A Family of Capitalist Values

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General definition of system:

A complex of institutions, property rights and motives, values and goals through which a community decides on the composition of the output it produces, [the: *What* goods question]; on the recipes that define the ways outputs are produced [the: *How* question]; and the shares that particular groups claim in that output. [the: *For whom* question]

Sweezy's *Differentia Specifica* of capitalism as a class society:

"...under capitalism ownership of the means of production is vested with one set of individuals while work is performed by another ... the buying and selling of labour power is the ***differentia specifica*** of capitalism." P. Sweezy, *The Theory of Capitalist Development: Principles of Marxian Political Economy*, (New York: Monthly Review Press, 1942), 56.

Macpherson's *Moral corollary*:

"... [capitalism] by its very nature **compels a continual net transfer** of part of the power of some men to others, thus diminishing rather than maximizing the equal individual freedom to use and develop one's natural capacities [of those from whom labour power is transferred] which is claimed [for capitalism]." *C.B. Macpherson, Democratic Theory*, (Toronto: Oxford University Press, 1973), 10-11.

Bowles and Gintis—*Capitalism as Governance*:

"Capitalism, more than a system of resource allocation and income distribution, ***is a system of governance***." S. Bowles and H. Gintis, *Democracy and Capitalism: Property, Community and the Contradictions of Modern Social Thought*, (New York Basic Books, 1987), xi.

Bowles and Gintis seem to echo both Sweezy and Macpherson.

1. **Adam Smith on the Labour Theory of Value:**

    EVERY man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life. But after the division of labour has once thoroughly taken place, it is but a very small part of these with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people, and he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. *The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is*

equal to the quantity of labour which it enables him to purchase or command.
Labour, therefore, is the real measure of the exchangeable value of all commodities.
Adam Smith. *The Wealth of Nations*. Book 1, Chapter 5

2. Karl Marx on the Prices of Commodities:

"The determination of price by cost of production is tantamount to the determination of price by the labor-time requisite to the production of a commodity, for the cost of production consists, first of raw materials and wear and tear of tools, etc., i.e., of industrial products whose production has cost a certain number of work-days, which therefore represent a certain amount of labor-time, and, secondly, of direct labor, which is also measured by its duration."
Karl Marx, *Wage-Labor And Capital*. Chapter 3. By What is the Price of a Commodity Determined?

"The selling price of the commodities produced by the worker is divided, from the point of view of the capitalist, into three parts:

> First, the replacement of the price of the raw materials advanced by him, in addition to the replacement of the wear and tear of the tools, machines, and other instruments of labor likewise advanced by him;

> second, the replacement of the wages advanced; and

> third, the surplus leftover -- i.e., the profit of the capitalist.

While the first part merely replaces previously existing values, it is evident that the replacement of the wages and the surplus (the profit of capital) are as a whole taken out of the new value, which is produced by the labor of the worker and added to the raw materials. *And in this sense we can view wages as well as profit, for the purpose of comparing them with each other, as shares in the product of the worker*." (Italics added). [Y = W + ∏]

And later in that same chapter:

"Finally, in whatsoever proportion the capitalist class, whether of one country or of the entire world-market, distribute the net revenue of production among themselves, the total amount of this net revenue always consists exclusively of the amount by which accumulated labor has been increased from the proceeds of direct labor. This whole amount, therefore, grows in the same proportion in which labor augments capital -- i.e., in the same proportion in which profit rises as compared with wages."
Karl Marx, *Wage-Labor And Capital*. Chapter 7. The General Law That Determines The Rise And Fall Of Wages And Profits

3. The Rate of Surplus Value—The Rate of Exploitation, r_e:

4.

$$Y = W + \prod; \ W/Y = k; \ so \ \prod/Y = 1 - k$$
$$r_e = [Y - W]/W = \prod/W = [\prod/Y]/[W/Y] = (1 - k)/k$$

$$Value, \ Y = W + r_e \ W$$
$$Value, \ Y = W (1 + r_e)$$

In a two sector model[1] in which $Y = C + I$ and $Y = W + \prod$, if we know the rate of exploitation and the level of the wage bill then we can calculate the level of profit that the employment of labour will generate. What we refer to as a markup on wage costs will generate a value of product that will cover the wage bill and return a profit. The amount of profit when expressed as a share of value added will be $(1 - k)$.

