VALUE THEORY AND ECONOMIC PROGRESS pdf

1: An Introduction to the Theory of Value | Mises Institute

Value Theory and Economic Progress attempts to correct that deficiency by providing an extended characterization of this missing and crucial component of the development of American heterodox economic thought.

Often, but not necessarily, aggregate gains in productivity correlate with increased average marginal productivity. This means the average laborer in a given economy becomes, on average, more productive. It is also possible to achieve aggregate economic growth without an increased average marginal productivity through extra immigration or higher birth rates. Economic growth has a ripple effect. Companies can then raise more money in order to invest more, therefore adding more jobs to the labor force. That leads to an increase in incomes , inspiring consumers to open up their wallets and buy more. Measured in Dollars, Not Goods and Services A growing or more productive economy can make more goods and provide more services than before. However, some goods and services are considered more valuable than others. For example, a smartphone is considered more valuable than a pair of socks. Growth has to be measured in the value of goods and services, not only the quantity. Another problem is not all individuals place the same value on the same goods and services. A heater is more valuable to a resident of Alaska, while an air conditioner is more valuable to a resident of Florida. Some people value steak more than fish, and vice versa. Because value is subjective, measuring for all individuals is very tricky. The best approximation is to use the current market value ; in the United States, this is measured in terms of U. Since a higher total produced market value is considered more valuable, higher economic growth is positively associated with an increased quality of life or standard of living. The first is a discovery of new or better economic resources. An example of this is the discovery of gasoline fuel; prior to the discovery of the energy-generating power of gasoline, the economic value of petroleum was relatively low. Gasoline became a "better" and more productive economic resource after this discovery. Another way to generate economic growth is to grow the labor force. All else equal, more workers generate more economic goods and services. During the 19th century, a portion of the robust U. A third way to generate economic growth is to create superior technology or other capital goods. The rate of technical growth and capital growth is highly dependent on the rate of savings and investment, since savings and investment are necessary to engage in research and development. The last method is increased specialization. This means laborers become more skilled at their crafts, raising their productivity through trial and error or simply more practice. Savings, investment and specialization are the most consistent and easily controlled methods. There are also actions that the government can take in order to spur economic growth, and most governments try to do what they can to manage growth within the economy. In order to stimulate growth, the government can use expansive fiscal policy. This can include actions like increasing spending or cutting taxes.

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2: Theories of Value

Value Theory and Economic Progress attempts to correct that deficiency by providing an extended characterization of this missing and crucial component of the development of American heterodox economic thought. Its purpose is to demonstrate the timely relevance and significance of this model of inquiry in political economy.

Profits, Prices and Value What is the source of profit? The philosophers and others now known as the classical political economists started by investigating two central economic questions: Profit is certainly a factor in economic growth. Economic growth requires investment. Profit is both the goal of most investment activity and a major source of investment funds. And, since profit is itself one of the three forms of income, we cannot go very far in an investigation of either the distribution of income or economic growth without a grasp of the sources of profit. Price Profit occurs when a firm sells a good or service for more than it cost to produce. So we should be able to understand profit by understanding the prices of the goods and services the company sells and the prices of the inputs, including labor, that the company buys. However, the term price usually connotes something temporary. Price may rise or fall based on temporary shifts of demand or even on changes in the weather. It did not take a professor of Moral Philosophy to analyze how a weather-induced reduction in the wheat crop drives up the prices of wheat and bread. So economists need a term that embodies the concept of the price that something would be if it were not for all these troublesome variations in demand, weather and so forth. A twentieth century economist might use long-run equilibrium price to express this concept. Other terms that have been used are natural price Adam Smith , value-in-exchange, exchange value, exchangeable value and prices of production. Generally, after warning the reader that we mean value in terms of what other things the good could be exchanged for value-in-exchange and not the inherent usefulness of the good in terms of meeting our needs or desires value-in-use, or use value , we use the term "value. It goes up and down with the tides. It is also subject to the more random movement of waves and other disturbances, yet these movements will gravitate around the level determined by the tides. The tides, then, are analogous to value, even though the actual price at any moment will be higher or lower than the value. The Search for a Foundation Value lies at the core of the economic adjustment process. If the actual price of something were above the value, the extra profits to be made would attract more firms into that industry leading to a greater supply and - eventually - lower prices; conversely, if the actual price of something were below the value, the losses - or sub-normal profits - would drive firms out of that industry leading to a smaller supply and - eventually - higher prices. Thus value was identified as the element which organized the economic life of society, as the basis for deciding what to produce, how to produce it and who gets it. The problem, of course, was to understand how value itself was formed. The search for a theory of value is really a search for a consistent foundation for economic theory. It may have limited immediate worth in answering questions of economic policy or understanding the day-to-day or even the month-to-month movements in various prices. In fact, we can accomplish much of this without a consistent theory of value. A house without a foundation is of more immediate use than a foundation without a house. But the classical political economists were looking at the economy over the long term and thought it important to start with a solid foundation. An Ideal Theory of Value Before examining different theories of value, it is useful to state our objectives. What do we want our foundation to do for us? Value should bear some relationship to relative prices, or to what relative prices would be in the absence of day-to-day disturbances. The fundamental idea is to examine the forces behind relative prices in a causal sense; it is not as important to analyze them quantitatively. A theory of value should identify the factors that determine the distribution of income. If it cannot identify the magnitude of profit, a theory of value should indicate which forces external to the economic system determine the magnitude of profit. A theory of value should help us identify the forces responsible for economic growth. All theories must start with a set of simplifying assumptions. We must take care to not assume away the problem we are studying. Furthermore, the structure of our model economy should identify the factors that are truly part of the economic system itself endogenous factors and the factors that affect the economy but are not themselves caused by fundamentally economic forces exogenous factors. The relationships among the stylized facts should reveal the structure of our stylized economy without resorting to obscure mathematical formulations. The simplified model economy which we create from our stylized facts should be highly transparent. We would like to be able to explain and present the model in a manner which allows for easy visualization. The theory should allow us to relax the less realistic assumptions. For example, if we start with a single profit rate in all industries as one of our stylized facts, we should later be able to alter the theoretical structure to incorporate higher profit rates in more oligopolistic industries. Stylized Facts Common to all Theories of Value The starting point of theories of value, at least of the theories of value we are examining here, is a capitalist economy in long-run equilibrium. Of course this is unrealistic. In any real economy, shifts in demand and changes in technology occur before firms have fully adjusted to the last changes. But it allows us to investigate certain fundamental aspects of the economic system that are difficult to pick out from all the day-to-day movements of prices and output. The student of human anatomy can investigate human structure by examining an actual human skeleton. Lacking cadavers, economists must hypothesize the skeletal structure of capitalism. The selection and logical analysis of appropriate stylized facts is our substitute for an X-ray photograph of the skeleton of living capitalism. We will also assume sufficient competition so that the rate of profit will be the same in all industries. Again, this is terribly unrealistic. Certainly, when there are no barriers to entry or exit, capital will flow from low profit industries to high profit industries. Output will increase in industries which are attracting new capital, just as output will decrease in industries from which capital is fleeing. Prices in both industries will adjust until the profit rates are in the same range. But there are barriers to entry and exit in many industries. Our defense for making sufficient competition part of our set of stylized facts is twofold. First, we are trying to understand what forces give rise to profit in general. The differences in profit rates among firms or industries is a somewhat different problem. Certainly we expect to find higher rates of profit in the industries where there is the least effective competition. Second, if we cannot understand how prices and profit rates are formed under the simplest of conditions, we cannot hope to understand them under more realistic conditions. The anatomist must develop a concept of an ideal skeleton before being able to use skeletal remains to identify disease or malnutrition. The core of all our models is a highly simplified capitalism. It is an economy that is sufficiently competitive that all firms will have fully adjusted their outputs and use of inputs to all demand and technological conditions. Classical Theories of Value The classical political economists shared three major points in their approach to developing a theory of value. First, all the classical economists thought it necessary to start their investigations of capitalism with the question of value. Second, all the classical economists searched for value in the conditions of production. It was in the workshop or the factory, not the marketplace, that goods acquired their particular values. Third, although they had somewhat different reasons, all the classical economists subscribed to one form or another of a subsistence theory of wages. That meant that the cost of labor was itself equal to the value of the goods and services that a working-class family needed in order to get by. Adding-Up of Costs Adam Smith found value - which he called "natural price"- by adding the costs of production. In a society without private ownership of land and which used only the simplest of tools, labor would make up the entire cost of production: If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for, or be worth two deer. Source] But this simple measure of value is not sufficient for the more complex production processes and property ownership patterns of capitalism. When the worker is hired by a capitalist, uses equipment owned by the capitalist, and works with raw materials purchased by the capitalist, there will normally be profit: In the price of commodities, therefore, the profits of stock [capital] constitute a component part altogether different from the wages of labour, and regulated by quite different principles. Source] By "quite different principles," Smith means that the worker is paid by the hour of labor while the capitalist is "paid" by the amount of capital and the length of time that the capital is engaged in that production process. Whenever a product involves the use of land, there will be a third component included in its price: As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must then pay for the licence to gather them; and must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities makes a third component part. Source] The real value, then, of any commodity, will be the sum of the labor cost and the profit plus any rent. Even though the capitalist purchases raw materials as well as labor, the raw materials - and anything else the capitalist purchases from other capitalists - can in turn be broken down into labor, profit and rent. Adding Up of Costs We can fabricate a simple example along the lines suggested by Smith. A capitalist in the pig-raising business produces 1, pigs per year. Some of this will represent investment in buildings and tools, but most of it will be operating capital - workers and suppliers have to be paid before the capitalist sells the pigs. Note that labor makes up most of the cost. In this example, direct labor is only half of the total cost. But if we opened the books of the businesses that supplied the raw materials and replaced the worn out tools we would find their costs can also be broken down into labor, profit, rent and supplies. Then we could look into the costs of their suppliers, and so on. About one-third actually, If the costs in these supplier industries are proportional to the costs in the pig industry, [6: The Value of Labor The next step is to investigate the value of labor itself. According to Smith, nature sets the "minimum" wage: A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation. Source] It is difficult for wages to rise much above this minimum. Smith partially attributes this to inequality of bargaining power. The power of the worker to withhold his labor is far weaker than the power of the employer to withhold access to employment:

