the role of money in a modern financial system.[21] However, it is clear that a commodity-money analysis, including its theoretical explanation of the endogeneity of money, is a more fruitful starting point than neoclassical theory.

The Political Economy of Inflation

Any evaluation of Kaldor's critique of monetarism also benefits from an assessment of the adequacy of his explanation of inflation in the light of the Marxist theory of capitalist accumulation and crisis. This section will therefore briefly refer to a Marxist theory of inflation, mainly that developed by Yaffe and Bullock.[22]

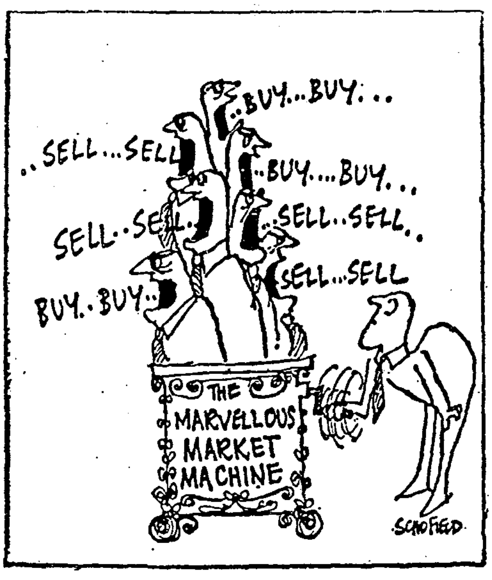
Yaffe and Bullock locate the cause of inflation within the Marxist theory of economic crises. They point out that neoclassical economists (such as Kaldor) wrongly attribute the slow-down in accumulation to the restriction on loans, rather than to the declining rate of profit that brings about such crises. Stagnation and inflation are merely the forms of appearance of such an underlying capitalist crisis. Thus the conventional theories of inflation falsely locate the cause of inflation in circulation rather than in the production of value and surplus value.

Yaffe and Bullock review basic Marxist economic theory in order to establish the rising organic composition of capital and the consequent tendency of the rate of profit to fall. The result of these processes is that accumulation proceeds until the overproduction of capital with respect to the degree of exploitation prevents capital from earning an acceptable return. Stagnation ensues and continues until the forced restructuring allows accumulation to continue at a new higher level.

The development of the crisis is accelerated by the expansion of credit money, loan capital and fictitious capital, all of which are vital to the realization of exchange value. As accumulation slows, the expansion of credit is a method of attempting to overcome the natural capitalistic barrier to accumulation. Hence, credit expands capitalistic production but at the same time accelerates the onset of crisis. As conditions deteriorate, the cost of credit rises and the amount of loan capital is reduced.

With the onset of crisis, the presence of commodity-money is once again dramatically evident, as capitalists determine that 'money alone is a commodity'. Cochrane has noted how commodity-money always re-asserts itself in times of crisis.[23] He maintains that this explains the volatile movements in the gold market in the last several years and he suggests that it is only the prominence of gold that varies during the various stages of economic cycles.

The restructuring of capital requires the depreciation of capital, including variable capital (labour). Hence the reserve army of labour is increased and wages are reduced. This often leads to a political crisis and the adoption of expansionary policies based on the neoclassical synthesis version of Keynes's General Theory. The individual capitalist perceives the cause of the crisis to be rising wages and increasing competition. Thus the larger capitals are forced to increase prices to maintain production and this requires an increase in credit. In these circumstances, monetary controls are often adopted by both banks and the State, although overissue of fiat money still tends to cause a depreciation of the currency against gold. Rising prices, a depreciating currency, and an increasing money supply are evidence of an inflation which has its root cause in the periodic crises of capitalism.



