Marx, Systemic Fear, and Capitalists' Convictions: A Reply to Bichler and Nitzan

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Editors' Note: In this final installment to the dialogue section, Kliman responds to some of the points raised by Bichler and Nitzan in their rejoinder.

Bichler and Nitzan Contra Marx

In *Capital as Power*, Shimshon Bichler and Jonathan Nitzan (B&N) argued at great length that Marx's value theory is logically invalid and that the subsequent development of capitalism has undermined his logic. My paper (Kliman, 2011) demonstrated, painstakingly and point by point, that none of their specific charges hold water. Their rejoinder (Bichler and Nitzan, 2011) does not refute, or even try to refute, any of these demonstrations. They have proved unable to defend the charges they leveled against Marx's value theory.

This failure has two main consequences. First, *Marx is entitled to his theory.* If B&N had actually shown that it is logically invalid, Marx's theory would have been disqualified at the starting gate. A genuine demonstration of logical inconsistency is a demonstration that a theory in its existing state cannot explain things correctly. Thus, if B&N had been able to make *any* of their allegations of inconsistency stick, it would be pointless to turn to Marx's value theory in its existing state as a source of possible explanations of how capitalism functions and malfunctions. But since B&N have proved unable to defend their allegations of inconsistency, Marx's theory has not been disqualified.

Let me stress again that "[n]one of this implies that Marx's theoretical conclusions are necessarily correct. It does imply, however, that empirical investigation is needed in order to determine whether they are correct or not. There is no justification for disqualifying his theories *a priori*, on logical grounds" (Kliman, 2007, p. xiii).

The other main consequence of B&N's inability to defend their allegations is that *their 'capital as power' theory cannot properly be presented as a logically valid corrective to Marx.* The gist of B&N's framework is that their own theory and its further development are needed, objectively*,* in order to correct Marx's errors and provide a logically sound basis for the useful aspects of his work:

> Is there a way out of [Marx's] circularities and contradictions? In our view, the answer is yes––but not within the existing framework of political economy. ...
>
> What we *need* ... is not a revision, but a radical change. We *need* to develop a new political economy based on new methods, new categories and new units. Our own notion of capital as power offers such a beginning. (Nitzan and Bichler, 2009, p. 144) [emphases altered]

Since B&N's charges of circularity and contradiction have proven to be indefensible, this claim is untenable. There is no objective *need* for their theory. It is simply a theory that differs from Marx's, not one that transcends his by overcoming its logical errors. B&N are just as entitled to their theory as Marx is entitled to his, but they are not entitled to legitimate the existence of their theory by delegitimating the existence of his.

In other words, if academic discourse were regulated by scientific considerations rather than by power relations, B&N's theory would now have to stand on its own, uncoupled from the supposed need to correct Marx that they have invoked in order to justify its existence. And it would have to stand *alongside* Marx's theory, not on its grave. To assess the relative merits of their theory and his, we would look at their relative success in explaining how capitalism functions and malfunctions, at the relative breadth of the phenomena each can potentially explain, and at the relative importance of those phenomena. For instance, in the wake of the financial crisis and Great Recession, we would consider whether it is more important to explain this breakdown in the reproduction of the system or whether it is more important to speculate about a breakdown in capitalists' supposed 'unconscious conviction' that capitalism is eternal. And if we decided that the former subject is more important, we would consider the extent to which each theory is able to explain why the financial crisis was able to trigger such a deep slump and continuing malaise.

This is clearly not the kind of "open-ended scientific debate" that B&N wish to have (2011, p. 112). They simply ignore my paper's discussion of how Marx's value theory helps to illuminate the long-term difficulties that led to the Great Recession and its 'new normal' aftermath. They also ignore my discussions of how his theory helps to explain struggles over intellectual property, the massive fall in computer prices, and what Alan Greenspan called the 'loss of business pricing power'. Their rejoinder shows that they are unwilling to engage with Marx's theory as an alternative, living theory, or to assess the relative explanatory power, scope, and importance of his theory and theirs.[1] Having failed to disqualify his theory on logical grounds, they try to disqualify it by letting loose a torrent of stomach-turning invective against those who seek to understand and develop it.