3: Philosophy of Economics (Stanford Encyclopedia of Philosophy)

of Economic Progress () and Toward a Reasonable Society () he brings value theory explicitly, continuously and comprehensively within the universe of social inquiry and discourse.

Development theory, cluster of research and theories on economic and political development. The emergence of development theory The use of the term development to refer to national economic growth emerged in the United States beginning in the s and in association with a key American foreign policy concern: Motivated by this concern, the United States enlisted its social scientists to study and devise ways of promoting capitalist economic development and political stability in what was termed the developing world. Development theory refers to the research and writing that resulted from this effort. There are different conceptions of development and, consequently, disparate approaches to the subject. However, all approaches are concerned with the relationship between development and governance. Development is usually seen as crucially determined by structures of governance; governance is interpreted through and shaped by the goal of development. Most development theory equates development with national economic growth and sees the state as its primary agent; consequently, one of its central concerns is to understand and explain the role of the state in development and the nature of government-market relations. Development theory has changed over time with changes in ideology and the international environment , and, as it changes, so do its conceptions of development and governance and how they are related. Changing conceptions of governance and its relation to development can be traced through the major perspectives on development that have emerged since World War II , as represented by theories of modernization and growth, dependency and world systems theories, the resurgence of neoclassical theory, and an array of newer critical perspectives. Theories of modernization and growth Development involves innumerable variables, including economic, social, political, gender, cultural, religious, and environmental factors. But though development theory integrates concepts and perspectives from a range of disciplines , it was highly influenced by economic thought from the start. Early theoretical models of development equated development with economic growth and industrialization, and theorists saw countries that had not yet achieved these as being at an earlier or lower stage of development relative to Europe and North America. The most influential proponent of this view was the American economic historian Walt W. His book, The Stages of Economic Growth: A Non-Communist Manifesto , elaborated a linear-stages-of-growth model that defined development as a sequence of stages through which all societies must pass. This conception of the nature and process of development became the basic blueprint for modernization theory. Modernization theory emerged following World War II to address the issue of how to shape the economies of states emerging from European colonization. Modernization was, thus, conceived of as the relations of production and standards of living characteristic of western Europe and the United States. Theorists emphasized increased savings and investment as the key to development and argued that international trade in products particularly suited to national factor endowments would enable more efficient resource allocation and greater earnings, and these could be translated into savings and then used to promote development. Theorists envisioned thatâ€”by disseminating technology, knowledge, managerial skills, and entrepreneurship; encouraging capital inflow; stimulating competition; and increasing productivityâ€”foreign trade, together with foreign investment and aid, would be the engine of growth for developing countries. Dependency and world systems theories Modernization theory claimed that once developing societies came into contact with western European and North American societies, they would be impelled toward modernization and, eventually, would achieve the economic, political, and social features characteristic of the nations of western Europe and the United States. However, by the s it was apparent that the Third World was not passing through a stage of underdevelopment, as envisioned by modernization theory, but remaining underdeveloped. Thus, a counterclaim was advancedâ€”that developing countries today are structurally different from the advanced countries and so will have to develop along different lines. These structures created a dynamic that was continuing to impoverish former colonies and to thwart their modernization. According to ECLA, the international division of labour created by colonization had separated the international economy into a centre, consisting of the industrialized countries, and a periphery , which included all the rest of the countries around the world outside of the socialist camp. Because the prices of manufactured goods bought by the periphery were rising faster than those of raw materials, cash crops, and foodstuffs sold by the periphery to the centre, international trade ensured the persistence of an unbalanced process of development. Thus, in contrast to modernization theory, which emphasized the benefits of free trade , foreign investment, and foreign aid , these theorists argued that free trade and international market relations occur in a framework of uneven relations between developed and underdeveloped countries and work to reinforce and reproduce these relations. This perspective formed the basis of what came to be known as dependency theory. Dependency theory rejects the limited national focus of modernization theory and emphasizes the importance of understanding the complexity of imperialism and its role in shaping postcolonial states. Its main tenet is that the periphery of the international economy is being economically exploited drained by the centre. Once this reshaping was accomplished, market forces worked to perpetuate the relationship of dominance and exploitation between centre and periphery. This theoretical enterprise became known as world systems theory. It typically treats the entire world, at least since the 16th century, as a single capitalist world economy based on an international division of labour among a core that developed originally in northwestern Europe England, France, Holland , a periphery, and a semiperiphery consisting of core regions in decline e. The division of labour among these regions determined their relationship to each other as well as their type of labour conditions and political system. In the core, strong central governments, extensive bureaucracies , and large mercenary armies enabled the local bourgeoisies to obtain control of international commerce and accumulate capital surpluses from this trade. The periphery, which lacked strong central governments or was controlled by other states, exported raw materials to the core and relied on coercive labour practices. Much of the capital surplus generated by the periphery was expropriated by the core through unequal trade relations. The semiperiphery had limited access to international banking and the production of high-cost, high-quality manufactured goods but did not benefit from international trade to the same extent as the core. Dependency and world systems theories share a common emphasis on global analysis and similar assumptions about the nature of the international system and its impact on national development in different parts of the world, but they tend to emphasize different political dynamics. Dependency theorists tend to focus on the power of transnational classes and class structures in sustaining the global economy, whereas world systems analysts tended to focus on the role of powerful states and the interstate system. Initially, the logic of these perspectives supported a strategy that came to be known as import-substitution industrialization ISI. The ISI strategy was to produce internally manufactured goods for the national market instead of importing them from industrialized countries. Its long-run objective was to first achieve greater domestic industrial diversification and then to export previously protected manufactured goods as economies of scale and low labour costs make domestic costs more competitive in the world market. The strategy ultimately foundered because of the smallness of the domestic market and, according to many structuralist theorists, the role of transnational corporations in this system. These theorists concluded that ISI, carried out in conditions of capitalist relations of production dominated by the economic empires led by the United States, was a recipe for further colonization, domination, and dependency. Thus, beginning in the s, theorists and practitioners heralded an export-oriented strategy as the way out of dependency. This strategy gives priority to the growth of manufacturing production aimed at world markets and the development of a particular comparative advantage as a basis for success in world trade. The strategy is based on lower wages and levels of domestic consumption at least initially to foster competitiveness in world markets, as well as to provide better conditions for foreign investment and foreign financing of domestic investment. By the s, however, many countries that pursued this strategy ended up with huge foreign indebtedness, causing a dramatic decrease in economic growth. Though the theorization of types of peripheral development and their connection with the international system continued to undergo refinement in the s and s, structural theorists were not able to agree about what would end dependence and how a nondependent growth could be achieved. The neoclassical counterrevolution In the s a neoclassical sometimes called neoliberal counterrevolution in development theory and policy reasserted dominance over structuralist and other schools of thought in much of the world. The emergence of this counterrevolution coincided with the abandonment by the developed countries of social democratic and Keynesian economic policies and, in particular, the policy of controlling capital movements, as well as the post-World War II trading regime. Critics have pointed out that this counterrevolution also coincided with and seemed to offer justification and support for a wave of market-oriented interventions by the World Bank and International Monetary Fund IMF and efforts to forge a unified global market regulated only by institutions reflecting the interests of transnational capital. The neoclassical or neoliberal perspective represents a modification and further elaboration of modernization theory. However, in contrast to modernization theory, neoclassical theorists see development as the outcome not of strategic state action but of the action of market forces. The central claim is that failure to develop is primarily the result of too much government intervention and regulation of the economy. Neoclassical theory emphasizes the beneficial role of free markets, open economies, and the privatization of inefficient public enterprises. Its recommended strategy for development is to free markets from state control and regulation, so that capital, goods, and services can have total freedom of movement and there can be greater openness to international trade. This is the basic blueprint for what has been termed good governance. The notion of good governance has been elaborated, in part, through a component of the neoclassical counterrevolution called new institutionalism. The basic premise of this perspective is that development outcomes depend on institutions such as property rights , price and market structures, money and financial institutions, firms and industrial organizations, and relationships between government and markets. The essence of good governance is to ensure the existence of these institutions and their proper role and functioning, as seen from the perspective of neoliberal theory. According to neoliberal thought, good governance requires freeing the market from state control and regulation; reducing government expenditures for social services like education and health care; maintaining roads, bridges, the water supply , and so forth; and selling state-owned enterprises, goods, and services including banks, key industries, railroads, toll highways, electricity, schools, and hospitals to private investors. These were the most-successful cases of the export-led industrialization strategy adopted by many countries in the s. All were able to achieve economic growth based on export industries with a comparative advantage in cheap but skilled labour. All maintained high rates of domestic savings and investment with correspondingly lower levels of consumption. However, many people point out that, in contradiction to the market-oriented reforms prescribed by neoliberal theory and its underlying rejection of state intervention, this national development strategy in all the tigers except Hong Kong was planned and executed through the institutions of a centralized authoritarian state. Critical perspectives A number of critical perspectives emerged in the s that highlighted the cultural and ethical dimensions of development. Most prominent among these were the postmodern, postcolonial, and subaltern critiques of Eurocentric conceptions of modernity and development. Postmodern writing challenged grand narratives of the modern eraâ€”narratives of the inevitability of progress, the triumph of individuality, and the primacy of scientific truthâ€”as oversimplified, oppressive, or tyrannical. Postcolonial theory focused on the legacy of colonial rule and especially the difficulties faced by former colonial peoples in developing national identity. Working within this general perspective, subaltern studies sought to rethink history from the perspective of the subaltern and, in this way, bring to light and assert the value of alternative experiences and ways. These critiques succeeded in drawing attention to the ethnocentric basis of the idea of what constitutes development and the potential limitations inherent within this development, the tension between universal theories and a diverse developing world, the treatment of gender in conventional development theory, and the political content of economic development strategies as pursued by national governments, encouraged by international institutions and nongovernmental organizations NGOs , and concealed behind the notion of aid. Eventually, these critiques helped focus attention on the need to broaden the concept of development to include a social development and human security dimension. The notion of human development influenced development theory in at least two ways. First, it clarified the inadequacy of theories that focus on whole nations or societies and that use macroeconomic factors to explain differences in development conditions and to measure development: Second, the notion of development as human development reemphasizes the importance of the state. It assigns the state a major role in protecting and advancing sustainable human well-being and argues the need for just the socially oriented state policies that neoliberalism proscribesâ€"policies that improve the access of all people to human resource investments, productive assets, credit facilities, information flows, and physical infrastructure and protect the legitimate interests of producers, consumers, workers, and vulnerable groups in society. Thus, alongside the neoliberal call to dismantle public ownership , state planning, and government regulation of economic activities, there was a perspective that reinvigorated the call for a larger state role in development. These contending perspectives informed political debates about growth and governance and, in particular, what constituted good governance in the global context of development.

