

Conceptualizations of the Economy

A. The Economy as a Network of Exchanges

1. Economic analysis is the analysis of market exchange.
2. Demand and supply are the key organizing concepts.
3. Production and consumption appear at the edges of the analysis.
4. Production is viewed as a purely technical process.
5. The central economic acts (buying and selling) are seen as voluntary choices.

Conceptualizations of the Economy (con't.)

B. The Economy as a Process of Reproduction

1. Economic analysis is the analysis of three processes:
 - a) production
 - b) distribution
 - c) consumption and the reproduction of people
2. Demand and supply play a role in analyzing distribution in exchange economies but are not the starting point of economic analysis
3. Production and consumption/reproduction-of-people are no less important than distribution/exchange.
4. Production is viewed as both a technical and social process.
5. The central economic acts (production, distribution, consumption) are seen as necessary for survival.

What is Value Theory?

Value Theory: A theory of the exchange of commodities.

Quantitative meaning of value theory: A theory that explains the ratios at which commodities are exchanged.

Question: What is the purpose of a (quantitative) value theory?

1. Explain the relative prices of particular commodities.
2. Analyze the allocation of resources among branches of production.
3. Analyze the distribution of income.
4. Analyze economic growth and crisis.

What is Value Theory? (continued)

Three (Quantitative) Value Theories:

1. The exchange value of a commodity is determined by the costs of producing it.
2. The exchange value of a commodity is determined by the labor hours required to produce it.
3. The exchange value of a commodity is determined by the marginal utility for consumers of that commodity and the marginal disutility for suppliers of factors of production for that commodity.

Adam Smith

Natural price is the center of gravity for a market price.

What determines natural price?

One answer: the labor required to produce a commodity.

This includes

- 1) direct labor by those producing the commodity
- 2) indirect labor required to produce the means of production used up in producing the commodity

Problem: This labor theory of value is in conflict with the assumptions of an equal rate of profit across industries and differing ratios of means of production to direct labor across industries.

Ricardo's Theory of Income Distribution

Workers: receive wage determined by minimum physical subsistence level for survival.

Capitalists: receive profit from the surplus ("net product") produced by workers.

Landowners: receive rent on land coming from the surplus.

Basis of rent:

Price of food determined by labor hours required on marginal land in use.

Capitalist farmers will compete to use the superior land, resulting in payment of a rent equal to the advantage of using the superior land relative to using the marginal land.

Ricardo's Theory of Accumulation

Capitalists invest their profit → economic growth → food consumption increases → poorer land brought under cultivation → price of food rises and rent on better land increases → rent expands at expense of profit.

Problem: While capitalists invest surplus, landowners use it for luxury consumption.

Long run tendency: Profit declines until accumulation stops.

Marx and Ricardo

What Marx Borrowed from Ricardo

1. Labor theory of value
2. Property incomes derive from a surplus
3. Wages and profits are in opposition
4. Analysis of factors causing a fall in the rate of profit
5. A property relation (land rent) can be an obstacle to progress

What Marx Added

1. Clarification of use value/exchange value distinction
2. An explicit theory of how capitalists appropriate a surplus
3. Technical change is integrated into the analysis
4. Capitalist property relations become an obstacle to progress

Danger of the Labor Theory of Value

“That labor is the sole source of wealth [sic] seems to be a doctrine as dangerous as it is false [emphasis added], as it unhappily affords a handle to those who would represent all property as belonging to the working classes...”

Outlines of Political Economy, by John Cazenove,
1832, p. 22.

Is the labor theory of value an ethical statement?

Major Topics in Marx's Capital

Volume I

1. Theory of the exchange of commodities
2. Money and the circulation of commodities
3. Capital and the capital-labor relation
 - A. Theory of surplus value
 - B. Class struggle and the rate of exploitation
 - C. Evolution of the labor process
4. Wages and the value of labor-power
5. Accumulation of capital
6. Primitive Accumulation

Major Topics in Marx's Capital (con't.)

Volume II

1. Circuits of capital: money capital, productive capital, and commodity capital
2. Turnover of capital
3. Reproduction of capital
 - A. Simple reproduction
 - B. Extended reproduction

Volume III

1. Value and price
2. Tendency of the rate of profit to fall
3. Forms of capital: commercial, financial, and productive
4. Rent
5. Miscellaneous topics: competition, production and distribution