Although B&N are unable to defend their allegations that Marx's value theory is logically invalid, they have not retracted the allegations or acknowledged that Marx is entitled to his theory. I find this extremely disturbing. For generations, Marx's critics, including Marxists as well as non-Marxists, have excluded his value theory from the academy and 'respectable' intellectual discourse, and the myth that the theory is logically inconsistent is the principal pretext used to justify this suppression. By failing to retract their allegations and acknowledge that Marx is entitled to his theory, B&N's rejoinder perpetuates the myth of inconsistency and legitimates the suppression of Marx's theory. *They should rectify this failure promptly.*

The manner in which B&N choose to relate to Marx's work is not a minor or tangential issue. Their critique of Marx is a major element of *Capital as Power*, their allegations of logical error are the centerpiece of that critique, and they justify their 'capital as power' theory on the grounds that it is needed in order to correct Marx's circularities and contradictions. To be sure, they attempt in their rejoinder to separate this 'critique' from the 'gist' of their work, complaining that "Kliman … is careful to ignore the gist of our framework, theory and findings: his main concern is to defend his own defence of Marx's value theory" (ibid., p. 1113). In their book, however, B&N themselves emphasized that such a separation is untenable: "On the face of it, [the structure of this book] may seem to separate neatly our 'critique' of existing theories in the first three parts of the book from the 'gist' of our story in the last two. But … [s]ubstantively, there is no split in the book. The early parts of the book are crucial to the dialectical development of our argument" (Nitzan and Bichler, 2009, p. 10).

Systemic Fear

In their rejoinder, B&N claim that my paper criticized their concept of systemic fear for being "*entirely subjective and therefore useless for a scientific inquiry*" as well as "irrelevant and … meaningless" (p. 104). But I said nothing like this. I have nothing against subjective concepts.[2] After all, as Marx recognized, the concept of value is subjective (see Kliman, 2007, p. 141, p. 151 n1). And I regard systemic fear as a perfectly meaningful and potentially relevant concept. What my paper criticized is something that B&N now acknowledge: they provided no valid "*evidence* that capitalists were gripped by systemic fear in the 1930s and 2000s" (p. 64) [emphasis added].

Their rejoinder also fails to provide any such evidence. One problem is that the bulk of the rejoinder consists merely of what Fay (2011) has called "a long-winded effort to patch together some revised semblance of a *hypothesis*." [emphasis added] This is an astute observation. Fay recognizes that the data analyzed in the rejoinder do not count as *evidence* that systemic fear prevailed in the 1930s and 2000s. Nor do they count as *evidence* that B&N's 'three criteria for systemic fear' are in fact the (only) three conditions that must be present in order for systemic fear to prevail. Since these data were used to *construct* the revised systemic-fear hypothesis—B&N searched for three conditions that were all present during the 1930s and 2000s, but not during any other period—the same data cannot also function as evidence that *supports* the revised hypothesis.

If this last point is not obvious, note that failure to accept it would allow me to:

(a) hypothesize that systemic fear prevailed between 1953 and 1973 and during that period alone;

(b) discover that the 1953–1973 period was the only one in which all of the following conditions held true:
  (i) stock prices and current profits were strongly and positively correlated;
  (ii) capitalism was in its so-called golden age;
  (iii) Brazil won the World Cup 60% of the time;

(c) declare that these conditions are the three criteria for systemic fear; and

(d) confirm my hypothesis by discovering that the 1953–1973 period was the only one in which the three criteria for systemic fear were present.

Another reason why the rejoinder fails to provide any evidence for B&N's systemic-fear hypothesis is that, once again, they have drawn a conclusion that their own data seem to refute. In a footnote, they write, "during much of the period from the early 1950s to the early 1970s, the rates of change of equity prices and the rate of interest were negatively correlated [which] means that, during that period, the observed correlation between the rates of change of equity prices and current profits identified by Kliman may have been spurious" (p. 115, fn. 10). There are two things wrong with this statement. First, a negative correlation between *equity prices* and interest rates is the norm, and it cannot by itself produce a spurious correlation between equity prices and current profits. What can produce such a spurious correlation is a negative correlation between *current profits* and interest rates (together with a negative price-interest rate correlation).[3] Second, the annual percentage changes in current profits and interest rates *were not negatively correlated during the period in question*. The correlation coefficient was +0.41 during the June 1953–August 1962 period and +0.10 during the August 1962–December 1973 period.[4]

To test for spurious correlation in an additional and more robust manner, I ran ordinary-least-squares regressions of the annual percentage change in equity prices on the annual percentage changes in current profits and the interest rate. This procedure yields a measure of the correlation between current profits and equity prices that controls for, and thereby eliminates the influence of, changes in the interest rate. In order to exclude the 'structural break' of 1962–1963, the observations run from June 1953 through February 1962 and from April 1963 through December 1973. In both periods, the regression coefficients on current profits are positive and statistically significant at the 5% level,[5] which means that these tests fail to confirm B&N's conjecture that the positive correlations between current profits and equity prices are spurious.

The above evidence suggests that that a positive and genuine (non-spurious) relationship between equity prices and current profits existed during capitalism's 'golden age.' The existence of a similar relationship in the 1930s and 2000s therefore does not count as evidence that capitalists were gripped by systemic fear during these periods of crisis.