VALUE THEORY AND ECONOMIC PROGRESS pdf

4: Value theory - Wikipedia

Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory, Cambridge University Press, Difficult due to the depth with which Dobb probes the subject, but it does not demand high levels of technical knowledge in economics.

Major expenses in building are for land, materials, and labour. In each case they are high when the commodity is scarce and low when it is abundant, and they influence planning more directly when they become restrictive. Definition No one has ever succeeded in neatly defining the scope of economics. Perhaps the only foolproof definition is that attributed to Canadian-born economist Jacob Viner: Difficult as it may be to define economics, it is not difficult to indicate the sorts of questions that concern economists. Among other things, they seek to analyze the forces determining prices â€"not only the prices of goods and services but the prices of the resources used to produce them. This involves the discovery of two key elements: These questions are representative of microeconomics , the part of economics that deals with the behaviour of individual entities such as consumers, business firms, traders, and farmers. The other major branch of economics is macroeconomics , which focuses attention on aggregates such as the level of income in the whole economy, the volume of total employment, the flow of total investment , and so forth. Here economists are concerned with the forces determining the income of a country or the level of total investment, and they seek to learn why full employment is so rarely attained and what public policies might help a country achieve higher employment or greater price stability. But these examples still do not exhaust the range of problems that economists consider. There is also the important field of development economics , which examines the attitudes and institutions supporting the process of economic development in poor countries as well as those capable of self-sustained economic growth for example, development economics was at the heart of the Marshall Plan. In this field the economist is concerned with the extent to which the factors affecting economic development can be manipulated by public policy. Cutting across these major divisions in economics are the specialized fields of public finance , money and banking , international trade , labour economics , agricultural economics , industrial organization, and others. Economists are frequently consulted to assess the effects of governmental measures such as taxation , minimum-wage laws, rent controls, tariffs , changes in interest rates, changes in government budgets , and so on. Historical development of economics The effective birth of economics as a separate discipline may be traced to the year , when the Scottish philosopher Adam Smith published An Inquiry into the Nature and Causes of the Wealth of Nations. There was, of course, economics before Smith: The unintended effects of markets The Wealth of Nations, as its title suggests, is essentially a book about economic development and the policies that can either promote or hinder it. In its practical aspects the book is an attack on the protectionist doctrines of the mercantilists and a brief for the merits of free trade. That is, each person takes prices as they come and is free only to vary the quantities bought and sold at the given prices. But this is true only if the competitive system is embedded in an appropriate legal and institutional frameworkâ€"an insight that Smith developed at length but that was largely overlooked by later generations. Their imperfections notwithstanding, these theories became the building blocks of classical and modern economics. This book acted, in one sense, as a critical commentary on the Wealth of Nations. Ricardo invented the concept of the economic model â€"a tightly knit logical apparatus consisting of a few strategic variablesâ€"that was capable of yielding, after some manipulation and the addition of a few empirically observable extras, results of enormous practical import. At the heart of the Ricardian system is the notion that economic growth must sooner or later be arrested because of the rising cost of cultivating food on a limited land area. Although wages are held down, profits do not rise proportionately, because tenant farmers outbid each other for superior land. As land prices were increasing, Malthus concluded, the chief beneficiaries of economic progress were the landowners. Since the root of the problem, according to Ricardo, was the declining yield i. He assumed that within a given country labour and capital are free to move in search of the highest returns but that between countries they are not. Ricardo showed that the benefits of international trade are determined by a comparison of costs within each country rather than by a comparison of costs between countries. International trade will profit a country that specializes in the production of the goods it can produce relatively more efficiently the same country would import everything else. For example, India might be able to produce everything more efficiently than England, but India might profit most by concentrating its resources on textiles, in which its efficiency is relatively greater than in other areas of Indian production, and by importing British capital goods. The beauty of the argument is that if all countries take full advantage of this territorial division of labour , total world output is certain to be physically larger than it will be if some or all countries try to become self-sufficient. As a result, many of the late 19th-century economists devoted their efforts to the problem of how resources are allocated under conditions of perfect competition. Marxism Before proceeding, it is important to discuss the last of the classical economists, Karl Marx. The first volume of his work Das Kapital appeared in ; after his death the second and third volumes were published in and , respectively. To say that one is a Marxian economist is, in effect, to share the value judgment that it is socially undesirable for some people in the community to derive their income merely from the ownership of property. Since few professional economists in the 19th century accepted this ethical postulate and most were indeed inclined to find some social justification for the existence of private property and the income derived from it, Marxian economics failed to win resounding acceptance among professional economists. The Marxian approach, moreover, culminated in three generalizations about capitalism: In addition, Marxian economics had little to say on the practical problems that are the bread and butter of economists in any society, such as the effect of taxes on specific commodities or that of a rise in the rate of interest on the level of total investment. The marginalists The next major development in economic theory, the marginal revolution, stemmed essentially from the work of three men: See utility and value. Indeed, it was the consistent application of marginalism that marked the true dividing line between classical theory and modern economics. The classical economists identified the major economic problem as predicting the effects of changes in the quantity of capital and labour on the rate of growth of national output. Through the last three decades of the 19th century, economists of the Austrian, English, and French schools formulated their own interpretations of the marginal revolution. The Austrian school dwelt on the importance of utility as the determinant of value and dismissed classical economics as completely outmoded. The English school, led by Alfred Marshall , sought to reconcile their work with the doctrines of the classical writers. Marshall based his argument on the observation that the classical economists concentrated their efforts on the supply side in the market while the marginal utility theorists were concerned with the demand side. In suggesting that prices are determined by both supply and demand , Marshall famously used the paradigm of a pair of scissors, which cuts with both blades. It is not difficult to analyze the conditions under which equilibrium is possible for a single product. This is true of every market. It is not too much to say that nearly the whole of modern economics is Walrasian economics, and modern theories of money, employment, international trade, and economic growth can be seen as Walrasian general equilibrium theories in a highly simplified form. The three schools of marginalist doctrines gradually coalesced into a single mainstream that became known as neoclassical economics. The theory of utility was reduced to an axiomatic system that could be applied to the analysis of consumer behaviour under almost any circumstance. This era also saw a gradual development of monetary theory which explains how the level of all prices is determined as distinct from the determination of individual prices , notably by Swedish economist Knut Wicksell. The critics Before going on, it is necessary to take note of the rise and fall of the German historical school and the American institutionalist school , which leveled a steady barrage of critical attacks on the orthodox mainstream. The German historical economists , who had many different views, basically rejected the idea of an abstract economics with its supposedly universal laws: While they gave impetus to the study of economic history , they failed to persuade their colleagues that their method was invariably superior. The institutionalists are more difficult to categorize. Institutional economics, as the term is narrowly understood, refers to a movement in American economic thought associated with such names as Thorstein Veblen , Wesley C. Mitchell , and John R. These thinkers had little in common aside from their dissatisfaction with orthodox economics, its tendency to cut itself off from the other social sciences, its preoccupation with the automatic market mechanism, and its abstract theorizing. Moreover, they failed to develop a unified theoretical apparatus that would replace or supplement the orthodox theory. This may explain why the phrase institutional economics has become little more than a synonym for descriptive economics. Particularly in the United States, institutional economics was the dominant style of economic thought during the period between World Wars I and II. At the time there was an expectation that institutional economics would furnish a new interdisciplinary social science. It was through the innovations of the s that the theory of monopolist , or imperfect, competition was integrated into neoclassical economics. The theory produced the powerful conclusion that competitive industries, in which each seller has a partial monopoly because of product differentiation , will tend to have an excessive number of firms, all charging a higher price than they would if the industry were perfectly competitive. Since product differentiationâ€"and the associated phenomenon of advertising â€"seems to be characteristic of most industries in developed capitalist economies, the new theory was immediately hailed as injecting a healthy dose of realism into orthodox price theory. Unfortunately, its scope was limited, and it failed to provide a satisfactory explanation of price determination under conditions of oligopoly. This was a significant omission, because in advanced economies most manufacturing and even most service industries are dominated by a few large firms. The resulting gap at the centre of modern price theory shows that economists cannot fully explain the conditions under which multinational firms conduct their affairs. Keynesian economics The second major breakthrough of the s, the theory of income determination, stemmed primarily from the work of John Maynard Keynes, who asked questions that in some sense had never been posed before. Keynes was interested in the level of national income and the volume of employment rather than in the equilibrium of the firm or the allocation of resources. When effective demand falls short of productive capacity, the result is unemployment and depression ; conversely, when demand exceeds the capacity to produce, the result is inflation. Central to Keynesian economics is an analysis of the determinants of effective demand. The Keynesian model of effective demand consists essentially of three spending streams: Foreign trade is ignored. Keynes attempted to show that the level of effective demand, as determined in this model, may well exceed or fall short of the physical capacity to produce goods and services. He also proved that there is no automatic tendency to produce at a level that results in the full employment of all available human capital and equipment. His findings reversed the assumption that economic systems would automatically tend toward full employment. By remaining focused on macroeconomic aggregates such as total consumption and total investment and by deliberately simplifying the relationships between these economic variables, Keynes achieved a powerful model that could be applied to a wide range of practical problems. Others subsequently refined his system of analysis some have said that Keynes himself would hardly have recognized it , and it became thoroughly assimilated into established economic theory. Still, it is not too much to say that Keynes was perhaps the first economist to have added something truly new to economics since Walras put forth his equilibrium theory in the s. Postwar developments The year period following World War II can be viewed as an era in which the nature of economics as a discipline was transformed. First of all, mathematics came to permeate virtually every branch of the field. As economists moved from a limited use of differential and integral calculus , matrix algebra represented an attempt to add a quantitative dimension to a general equilibrium model of the economy. Matrix algebra was also associated with the advent of input-output analysis , an empirical method of reducing the technical relations between industries to a manageable system of simultaneous equations. A closely related phenomenon was the development of linear programming and activity analysis , which opened up the possibility of applying numerical solutions to industrial problems. This advance also introduced economists to the mathematics of inequalities as opposed to exact equation. Likewise, the emergence of growth economics promoted the use of difference and differential equations. The development of econometrics had an impact on economics in general, since those who formulated new theories began to cast them in terms that allowed empirical testing. New developments in economics were not limited to methodological approaches. Out of these concerns came the field of development economics, with offshoots in regional economics, urban economics, and environmental economics. This transformation brought prestige the Nobel Prize in Economic Sciences was first awarded in but also new responsibility to the profession: The radical critics declared that economics had become a defense of the status quo and that its practitioners had joined the power elite. The marginal techniques of the economists, ran the argument, were profoundly conservative in their bias, because they encouraged a piecemeal rather than a revolutionary approach to social problems; likewise, the tendency in theoretical work to ignore the everyday context of economic activity amounted in practice to the tacit acceptance of prevailing institutions. The critics said that economics should abandon its claim of being a value-free social science and address itself to the great questions of the dayâ€”those of civil rights , poverty , imperialism , and environmental pollution â€”even at the cost of analytical rigour and theoretical elegance. It is true that the study of economics encourages a belief in reform rather than revolutionâ€”yet it must be understood that this is so because economics as a science does not provide enough certitude for any thoroughgoing reconstruction of the social order.