Take, for example, $r_e = \frac{3}{4}$; this can be read as saying from 7 units of output $(3 + 4)$, 4 is paid to wage labour, as W, and 3 is exploited from labour by the owners of capital., as surplus value, $\prod$. That is: $Y = 4(1.75) = 7$.

Clearly labour management negotiations (over the terms and conditions of employment) is directly connected to these ideas though the rate of exploitation may never be mentioned as such.

5. The Determination of Price in a World of Uncertainty:

$$p = AVC (1 + MU)$$

We live in a world of uncertainty. Decision makers have to make decisions on the bases of what they think they know, past experience, and best guesses as to the future.

This mark-up expression is a general tool to keep in one's pocket as it were. It is an illustrative device that proxies for a wide variety of cost price formula the use of which has been documented by the work of Fred Lee. "…markup and normal cost pricing procedures have been used since the time of Adam Smith…the historical prevalence of these pricing procedures undermines the need to provide an analytical basis and an ahistorical (theoretical) justification for them…the empirical evidence does not suggest that their usage is a function of the degree of market competition…an '*idealized competitive market is a piece of theoretical fiction which post-Keynesians can do without.*"[2]

It is up to you to determine the detail in any particular case and with that detail specify the current nature of the cost-price markup procedure used. You will then be

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[1] In the simplest model the state of technique is taken as $Y/N = 1$ in all sectors. This simply means that 1 worker and a machine will produce a unit of output.
[2] F.S. Lee, "From Post-Keynesian to Historical Price Theory," *Review of Political Economy*, VI:3(1994), 311. (italics added).

expanding or adding to the immense body of statistical evidence compiled by Fred Lee—the conclusion for which is provided in the above citation.

To explain the general nature of p = AVC (1 + MU); AVC is the measure of average variable costs associated with the level of output, Q, that capitalists have decided to produce. Their decision to produce Q is based on their expectations and knowledge of demand for the product. That knowledge is dependent on what is heard from dealers about how inventories are doing—turning over at normal rates or being drawn down more rapidly than normal or building up to higher levels than expected. Specifically it can be said of those demand findings, that *demand conditions*, determine supply. The costs associated with that supply are then measured, perhaps in part based on quotes from suppliers of needed inputs. The point is that supply costs as represented by AVC are used or may be used, to set a price, p, using a markup, MU%, that is known by historical experience to work fairly well. The price is large enough to cover AVC and AFC and provide a profit per unit of p - AC.

So profit per unit is p - AC and profit in total by TR - TC = $\prod$ = (p - AC)Q

Importantly the prices, so set, are administered to the market—attached to the Q_s when they are finally shipped to dealers (say as suggested retail prices). Dealers may have and apply their own markups. At some point expectations will be realized or not. If realized then expected demand presumably clears the Q at the price p at normal rates of inventory turnover. If inventories turn over at rates that are higher than normal then subsequent adjustments are made, not to price but to Q, and the same markup procedure is applied (perhaps with different cost estimates). If realized demand does not clear Q at expected rates and inventories build up then adjustment to the slower rate of turnover is made by reducing Q.

In effect adjustment to unrealized expectations is made by throwing the adjustment onto the shoulders of labour force. It can be held—as an hypothesis that price adjustments are minimal (that is price competition is avoided).

When labour force adjustments boost Q, employment goes up, and the firm gains by a widening profit per unit (AC falls because AFC falls. AVC though, is like the costs of a cake recipe, one cake one set of costs, double triple etc. etc. the number of cakes then the costs go up by the same proportion, that is AVC is constant.) When labour force adjustments reduce Q, employment falls (unemployment goes up; shifts are laid-off; plants may be shut down) and the firm tries to recoup the costs already buried in past levels of output. It is open for test (research) whether this means prices will be reduced, or whether they will be increased or remain constant. The only thing one can be sure of is that contracted costs are either already paid or remain to be paid. A possible scenario is that the flow of income is so reduced that bankruptcy is the only answer.