Capitalists' Convictions

Bichler and Nitzan's (2010, p. 3) 'Systemic Fear' paper claimed that capitalists' "conviction that the capitalization process itself will continue to rule and organize humanity, forever … is necessary for the existence of modern capitalism, at least in its present form, and the easiest way *to demonstrate that necessity* is to assume it away." [emphasis added] I provided three distinct arguments as to why their alleged demonstration is fatally flawed. If *even one* of my arguments is correct, B&N's demonstration fails, and their rejoinder fails to provide counter-arguments against *two* of my arguments.

My paper argued that "even if the rest of B&N's 'demonstration' were sound, it would not prove that capitalists are normally guided by the conviction that capitalism is eternal. At least it wouldn't prove this if we use the word 'conviction' in the normal way"—that is, without engaging in "unfalsifiable Freudian speculation" about capitalists' "unconscious convictions" (p. 66). B&N's rejoinder offers *no response* to this argument. At one point, they do write something about "tongue-twisting concepts and irrefutable Freudian conjectures" (p. 111), but in connection with the notion of capital as a historical Subject, not in connection with their alleged demonstration. In any case, their response to my point about 'unfalsifiable Freudian speculation' is a non-response: 'We prefer to remain silent.' So their demonstration fails.

Secondly, in order for their demonstration to succeed, it must be true that "the fact that capitalists invest shows that they expect … that the value of their assets will grow" (Bichler and Nitzan, 2010, p. 3). My paper argued that this claim is false, because "some people buy shares of stock even if they don't *expect* their prices to rise. A large enough … potential capital gain more than makes up for a low probability of success" (p. 65). In the opening paragraph of the 'Towards Behavioural Marxism?' section of their rejoinder, B&N restate my argument in a very inaccurate way, perhaps in order to ridicule it, but they offer *no response* to it. So their demonstration fails.[6]

B&N do respond to my remaining argument, but their responses are non-sequiturs. In order for their demonstration to succeed, it must be true that (a) if equities will be worthless at some point in the future, their current prices can only fall, not rise; and (b) if capitalists' believed that equities will be worthless at some point in the future, they would not invest in them now. My paper argued that stock market experiments call both claims into question: "even though participants in the experiments are *absolutely certain* that the system (i.e., the experiment) will soon cease to exist and that the asset's fundamental value is continually falling, share prices typically *rise* throughout much or most of the experiment … and the volume of investment in additional shares is typically heavy" (p. 66). B&N respond that "simulated stock market experiments [do not] tell us about the systemic confidence and fear of present-day capitalists" (p. 110). Of course not, *but they do offer evidence which suggests that (a) and (b) might not be true*.

B&N also respond that no laboratory experiment can simulate "what will happen to capitalism if capitalists become convinced that capitalisation *is about to end*" (p. 111) [emphasis added]. Of course not, but the experimental results do suggest that capitalists might invest in equities now even if they think that all equities will be worthless *at some point in the future.* It makes perfect sense to invest in equities now if that future point is far enough away (e.g., after the death of one's great-great-grandchildren) and decent returns can be obtained in the meantime. So B&N's demonstration fails.

Notes

[1] It is no accident that B&N's writings on the crisis have offered little, if any, explanation of the underlying conditions that set the stage for the deep slump and continuing malaise. Having rejected the distinction between real and nominal variables (Nitzan and Bichler, 2009, pp. 30–33 and passim), they cannot distinguish real changes in profit, investment, and economic activity from changes that merely reflect variations in prices. Thus, they can only meaningfully analyse differences among firms' rates of accumulation, not variations over time in the aggregate rate itself (Nitzan and Bichler, 2009, chap. 14). And so they discuss the crisis by offering us speculations about capitalists' 'unconscious convictions'.

[2] Unfalsifiable claims, such as the claim that capitalists are normally convinced that their system is eternal—"consciously or not" (Bichler and Nitzan, 2010, p. 4)—are a wholly different matter.

[3] Imagine that there is no causal connection between current profits and equity prices, while current profits happen to be negatively correlated with interest rates. If interest rates rise (fall), equity prices will tend to fall (rise) as a result. Since current profits happen to be negatively correlated with interest rates, by assumption, they too will fall (rise) as interest rates rise (fall). Since equity prices and current profits both fall (rise), they are positively correlated. But since there is no causal connection between them, by assumption, the correlation is spurious.

[4] My interest rate variable is the constant-maturity rate on 10-year U.S. Treasury notes (GS10).

[5] The coefficients are +0.52 and +0.26, the associated *t*-values are 4.08 and 2.30, and the degrees of freedom are 101 and 125.

[6] Their version of my argument also seriously misrepresents its purpose. In their version, the purpose was to provide "a clear proof that the future of capitalism is irrelevant for capitalists." The actual purpose was to show that "the fact that people invest does not mean that they normally *expect* capitalism to last forever." Since the alleged demonstration is theirs, not mine, the burden of proof is on them, not me.

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