5: Economic Growth

Get this from a library! Value Theory and Economic Progress: The Institutional Economics of J. Fagg Foster. [Marc R Tool] -- J. Fagg Foster () was one of the most significant creators of institutionalist economic theory in the twentieth century.

Everyone, it is said has their own values. I value truth for example, I value my mother. Is it legitimate to ask "How much? Or is it legitimate to insist that there is a meaning to value for which the question of "How much? Indeed, value is meaningless outside of the act or possibility of exchange. But more than this: In days long ago the question of exchanging something rarely arose, and the concept of value could not exist in such a society. A society without values is not an unethical or immoral society. But the question of value poses itself when the things produced by human labour and I include here even the most intangible as human products become the subject of exchange. We live in a time when few corners of life remain untouched by the possibility or actuality of exchange. In Section 3 of Chapter One of Capital Marx traces the development of the value relation from the "Elementary or Accidental Form of Value" through 12 different forms up to the "Money Form" as exchange becomes more extensive in social life. The aim of this work is to trace the development of the value-form and the concept of value since then. In the article on " Ethical Values ", I pay attention to the development of Ethics and the place of value in Ethics. The Ethics of Utilitarianism is the mirror image of his political economy, and bourgeois ethics has not developed one iota past Utilitarianism in the years since, despite the development of the productive forces which continue to pose ever more fundamental challenges to Utilitarianism. Preamble My object is to study the historical course of the concept of "value" in bourgeois economic theory, and Correlate the phases in this history to the trends of bourgeois philosophy, principally epistemology, which coincide with them, and where possible establish the historical connections in the domain of theory between the theory of knowledge and the theory of economic value, and Correlate the phases in the history of the value concept with the actual history of economic value itself. In this way I wish to explore the concept of value as a mediating point in a thread connecting the development of the capitalist economy and the development of bourgeois thought. One of the problems in achieving this is that from a certain point, the word "value" actually disappears from bourgeois economic theory altogether, as if the word had been "given a bad name", so it is with a little licence that it is possible to trace the concept of value during a long period in which it goes by another name. Also, if I am to be able to talk about the fate of value itself in the growth of the global economy, how can I do this without relying on some specific concept of value myself? In general I intend to let the history itself guide me so far as possible. I want to study the fate of the concept of value from John Stuart Mill a contemporary of Marx up till today the Postmodern Philosophers and the Complexity theorists. Classical Political Economy William Petty - , founder of English Political Economy, successively seaman, physician, Professor of Anatomy, Professor of Music, inventor, surveyor, landowner, member of Parliament and statistician, whose main contribution to political economy, Treatise of Taxes and Contributions , considered the role of the state in the economy and touched on the labour theory of value. A founder of the Royal Society, he was a protagonist of the empirical scientific doctrines. Petty favoured giving free rein to the natural forces of individual self-interest. Unlike liberals after Adam Smith, however, Petty considered the maintenance of a high level of employment by monetary and fiscal policies and by public works to be a duty of the state. Marx argued that the bourgeoisie of this time needed the force of the state, via taxation or other means, to create conditions for capitalist accumulation. In the Treatise, he argued that the labour necessary for production was the main determinant of value. The Physiocrats Quesnay and other French writers of the s and s were the first economists to begin to analyse production rather than simply circulation in the endeavour to find the source of surplus value. They believed however that only agricultural labour was truly productive. Value extracted from Nature by agricultural labour is distributed by circulation and manufacturing is simply the utilisation of labour supported by the surplus product of the land for other activities more or less akin to circulation, in much the way Marx regarded domestic service as expenditure of surplus rather than productive labour. For them, this analysis coincides with the analysis of rent, the only form of surplus-value whch they recognise. Therefore, they consider rent-yielding, or agricultural, capital to be the only capital producing surplus-value, and the agricultural labour set in motion by it, the only labour producing surplus-value, which from a capitalist point of view is quite properly considered the only productive labour. The physiocrats, furthermore, are correct in stating that in fact all production of surplus-value, and thus all development of capital, has for its natural basis the productiveness of agricultural labour". Also, we see the Physiocrats promoting what Marx refers to as their "own practical interests". The promotion of their specific property as the source of value by the theoretical representatives of a class is also seen in the early Merchantile and Monetarist systems, and to this day, for instance, among finance capitalists who believe that "money makes money" or industrialists who see all the service sectors as parasitic in relation to their own "real" productivity. For French political economy of the late eighteenth and early nineteenth century, no distinction was made between the capitalist farmer and the agricultural labourer or between the industrial worker and the industrial capitalist; the capitaist was everywhere taken as the producer, in the way that we say "Hadrian built a wall". Adam Smith Adam Smith , the first to complete a comprehensive theory of political economy, saw labour as the sole source and measure of value: Labour is the real measure of the exchangeable value of all commodities. The real price of everything, what everything costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who want to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. Labour alone, therefore, never varying its own value, is alone the ultimate and real standard by which the value of all commodities can at all time and places be estimated and compared. It is their real price; money is their nominal price only. The Wealth of Nations, and according to Smith, price was determined by relation of value to the amount of money in circulation. A life-long friend of David Hume and part of the "Scottish Enlightenment", Smith was also acquainted with Voltaire and others of the French Enlightenment. Smith came to the theory of political economy expressed in The Wealth of Nations from a study of "human nature" and consideration of how the innate passions of human beings became transformed into socially productive cooperation in laissez faire capitalism. He developed a "four stage" theory of history tracing how social institutions respond to development of the productive forces and culminate in pre-Industrial Revolution capitalism. Consistent with the theory of knowledge of David Hume, Smith regards value to be exclusively the product of human labour, which in turn has its source in human nature. The institutions of society and the division of labour arise historically independently of the will and understanding of human beings, but as the natural outcome of the clash of their individualism. Smith wrote in the very earliest days of the industrial