The inflation continues despite the fact that capitals attempt to deal with the crisis by increasing the productivity of labour and hence the rate of exploitation. Marxists have argued that the increasing amount of unproductive stimulatory activity by the State only exacerbates the problem.[24]

It is interesting to note, however, that some theorists have recently argued that the problems with Keynesian policies are not the fault of the basic Keynesian concept of aggregate demand, but rather of the neoclassical synthesis version of Keynes which has become the accepted wisdom.[25] These 'Surplus' theorists argue that the principle of aggregate demand, stripped of its association with such neoclassical concepts as the marginal efficiency of capital and the liquidity preference schedule, can be grafted onto the theory of value contained in classical political economy. This amalgamation is said to provide classical theory with a theory of aggregate output and employment from which long-run full employment policies may be derived.[26] It is this reasoning that currently underlies the direction being taken by a segment of the British labour movement.[27]

It is worth dwelling briefly on the policy prescriptions of this 'Surplus' approach, as they form part of the background to some of the changes to ALP economic policy at the recent National Conference. In doing so, some attention should also be paid to the question of how much strict connexion there is between such aggregate demand theories and the proposed policy.

In essence, it is proposed in this approach that control over investment be socialized and decentralized, by prescribing that investment decisions be taken by both workers and employers within the collective bargaining forum. This suggestion apparently reflects not only a disillusionment with the failure of the incomes policy pursued by the last British Labour Government, but also a hesitancy in pursuing further nationalization.

Although it remains to be seen whether such socialized investment policies can overcome the problems of neoclassical Keynesianism, such policies may represent an advance beyond incomes policies, which have demonstrably failed. Such incomes policies cannot be expected to work because they are based on reasoning similar to Kaldor's, with wage-push as the inflationary devil. Equally, however, it cannot simply be said that theories of aggregate demand will permit the planning and implementing of full employment policies. Capital will not easily surrender the privileges of ownership and the issue of capital flight remains a formidable obstacle.[28]

Conclusion

The design and implementation of a feasible socialism is an issue that the Left has barely begun to discuss seriously.[29] Discussions on this issue presuppose a degree of economic literacy that the Left has not in general been willing to acquire and that it has been prevented from acquiring by virtue of the absence of suitable training forums. In the meantime, as is evident from the haste with which incomes policies have been appropriated, progressive-minded people often lurch from tree to tree, without regard for the forest within which the long-term war should be fought.

Kaldor has demonstrated that it is not possible to control the money supply and that most neoclassical monetarist and Keynesian models quite falsely assume that it is exogenous and can therefore be regulated. However, his attack on the Quantity Theory is erroneously based on an assumption concerning the absence of commodity-money rather than its presence.

This reasoning leads to more problems than it solves. Kaldor essentially adheres to the neoclassical theory of output but maintains that exogenous increases in wages are transferred to increases in prices through increases in the money supply. As he considers that the supportive nature of the State central banking apparatus prevents the restriction of the money supply, he proposes that an incomes policy must be used to prevent wages from rising.

Although he recognises that monetarism can only 'suceed' because of its effect on the reserve army of labour, he fails to see that his own limited short-term proposals can similarly only 'suceed' through increasing the rate of exploitation of labour by decreasing real wages.[30] As a result, and fully in accordance with neoclassical theory, Kaldor's analysis implies that labour has to accept increased unemployment or increased exploitation or both.

In contrast, the basic principles of classical political economy present a consistent theory of the determinants of the price level and the money supply. Such theory demonstrates that the underlying causes of stagnation and inflation lie in the periodic overaccumulation of capital. It also illustrates why the depreciation of the value of capital, which inevitably results from deflationary monetarist policies, is in fact a suitable method for capital to use to overcome the endemic crises of capitalism. Incomes policies, as developed by Kaldor, must similarly tend to support the preservation and re-invigoration of the capitalist system at labour's expense. Such approaches, together with the theories that support them, can only deflect the scientific analysis of the nature of economic problems and impede the development of policies that work by methods other than increased exploitation and unemployment.

I would like to thank Gerry Epstein, Shane Tregillis, Lyuba Zarski and Andrew Glynn for their helpful comments on this paper or for discussions related to it. The responsibility for errors, however, rests with the author.

NOTES

1. R. Green, 'Money, Output and Inflation in Classical Economics', Contributions to Political Economy, 1, 1982, pp.59-85.

2. J. Eatwell and M. Milgate, eds. Keynes' Economics and the Theory of Value and Distribution (Oxford: Oxford University Press, 1983).

