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Peer Review

# Review of: "Value and Price Theories: Compatibility Between Classical and Neoclassical Economics"

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The article under analysis seeks to establish a connection between the price theories of the classical economists—and Marx—and the marginalist school—referred to in the text as neoclassical. Although the authors' attempt is interesting and, in part, original, there are, nonetheless, several aspects that require refinement, especially on the theoretical side:

1. There is no clear explanation for readers of what the classical and Marxian theory of prices consists of. In this regard, the authors should explain that in classical economics and Marx, the fundamental concept is that of the long-term center of gravitation. Specifically, the classical economists and Marx establish that while in the short term the market price of commodities is affected by the interaction of supply and demand, this price is regulated in the long term by the natural price—Adam Smith's term—which Ricardo called the cost of production and Marx referred to as the price of production. The natural price—or price of production—represents the gravitational center of the market price, which tends to converge toward it as a result of competition among firms within the same sector. It is important to note that, unlike the marginalists—or neoclassicals—competition in the classical economists and Marx is dynamic. Firms are not passive price-takers, but rather actively attempt to influence the market price by improving their technical production conditions. Here we encounter the first major difference with marginalist theory: contrary to what the authors claim, classical economists and Marx assume that manufacturing industries operate under increasing returns, since competition leads to increasing economies of scale, which result in decreasing unit costs and prices.

2. This is very important insofar as classical economists and Marx can explain profit increases in a context of cost reduction and increasing returns to scale. While in marginalist theory the market price is determined by the marginal cost of the least efficient firm, in classical economics and Marx, it is the

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average technical production conditions that determine the market price. This explains the possibility of extraordinary profits under increasing returns. Within a given sector, firms using different production techniques coexist, with the most numerous being those that produce goods with the standard technique. These determine the socially necessary labor time and the natural price. Since the market price tends to converge toward the natural price regulated by the average production techniques, firms using superior techniques will obtain extra profits when they sell their goods at the same market price as their competitors. In this scenario, a constellation of different profit rates exists.

3. However, classical economists and Marx assume that profit rates tend to equalize across sectors, so the natural price is that which guarantees the average profit rate. The equalization of sectoral profit rates is achieved as a result of capital mobility across sectors. Capital will move toward sectors with profit rates above the average, expanding production faster than demand, thereby lowering the market price until the average profit rate is reached. In less profitable sectors, the opposite occurs: the price rises until it reaches the average profit rate. In this way, profit rates become equal across sectors, and natural prices or prices of production are formed.

4. However, as Shaikh (2016) points out, since a multitude of profit rates exist within sectors, the profit rates that equalize correspond to firms with average technical production conditions—"regulating capitals," according to Shaikh. Therefore, the natural price represents the sum of the production costs of the regulating capitals plus the average profit rate. Up to this point, certain differences from the marginalist theory of price can already be observed.

5. On the other hand, there is a fundamental difference between the classical economists and Marx. For the classical school, the natural price is proportional to value. However, this is contradictory to the assumption of an average profit rate, since commodities with different quantities of living labor yield the same profit. This is inconsistent because if the source of value and surplus value is living labor, those commodities that contain more living labor should yield more profit than those that contain less labor. Marx notes that with the formation of an average profit rate, prices of production tend to deviate from values due to differences in the organic composition of capital across industries. This is not reflected in the text, and it is of great importance because it represents a fundamental difference between classical economists and Marx.

6. The text mentions that value and cost are synonymous. This is not correct. In the determination of value, both the costs of the means of production and labor are included (the classical economists only considered circulating capital, but Marx emphasized the importance of including fixed capital), as well as


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the profit that arises from surplus value (surplus labor). If value were the same as cost, then profit would arise from circulation and not from production, as both Ricardo and Marx argue. It is true that in Adam Smith there is a certain contradiction, since for him the labor theory of value only applies in a rudimentary state where capital accumulation and land appropriation do not yet exist. This leads Smith to propose a theory of value and price as the sum of three independent components: wages, profit, and rent. If one of these three increases independently while the others remain constant, the price rises. This leaves the origin of profit indeterminate, a point that was strongly criticized by Ricardo and Marx. In the classical tradition, value is determined by the quantity of direct and indirect labor contained in commodities—Ricardo—or by the socially necessary labor time—Marx. It is worth noting that the marginalist tradition adopts Smith's second theory of price, in the sense that it conceptually opens the door to marginalist economics, which dispenses with labor as the foundation of value and treats prices and profits as the result of subjective choices—marginal utility—scarcity, and marginal productivity. This transition is key in the evolution of economic thought and explains much of the debate between classical economics, marginalist economics, and Marxist critique.

7. Despite the differences between the classical economists, Marx, and the marginalists, the authors may explore the relationship between the concept of the natural price as the center of gravity in classical and Marxian economics, and the distinctions made by Walras (1874) and Marshall (1890). Specifically, Walras talked about "common prices" and "natural values," and in Marshall (1890) we find "market prices" and "normal long-period prices."

Thus, before proceeding to mathematical modeling, it is important for the authors to engage more deeply with the price theories of the classical economists, Marx, and the marginalists, in order to determine whether there is indeed any real compatibility among the three. In doing so, the article could become an interesting contribution to debates in the history of economic thought. I encourage the authors to refine their work, as the line of research holds interesting potential and, in a way, could reconnect with the contributions of Vladimir Karpovich Dmitriev (1898–1902), who attempted to build a bridge between Ricardo, Cournot, and Walras, and whose work has been compiled in English in *Economic Essays on Value, Competition and Utility*.

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## Declarations

**Potential competing interests:** No potential competing interests to declare.


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