revolution, but it was not the large, steam-powered industrial enterprises which were to emerge which formed the context of his thinking, but rather the small-scale manufacture of the early eighteenth century. Marx regarded this as its strength rather than its weakness! Marx not only distinguishes between labour power with its own costs of reproduction but between exchange-value value in the sense of Ricardo and Smith and use-value, which is concrete, qualitative, not quantitative. Marx is a contemporary with J S Mill, Jevons, Say, Walras and subjects the theories of Mill and Say as well as the classical political economists to critique, though there is no evidence that Marx knew of Jevons and Walras. Suffice it say that Ricardo is the last bourgeois political economist to attempt to consistently apply a labour theory of value. The conception of labour as an activity arising by the combination of labour power and the products of past labour in the labour process, and that labour power itself is a product with its own costs of production is unique to Marx. In the history of bourgeois philosophy it was Hegel who understood the importance of conceiving of human labour as also a product of labour, and that human needs are not only satisfied but produced by labour. While Hegel was familiar with the political economy of Adam Smith and incorporated what he learnt from Classical British Political Economy in his own system, there was no direct influence in the other direction. Use value is what you would be prepared to pay for something, and exchange value is the average market value; use-value can be less but never more than exchange value; 2 use-value is not of concern to political economy; 3 exchange value is a relative, not an absolute concept. He goes on to reduce the concept of value to a nothing, without actually dismissing it. It is a kind of "proper price", since if price differs from value it is because someone has been "rooked" or there is a temporary distortion in the market. Mill says in Mill is very much a part of the traditional of classical political economy, and consistent with that tradition. Mill adheres to an objective or "cost-of-production" conception of exchange value. Mill speaks however, as an apologist for capital and has abandoned the project of scientifically accounting for the wealth of nations. He rejects the labour theory of value, allowing all factors brought to the production process a proportional share in the formation of a new value. Wages are what a capitalist is prepared to pay for labour, and what the labourer deserves. For the First Positivism, sociology was seen as the central science, and society and its intellectual superstructure is seen as evolving towards rationality and science with religion dying away; social science aspired to emulate the methods and achievements of natural science, conceiving society as an object which can be studied and understood by the same methods as developed so successfully by natural science. Primacy is given to the data of perception and rational means of comprehending that data. In Britain, the Industrial Revolution is more or less complete and the British Empire is expanding to its peak around He simply eliminated one side of the value-contradiction use-value from political economy. In so doing, he effectively abandoned the quest which drove Smith and Ricardo to understand the source of wealth in bourgeois society. For Mill, and all subsequent bourgeois economists wealth is a given, it is the "endowment" of the economic agents, or whatever. That does not have to be explained. On the other hand, Mill has laid the basis for the future development of the concept of value in bourgeois political economy in his reduction of use-value to a quantity commensurate with exchange-value and his advice to abandon the study of value in favour of the study of price. It seems appropriate that the spokesperson of an emerging financial power should minimise the importance of value by comparison with price and would see all factors of production as contributing equally to the creation of value. The concrete activity of human beings, labouring in the production and reproduction of the means of life are to the banker merely objects, equally as much as the natural materials consumed in production. Value has lost its qualitative side and is now purely quantitative. In the System of Logic , in accord with the spirit of his time, Mill minimises the importance of "metaphysical" questions, but remarks:: His Utilitarianism is the translation of his political economy into ethics. The "marginal revolution" in natural science began with Isaac Newton years earlier. All the laws of nature elaborated during that period are expressed in differential form. Jevons introduced the differential to political economy under the name of "margin" and this truly made a revolution. With Elements of Pure Economics , Walras is generally credited with having founded the "Lausanne school" of economists later led by Vilfredo Pareto - Walras applied to the economic universe techniques for treating systems of simultaneous equations that were well-known in classical mechanics. Assuming a "regime of perfectly free competition," Walras constructed a mathematical model in which productive factors, products, and prices automatically adjust in equilibrium. But the introduction of the differential was not the only revolution which takes place with "Neo-classical political economy". For Jevons, the utility or value to a consumer of an additional unit of a product is inversely related to the number of units of that product he already owns. Here then is a move from viewing "value" as something objective in relation to both to producer and consumer, to subjective. This subjective value now forms the substratum determining the actions of agents in the market as purchasers. From here on then, the problem of value is that of the mind, of the value placed upon this or that object by a person, and price is the outcome of the interaction of "marginal" values between suppliers and consumers of the various commodities, including factors of production such as capital and labour, which appear side-by-side in the equation of price. It should be pointed out that this is not a shift of value from "supply side" to "demand side". Each side in an exchange perceive in the commodity offered in exchange a value, be it money or product, but what matters is "in the eye of the beholder", not in the actual or potential cost of bringing the commodity to market. Mill, is Alfred Marshall - For Marshall, marginal utility on the demand side and marginal effort on the supply side jointly determine price. By considering the time periods over which various factors operate, Marshall sought to apply this approach to determine conditions of partial equilibrium of a finite market and developed an approach to solving problems of price formation. Marshall differs somewhat from the mainstream of neo-classical political economy in that he sees price as an outcome of the joint action of marginal costs of production and marginal utility or use-value measure and thus still retains somewhat of the tradition of classical political economy. Marshall however, never mentions the word "value", and assumes for the purpose of analysis that the purchasing power of money is a constant something his successors would hardly find a satisfactory "assumption" upon which to build a system of political economy! He is thus able to rely upon money as the exclusive measure of "wealth", under which everything contributing to well-being is included, be it tangible or intangible, artificial or natural. Marshall substitutes for value the notion of price at equilibrium of a specific market, but in fact we have made no advance from the perceptually given price and measures abstracted from that; we have no "value" as such. Marshall is trying, in this way, in the spirit of his times, to eliminate any kind of "metaphysics" from his science. He considers monopoly, but separately.