3. For recent material on the declining rate of profit, see A. Shaikh, 'Marxian Income Accounts and Marxian Categories', unpublished paper available at the New School for Social Research, New York, 1978; G. Dumenil, M. Glick and J. Rangel, 'The Decline in the Profitability of Capital in the United States: A Historical Perspective', unpublished paper at Universite de Paris IX, OFCE, Paris, and New School for Social Research, New York, December, 1983; and P. Armstrong, A. Glynn, and J. Harrison, Capitalism Since World War II (London: Fontana, 1984).

4. N. Kaldor, The Scourge of Monetarism (Oxford: Oxford University Press, 1982). See also N. Kaldor , 'The Origins of the New Monetarism', The Page Fund Lecture, delivered at University College, Cardiff, December 3rd, 1980, University College Cardiff Press.

5. See for instance M. Friedman, 'A Theoretical Framework for Monetary Analysis', in R.J. Gordon, ed., Milton Friedman's Monetary Framework, (Chicago: University of Chicago Press, 1970). See also M. Friedman, The Optimum Quantity of Money, ch. 1, (Chicago: Aldine Publishing, 1969); and P. Cagan, 'The Monetary Dynamics of Hyperinflation', in M. Friedman, ed., Studies in the Quantity Theory of Money (Chicago: University of Chicago Press, 1956).

6. L. Harris, Monetary Theory (New York: McGraw-Hill, 1981), ch. 6.

7. After initial drafts of this article were completed and reviewed, I located a review of Kaldor's book, The Scourge of Monetarism, in Contributions to Political Economy, 2, March 1983. My conception of Kaldor's position is broadly similar, although I have developed the discussion in terms of theories of money.

8. P. Cagan, Determinants and Effects of Changes in the Stock of Money, 1875-1960, National Bureau of Economic Research, Studies in Business Cycles, No. 13 (New York: National Bureau of Economic Research, 1965).

9. M. Friedman and A.J. Schwartz, A

Monetary History of the United States, 1867-1960, National Bureau of Economic Research, Studies in Business Cycles, No. 12 (Princeton: Princeton University Press, 1963).

10. B. Moore, 'The Endogenous Money Stock', Journal of Post-Keynesian Economics, No. 2, Fall 1979, pp.49, 53.

11. S. De Brunhoff, 'Questioning Monetarism', Cambridge Journal of Economics, 6, 1982, pp.285-294.

12. New York Times, July 22, 1983.

13. B. Moore, op. cit.

14. Two of the major neoclassical interpretations of Keynes, which became the basis of the IS/LM model, were J.R. Hicks, 'Mr. Keynes and the "Classics"; A Suggested Interpretation', Econometrica, 1937, pp.147-59; and F. Modigiliani, 'Liquidity Preference and the Theory of Interest and Money', Econometrica, 1944, pp.45-88.

15. K. Wicksell, Lectures on Political Economy, 1, (translated from 3rd ed. by E. Classen, Routledge and Kegan Paul, 1934-35). I am indebted to John Eatwell for pointing this out in lectures at the New School of Social Research.

16. See OECD Economic Survey of Australia, Paris, June 1984,p.11. See also M. Shadur, 'An Alternative Economic Strategy: Some Problems', Journal of Australian Political Economy, No. 17, November 1984, pp.17, 24.

17. J. Robinson, 'The Production Function and the Theory of Capital', Review of Economic Studies, 1953, pp.81-106; P.A. Samuelson, 'Parable and Realism in Capital Theory: The Surrogate Production Function', Review of Economic Studies, 1962, pp.193-206; P. Garegnani, 'Heterogenous Capital, the Production Function and the Theory of Distribution', Review of Economic Studies, 1970, pp. 407-436; 'Paradoxes in Capital Theory: A Symposium', Quarterly Journal of Economics, November 1966, pp.503-583. See also A. Bhaduri, 'On the Significance of Recent Controversies on Capital Theory: A Marxian View', The Economic Journal, LXXIX, September, 1969, pp. 532-539, and E.J. Nell, 'Cracks in the Neoclassical Mirror: On the Break-up of a Vision', in E.J. Nell, ed., Growth, Profits and Property (Cambridge: Cambridge University Press, 1980).