One of the implications of this analysis is that the strong have an incentive to drive out the weak. Driving out the weak means that market shares for the survivors

increase and along with that they have increased security and stability. Driving out the weak is equivalent to competition being destroyed and replaced by greater degrees of monopoly control.

6. The System and Price and Income Distribution:

$p_j Q_{oj} = w N_{oj} + \sum p_i q_{ij} + r\% [\sum p_i q_{ij}]$; i,j = 1, 2 …n where ;

    $p_j Q_{oj}$ represents the value of output of the jth industry;
    $w N_{oj}$ represents the labour costs in the jth industry;
    $\sum p_i q_{ij}$ represents commodity input costs in the jth industry; and
    $r\% [\sum p_i q_{ij}]$ represents the profit to be earned on the value of the stock of capital (here seen as the produced commodity inputs used, and they are used up each period and reproduced each period).
    $r\%$ is the markup and/or profit rate.

or $p_j Q_{oj} = w N_{oj} + \sum p_i q_{ij} (1 + r\%\}$

or $p_j = w N_{oj} / Q_{oj} + \sum p_i q_{ij}/Q_{oj} (1 + r\%\}$ this is the previous statement divided through by Q_{oj}

or $p_j = w n_{oj} + \sum p_i a_{ij} (1 + r\%\}$; where n_{oj} is labour requirements per unit of output and a_{ij} represents commodity input requirements from the ith industry per unit of output of the jth industry. This simply defines $n_{oj} = N_{oj}/Q_{oj}$; and $a_{ij} = q_{ij}/Q_{oj}$

A sector j represents a producing industry in an economy that uses produced commodity inputs along with labour to produce various outputs. Some of the outputs are only of, and, for use as, produced commodity inputs—these are conventionally thought of as *intermediate demands*; some of the outputs are only for *final demands*, like Consumption, or C in the standard two-sector model of a capitalist economy. Conceptually the economy rolls through time each period reproducing the Qs by using in each period the quantities of produced commodity inputs and the labour time required—as given by engineering recipes.

There are as many unknowns as there are prices. That is if we take the wage rate as given along with the rate of profit the j unknown prices may be solved. It will be found that if wages double triple or quadruple for any given rate of profit then prices will go up by the same proportion. If wages are taken as given and rates of profit are increased then prices also rise. So the rate of profit is the determinant of inflation and the standard of living of workers and indeed of all people on fixed money incomes. The following simple example makes this clear.

6. An Illustration of the Interdependence of Prices and Income Distribution in a 3-Sector Economy: The Money Measurement of Domestic Product and Expenditure with Distributive Shares, $W/Y = k$, and $\prod/Y = (1- k)$ in Domestic Product, Y.

The aim is to constructing an input-output table in money or dollar terms using known recipes showing the real amounts of inputs that are used to produce outputs. The money values or unit prices, p, attached to outputs and produced-commodity inputs have to be determined. The money wage rate or rates, w, attached to labour used must be known (by collective bargaining say).

The Real Data on Outputs and Inputs:

Suppose a 3–Sector (or 3–Industry) Economy: S_1, S_2, S_3.
Their Producing activities are placed in three columns labeled. S_{0j} (j = 1, 2, 3)
Their sales activities are placed in three consistently intersecting rows. S_i (i = 1, 2, 3)

The sectors produce the following outputs: $Q_{01} = 100$ units; $Q_{02} = 100$ units; $Q_{03} = 500$ units.

Employment levels in the three sectors are: $N_{01} = 10$ workers; $N_{02} = 50$ workers; $N_{03} = 100$ workers

Sector–1 sells 25% of its output to Sector–2 and 75% of its output to Sector–3. These sales by Sector 1 constitute what can be called *intermediate demands* by the purchasing sectors (2 and 3) of the produced commodity inputs they require to make their respective recipes.