6: Theory of value (economics) - Wikipedia

Bibliography Includes bibliographical references (p.) and index. Publisher's Summary J. Fagg Foster () was one of the most significant creators of institutionalist economic theory in the twentieth century.

Value personal and cultural In sociology, value theory is concerned with personal values which are popularly held by a community, and how those values might change under particular conditions. Different groups of people may hold or prioritize different kinds of values influencing social behavior. Classical examples of sociological traditions which deny or downplay the question of values are institutionalism , historical materialism including Marxism , behaviorism , pragmatic-oriented theories, postmodern philosophy and various objectivist-oriented theories. Methods of study range from questionnaire surveys to participant observation. For example, those things that are owned by a person may be said to be natural goods, but over which a particular individual s may have moral claims. So it is necessary to make another distinction: A non-moral good is something that is desirable for someone or other; despite the name to the contrary, it may include moral goods. A moral good is anything which an actor is considered to be morally obligated to strive toward. When discussing non-moral goods, one may make a useful distinction between inherently serviced and material goods in the marketplace or its exchange value , versus perceived intrinsic and experiential goods to the buyer. A strict service economy model takes pains to distinguish between the goods and service guarantees to the market, and that of the service and experience to the consumer. Sometimes, moral and natural goods can conflict. The value of natural "goods" is challenged by such issues as addiction. The issue of addiction also brings up the distinction between economic and moral goods, where an economic good is whatever stimulates economic growth. For instance, some claim that cigarettes are a "good" in the economic sense, as their production can employ tobacco growers and doctors who treat lung cancer. In ecological economics value theory is separated into two types: Odum , Environmental Accounting: Emergy and environmental decision-making, Emergy theorists believe that this conception of value has relevance to all of philosophy, economics, sociology and psychology as well as Environmental Science. Silvio Gesell denied value theory in economics. He thought that value theory is useless and prevents economics from becoming science and that a currency administration guided by value theory is doomed to sterility and inactivity. Value ethics Intuitively, theories of value must be important to ethics. A number of useful distinctions have been made by philosophers in the treatment of value. Intrinsic and instrumental value[edit] Main article: Instrumental and intrinsic value Many people find it useful to distinguish instrumental value and intrinsic values , first discussed by Plato in the "Republic". An instrumental value is worth having as a means towards getting something else that is good e. An intrinsically valuable thing is worth having for itself, not as a means to something else. It is giving value intrinsic and extrinsic properties. Intrinsic and instrumental goods are not mutually exclusive categories. Some things are both good in themselves, and also good for getting other things that are good. A prominent argument in environmental ethics , made by writers like Aldo Leopold and Holmes Rolston III , is that wild nature and healthy ecosystems have intrinsic value, prior to and apart from their instrumental value as resources for humans, and should therefore be preserved. This line of argument has been articulated further in recent years by Canadian philosopher John McMurtry within the Encyclopedia of Life Support Systems http: Pragmatism and contributory goodness[edit] Further information: Pragmatic ethics John Dewey , in his book Theory of Valuation, [4] sees goodness as the outcome of ethic valuation , a continuous balancing of "ends in view". An end in view is said to be an objective potentially adopted, which may be refined or rejected based on its consistency with other objectives or as a means to objectives already held. Instead, Dewey sees the appearance of intrinsic value as an illusory product of our continuous valuative activity as purposive beings. In addition to denying categorically that there is anything like intrinsic value, Dewey held the same position with regard to moral values - for Dewey, moral values are also based on a learning process, and are never intrinsic or absolute. Another contribution of pragmatism to value theory is the idea of contributory goods with a contributory conditionality. These have the same qualities as the good thing, but need some emergent property of a whole state-of-affairs in order to be good. For example, salt is food on its own, but is far better as part of a prepared meal. In other words, such goods are only "good" when certain conditions are met. This is in contrast to other goods, which may be considered "good" in a wider variety of situations. He thought of moral value as a unique and universally identifiable property, as an absolute value rather than a relative value. He showed that many practical goods are good only in states-of-affairs described by a sentence containing an "if" clause, e. Kant described these as "hypothetical goods", and tried to find a "categorical" good that would operate across all categories of judgment without depending on an "if-then" clause. Moreover, Kant saw a good will as acting in accordance with a moral command, the " Categorical Imperative ": Whereas the golden rule states that "One should treat others as one would like others to treat oneself," Kant asks us to analyze whether an act can be performed simultaneously by everyone without exception. For example, murder cannot be performed simultaneously by everyone, one set of people would have to live and the other die. That disparity is an exception. The act cannot be performed without exception, therefore it fails the categorical imperative. Contrast this with the golden rule which is subjective to the individual. Following the logic of the golden rule, if I wanted someone to kill me, then it would be acceptable for me to kill others, because I would be doing to others what I would want done to me. From this, and a few other axioms, Kant developed a moral system that would apply to any "praiseworthy person".