18. J. Eatwell, 'The Analytical Foundations of Monetarism', in J. Eatwell and M. Milgate, op. cit. It should be noted that the model of intertemporal equilibrium, to which mainstream theory has now retreated somewhat, has also been attacked as being merely a short-term model. See P. Garegnani, 'On a Change in the Notion of Equilibrium in Recent Work on Value and Distribution' in J. Eatwell and M. Milgate, op. cit.

19. P. Cochrane, 'Gold: The Durability of the Barbarous Relic', Science and Society, XLIV, No. 4, Winter 1980-81, p.385. It is true that token money is not at the moment convertible to gold at a rate fixed by any state. The fixed rate convertibility of the $US to gold has been severed since 1973. However, this should be regarded as just another instance of the process of re-adjustment of the rate of exchange between commodity-money and fiat money.

20. K. Marx, Capital, 1, (New York: International Publishers, 1967), chs. 2 and 3; K. Marx, Critique of Political Economy, (New York: International Publishers, 1970), ch. II, part C. I am indebted to Anwar Shaikh for his presentation of Marx's theory of money in his lectures at the New School of Social Research.

21. See for instance D. Foley, 'Notes on Marx's Theory of Money', unpublished paper from Barnard College, New York, 1980; idem, 'Money', in T. Bottomore, ed, A Dictionary of Marxist Thought, (Cambridge, Massachusetts: Harvard University Press, 1983), p.377; and S. de Brunhoff, Marx on Money (New York: Urizen, 1976).

22. P. Bullock and D. Yaffe, 'Inflation, the Crisis and the Post-War Boom', Revolutionary Communist, No.3-4, 1975, chs. I and II. See also P. Mattick, Marx and Keynes (Boston: Porter Sargent, 1969), and M. Itoh, Value and Crisis (New York: Monthly Review Press, 1980). I have focussed on the article by Bullock and Yaffe in this section because it is one of the more extensive and representative accounts.

23. P. Cochrane, op. cit., p.390.

24. B. Chernomas, 'Keynesian, Monetarist and Post-Keynesian Policy: A Marxist Analysis', Studies in Political Economy, Winter, 1983, pp. 123-141; A. Shaikh, 'Towards a Critique of Keynesian Theory on the Role of The State', unpublished paper, New School of Social Research, 1980.

25. For a collection of essays that develop this 'Surplus' approach, see J. Eatwell and M. Milgate, op. cit.

26. J. Eatwell, 'The Long-Period Theory of Employment', Cambridge Journal of Economics, 7, 1983, pp.269-285.

27. J. Eatwell and R. Green, 'Economic Theory and Political Power', in B. Pimlett, ed., Fabian Essays in Socialist Thought (London, 1984), p.185; see also TUC-Labour Party Liaison Committee, Partners In Rebuilding Britain, March 1983; R. Green and A. Wilson, 'The Future Course of Planning', in T. Topham., ed, Planning (London: Spokesman,1983); R. Green and A. Wilson, 'Economic Planning and Workers' Control', Socialist Register, 1982; and A. Wilson, 'Beyond the Social Contract', Political Quarterly, 1984 (in press).

28. A recent discussion of capital flight and methods to control it in the long-term is contained in G. Epstein, 'The Triple-Debt Problem: Contradictions and Reconstruction of the International Monetary System', World Policy Journal, Spring, 1985 (in press).

29. One recent attempt is A. Nove, The Economics of Feasible Socialism (London: George Allen and Unwin, 1983).

30. Kaldor's analysis also ignores the role of other factors that may have led to a decrease in productivity, at least in the case of the USA during the last two decades. See the discussion of a social model of accumulation in W.E. Weisskopf, S. Bowles and D.M. Gordon, 'Hearts and Minds: A Social Model of Aggregate Productivity Growth in the United States, 1948-79', Brookings Papers on Economic Activity (Washington, 1984). See also the popular version of this approach in the book by the same authors, Beyond the Waste Land (New York: Anchor Books, 1984).