7: Development theory | economics and political science | www.enganchecubano.com

A theory of value is any economic theory that attempts to explain the exchange value or price of goods and www.enganchecubano.com questions in economic theory include why goods and services are priced as they are, how the value of goods and services comes about, andâ€”for normative value theoriesâ€”how to calculate the correct price of goods and services (if such a value exists).

Both the definition and the precise domain of economics are subjects of controversy within philosophy of economics. At first glance, the difficulties in defining economics may not appear serious. Economics is, after all, concerned with aspects of the production, exchange, distribution, and consumption of commodities and services. But this claim and the terms it contains are vague; and it is arguable that economics is relevant to a great deal more. Aristotle addresses some problems that most would recognize as pertaining to economics, mainly as problems concerning how to manage a household. Scholastic philosophers addressed ethical questions concerning economic behavior, and they condemned usury â€” that is, the taking of interest on money. There was an increasing recognition of the complexities of the financial management of the state and of the possibility that the way that the state taxed and acted influenced the production of wealth. Trade also seemed advantageous, at least if the terms were good enough. It took no conceptual leap to recognize that manufacturing and farming could be improved and that some taxes and tariffs might be less harmful to productive activities than others. In order for there to be an object of inquiry, there must be regularities in production and exchange; and for the inquiry to be non-trivial, these regularities must go beyond what is obvious to the producers, consumers, and exchangers themselves. Crucial to the possibility of a social object of scientific inquiry is the idea of tracing out the unintended consequences of the intentional actions of individuals. Thus, for example, Hume traces the rise in prices and the temporary increase in economic activity that follow an increase in currency to the perceptions and actions of individuals who first spend the additional currency In spending their additional gold imported from abroad, traders do not intend to increase the price level. But that is what they do nevertheless. Adam Smith expands and perfects this insight and offers a systematic Inquiry into the Nature and Causes of the Wealth of Nations. From his account of the demise of feudalism , Book II, Ch. Nor is it always the worse for the society that it was no part of it. The existence of regularities, which are the unintended consequences of individual choices gives rise to an object of scientific investigation. One can distinguish the domain of economics from the domain of other social scientific inquiries either by specifying some set of causal factors or by specifying some range of phenomena. The phenomena with which economists are concerned are production, consumption, distribution and exchangeâ€”particularly via markets. But since so many different causal factors are relevant to these, including the laws of thermodynamics, metallurgy, geography and social norms, even the laws governing digestion, economics cannot be distinguished from other inquiries only by the phenomena it studies. Some reference to a set of central causal factors is needed. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonising principles to the desire of wealth, namely aversion to labour, and desire of the present enjoyment of costly indulgences. Mill takes it for granted that individuals act rationally in their pursuit of wealth and luxury and avoidance of labor, rather than in a disjointed or erratic way, but he has no theory of consumption, or explicit theory of rational economic choice, and his theory of resource allocation is rather thin. These gaps were gradually filled during the so-called neoclassical or marginalist revolution, which linked choice of some object of consumption and its price not to its total utility but to its marginal utility. For example, water is obviously extremely useful, but in much of the world it is plentiful enough that another glass more or less matters little to an agent. So water is cheap. In the Twentieth Century, economists stripped this theory of its hedonistic clothing Pareto , Hicks and Allen All that they suppose concerning evaluations is that agents are able consistently to rank the alternatives they face. This is equivalent to supposing first that rankings are complete â€” that is, for any two alternatives x and y that the agent considers, either the agent ranks x above y prefers x to y , or the agent prefers y to x, or the agent is indifferent. Though there are further technical conditions to extend the theory to infinite sets of alternatives and to capture further plausible rationality conditions concerning gambles, economists generally subscribe to a view of rational agents as at least possessing complete and transitive preferences and as choosing among the feasible alternatives whichever they most prefer. In the theory of revealed preference, economists have attempted unsuccessfully to eliminate all reference to subjective preference or to define preference in terms of choices Samuelson , Houtthaker , Little , Sen , , Hausman , chapter 3. In clarifying the view of rationality that characterizes economic agents, economists have for the most part continued to distinguish economics from other social inquiries by the content of the motives or preferences with which it is concerned. So even though people may seek happiness through asceticism, or they may rationally prefer to sacrifice all their worldly goods to a political cause, economists have supposed that such preferences are rare and unimportant to economics. Economists are concerned with the phenomena deriving from rationality coupled with a desire for wealth and for larger bundles of goods and services. Economists have flirted with a less substantive characterization of individual motivation and with a more expansive view of the domain of economics. According to Robbins, economics is not concerned with production, exchange, distribution, or consumption as such. It is instead concerned with an aspect of all human action. There are many schools and many branches. Some mainstream economics is highly theoretical, though most of it is applied and relies on rudimentary theory. Theoretical and applied work can be distinguished as microeconomics or macroeconomics. There is also a third branch, econometrics which is devoted to the empirical estimation, elaboration, and to some extent testing of microeconomic and macroeconomic models but see Summers and Hoover Microeconomics focuses on relations among individuals with firms and households frequently counting as honorary individuals and little said about the idiosyncrasies of the demand of particular individuals. Individuals have complete and transitive preferences that govern their choices. Firms attempt to maximize profits in the face of diminishing returns: Economists idealize and suppose that in competitive markets, firms and individuals cannot influence prices, but economists are also interested in strategic interactions, in which the rational choices of separate individuals are interdependent. Game theory, which is devoted to the study of strategic interactions, is of growing importance in economics. Economists model the outcome of the profit-maximizing activities of firms and the attempts of consumers optimally to satisfy their preferences as an equilibrium in which there is no excess demand on any market. What this means is that anyone who wants to buy anything at the going market price is able to do so. There is no excess demand, and unless a good is free, there is no excess supply. Macroeconomics grapples with the relations among economic aggregates, such as relations between the money supply and the rate of interest or the rate of growth, focusing especially on problems concerning the business cycle and the influence of monetary and fiscal policy on economic outcomes. Macroeconomics is immediately relevant to economic policy and hence and unsurprisingly subject to much more heated and politically-charged controversy than microeconomics or econometrics. Branches of mainstream economics are also devoted to specific questions concerning growth, finance, employment, agriculture, housing, natural resources, international trade, and so forth. Within orthodox economics, there are also many different approaches, such as agency theory Jensen and Meckling , Fama , the Chicago school Becker , or public choice theory Brennan and Buchanan , Buchanan These address questions concerning incentives within firms and families and the ways that institutions guide choices. Although mainstream economics is dominant and demands the most attention, there are many other schools. Austrian economists accept orthodox views of choices and constraints, but they emphasize uncertainty and question whether one should regard outcomes as equilibria, and they are skeptical about the value of mathematical modeling Buchanan and Vanberg , Dolan , Kirzner , Mises , , , Rothbard , Wiseman , Boettke , Holcombe , Nell a, b, , Boettke and Coyne , Hagedorn , Horwitz , Dekker , Linsbichler Traditional institutionalist economists question the value of abstract general theorizing and emphasize evolutionary concepts Dugger , Wilber and Harrison , Wisman and Rozansky , Hodgson , , , Hodgson and Knudsen , Delorme , Richter They emphasize the importance of generalizations concerning norms and behavior within particular institutions. Applied work in institutional economics is sometimes very similar to applied orthodox economics. There are also socio-economists, who are concerned with the norms that govern choices Etzioni , , behavioral economists, who study the nitty-gritty of choice behavior Winter , Thaler , Ben Ner and Putterman , Kahneman and Tversky , Camerer , Camerer and

Loewenstein , Camerer et al. Economics is not one homogeneous enterprise. Six central methodological problems Although the different branches and schools of economics raise a wide variety of epistemological and ontological issues concerning economics, six problems have been central to methodological reflection in this philosophical sense concerning economics: Most economists and methodologists believe that there is a reasonably clear distinction between facts and values, between what is and what ought to be, and they believe that most of economics should be regarded as a positive science that helps policy makers choose means to accomplish their ends, though it does not bear on the choice of ends itself. First economists have to interpret and articulate the incomplete specifications of goals and constraints provided by policy makers Machlup b. Those values need not be the same as the values that influence economic policy, but it is debatable whether the values that govern the activity of economists can be sharply distinguished from the values that govern policy makers. Third, much of economics is built around a normative theory of rationality. One can question whether the values implicit in such theories are sharply distinguishable from the values that govern policies. For example, it may be difficult to hold a maximizing view of individual rationality, while at the same time insisting that social policy should resist maximizing growth, wealth, or welfare in the name of freedom, rights, or equality. There is evidence that studying theories that depict individuals as self-interested leads people to regard self-interested behavior more favorably and to become more self-interested Marwell and Ames , Frank et al. Positive and normative are especially interlinked within economics, because economists are not all researchers and teachers. The bitter polemics concerning macroeconomic policy responses to the great recession beginning in testify to the influence of ideology. Since virtually all economic theories that discuss individual choices take individuals as acting for reasons, and thus in some way rational, questions about the role that views of rationality and reasons should play in economics are of general importance. Economists are typically concerned with the aggregate results of individual choices rather than with the actions of particular individuals, but their theories in fact offer both causal explanations for why individuals choose as they do and accounts of the reasons for their choices. See also the entries on methodological individualism and reasons for action: Explanations in terms of reasons have several features that distinguish them from explanations in terms of causes. Reasons can be evaluated, and they are responsive to criticism. Reasons, unlike causes, must be intelligible to those for whom they are reasons. On grounds such as these, many philosophers have questioned whether explanations of human action can be causal explanations von Wright , Winch Donald Davidson argued that what distinguishes the reasons that explain an action from the reasons that fail to explain it is that the former are also causes of the action. Although the account of rationality within economics differs in some ways from the folk psychology people tacitly invoke in everyday explanations of actions, many of the same questions carry over Rosenberg , ch. An additional difference between explanations in terms of reasons and explanations in terms of causes, which some economists have emphasized, is that the beliefs and preferences that explain actions may depend on mistakes and ignorance Knight As a first approximation, economists can abstract from such difficulties caused by the intentionality of belief and desire. They thus often assume that people have perfect information about all the relevant facts. If people have perfect information, then they believe and expect whatever the facts are. But once one goes beyond this first approximation, difficulties arise which have no parallel in the natural sciences. Consider for example the stock market. In house prices in the U. They were excellent investments if one could sell them to others who would be willing to pay even more for them. Economists disagree about how significant this subjectivity is. Members of the Austrian school argue that these differences are of great importance and sharply distinguish theorizing about economics from theorizing about any of the natural sciences Buchanan and Vanberg , von Mises Economic theories have been axiomatized, and articles and books of economics are full of theorems. Of all the social sciences, only economics boasts an ersatz Nobel Prize. Economics is thus a test case for those concerned with the extent of the similarities between the natural and social sciences. Those who have wondered whether social sciences must differ fundamentally from the natural sciences seem to have been concerned mainly with three questions: Some of these issues were already mentioned in the discussion above of reasons versus causes. Philosophers and economists have argued that in addition to or instead of the predictive and explanatory goals of the natural sciences, the social sciences should aim at providing us with understanding. This and the closely related recognition that explanations cite reasons rather than just causes seems to introduce an element of subjectivity into the social sciences that is not found in the natural sciences. Given human free will, perhaps human behavior is intrinsically unpredictable and not subject to any laws.

8: Chapter 7: Theories of Value

Most development theory equates development with national economic growth and sees the state as its primary agent; consequently, one of its central concerns is to understand and explain the role of the state in development and the nature of government-market relations.

History[edit] A major question that has eluded economists since the earliest of publications was one of price. As commodities began to be exchanged for currency, economic thinkers have constantly been trying to decipher how prices are determined. One of the earliest predecessors of classical views on value theory comes from a pamphlet that was published in In this pamphlet, it is discussed how labor is the most important measurement tool when considering value. This idea stemmed from pre-monetary views of price, where labor was exchanged for other labor services. While this was an accepted idea, it was not without its critics. Adam Smith agreed with certain aspects of labor theory of value, but believed it did not fully explain price and profit. This theory of value, according to Smith, best explained the natural prices in the market. While an underdeveloped theory at the time, it did offer an alternative to another popular value theory of the time. Water, while necessary for life, is far less expensive than diamonds, which have basically no use. Which value theory holds true divides economic thinkers, and is the base for many socioeconomic and political beliefs. He thought that value theory is useless and prevents economics from becoming science and that a currency administration guided by value theory is doomed to sterility and inactivity. It is an express to a concept other than the one just discussed. It is the value that an entity has in itself as well, for what it is, or as an end. The value does not exist as an object, however it is the properties of an object. Moral judgement and decisions is a crucial part in this value. Intrinsic value actually cuts off our logical decision and makes us think only about what feels right to us, not anybody else because it is what we make it to be. It includes other variables such as brand name, trademarks, and copyrights that are usually difficult to calculate and sometimes not accurately reflected in the market price. Intrinsic value is not what the investors are willing to pay, however, it is what the object is really worth. Labor theory of value In classical economics , the labor theory of value asserts that the economic value of a good or service is determined by the total amount of socially necessary labor required to produce it. When speaking in terms of a labor theory of value, value without any qualifying adjective theoretically refers to the amount of labor necessary for the production of a marketable commodity , including the labor necessary for the development of any capital used in the production process. Both David Ricardo and Karl Marx attempted to quantify and embody all labor components in order to develop a theory of the real, or natural, price of a commodity. Theories in either class allow for deviations when a particular price is struck in a real-world market transactions, or when a price is set in some price fixing regime. Exchange theory of value[edit] In Marxian economics , the exchange theory of value, proposed by I. Rubin , [7] is a description of the dual contrary nature of the labor contained in the commodity. The commodity has at the same time, both a subjective material use value and an objective exchange value or social value. Some use value takes no effort to attain, for example the sun, or something like gravity both which humans need to survive but do not need to do anything to obtain and still have value. Other use values do require effort to attain, increasing their use value. The needs an object fulfills and the physical properties , as in the uses to which the object can be put to work on, also tie in with the use value. Monetary theory of value Marxian economist John Milios argues for a monetary theory of value , where "Money is the necessary form of appearance of value and of capital in the sense that prices constitute the only form of appearance of the value of commodities. Instead of a utility theory of value like neoclassical economics or a labour theory of value as found in Marxian economics , Nitzan and Bichler propose a power theory of value. The structure of prices has little to do with the so-called "material" sphere of production and consumption. The quantification of power in prices is not the consequence of external lawsâ€”whether natural or historicalâ€”but entirely internal to society. In capitalism , power is the governing principle as rooted in the centrality of private ownership. Private ownership is wholly and only an act of institutionalized exclusion, and institutionalized exclusion is a matter of organized power. There is, however, a causality dilemma to their argument that has drawn criticism: Capitalization , in their theory, is a measure of power, as illuminated through the present discounted value of future earnings while also taking into account hype and risk. This formula is basic to finance which is the overarching logic of capitalism. The logic is also inherently differential as every capitalist strives to accumulate greater earnings than their competitors but not profit maximization. Nitzan and Bichler label this process differential accumulation. Subjective theory of value[edit] Main articles: The diamond-water paradox questions why diamonds are so much more valuable than water when water is necessary for life. This paradox was answered by the subjective theory of value by realizing that water, in total, is more valuable than diamonds because the first few units are necessary for life. The key difference between water and diamonds is that water is more plentiful and diamonds are rare. Because of the availability, one additional unit of diamonds exceeds the value of one additional unit of water. The topics included in marginalism are marginal utility , marginal rate of substitution , and opportunity costs.

9: Why are theories of value important?

The economic growth of a country is the increase in the market value of the goods and services produced by an economy over time. Economic Growth Definition We define economic growth in an economy by an outward shift in its Production Possibility Curve (PPC).

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