Sector–2 sells 50% of its output to Sector–1 and 50% of its output to Sector–3. These sales by Sector 2 are also *intermediate demands* by the purchasing sectors (1 and 3) of needed produced commodity inputs.
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Sector–3 produces a commodity that can only be eaten. In other words no part of the output of the third industry is sold as an input to any industry. We may consider Sector-—3 output as available for consumption by workers and capitalists. In Keynesian terms this is a *final demand* commodity and in this model it is the only final demand commodity.

So do note the distinction between final products and final demands and produced commodity inputs and intermediate sales and purchases.

The real data on outputs and inputs are entered in the appropriate cells in Table 1. Note that the rows 'add up' (except for the last row, Q_{oj}), and also note we can't add the items in each column.

To add the columns and the last row we need money prices. In short, we can't add apples and oranges without prices. And we can't add labour costs to commodity input costs without prices and wage rates.

Table 1–The Physical Inputs and Outputs (The Real Data)

	S_{01}	S_{02}	S_{03}	Q_i
S_1		$q_{12} = 25$	$q_{13} = 75$	$Q_1 = 100$
S_2	$q_{21} = 50$		$q_{23} = 50$	$Q_2 = 100$
S_3				$Q_3 = 500$
N_{oj}	$N_{01} = 10$	$N_{02} = 50$	$N_{03} = 100$	$\sum N = 160$
Q_{oj}	$Q_{01} = 100$	$Q_{02} = 100$	$Q_{03} = 500$	

For the respective producing sectors, S_{0j} (j = 1, 2, 3) and for the economy in total, $\sum S_{oj}$, we have to determine the values of outputs produced, $p_j Q_{oj}$ (j = 1, 2, 3) and $\sum p_j Q_{oj}$, the associated wage bills, W_{0j}, and $\sum W_{0j}$, and costs of produced commodity inputs $\sum p_i q_{ij}$ and levels of profit $\prod_{0j}$ and $\sum \prod_{0j}$. In summary we need to know:

S–1: $p_1 Q_{01} =$; $W_{01} =$; $\sum p_i q_{ij\ (j\ =\ 1)} =$; $\prod_{01} =$.
S–2 $p_2 Q_{02} =$; $W_{02} =$; $\sum p_i q_{ij\ (j\ =\ 2)} =$; $\prod_{02} =$.
S–3 $p_3 Q_{03} =$; $W_{03} =$; $\sum p_i q_{ij\ (j\ =\ 3)} =$; $\prod_{03} =$.
$\sum S$ $\sum p_j Q_{oj}$; $\sum W_{0j} =$; $\sum\sum p_i q_{ij} =$; $\sum \prod_{0j} =$

Table 2 shows the correct money values, using one possible set of prices associated with these outputs. The price set is: p_1 = \$4.42, p_2 = \$6.22, p_3 = \$3.41. The calculations, outlined below are based on a wage rate, w = \$10.00 and a rate of profit or markup of 10%.

Table 2—Input-Output Table Using Money Prices and Wages

	S_{01}	S_{02}	S_{03}	Q_i
S_1		$p_1 q_{12} = 110.5$	$p_1 q_{13} = 331.5$	$p_1 Q_1 = 442$
S_2	$p_2 q_{21} = 311$		$p_2 q_{23} = 311$	$p_2 Q_2 = 622$
S_3				$\mathbf{p_3 Q_3 = 1{,}705}$
$w.N_{oj} = W_{oj}$	$W_{o1} = 100$	$W_{o2} = 500$	$W_{os} = 1000$	$\mathbf{\sum W = 1{,}600}$
$\prod_{0j}$	$\prod_{01} = 31.00$	$\prod_{02} = 11.50$	$\prod_{03} = 62.50$	$\mathbf{\sum\prod = 105}$
$p_j\ Q_{oj}$	$p_1 Q_{01} = 442$	$p_2 Q_{02} = 622$	$p_3 Q_{03} = 1{,}705$	$\sum_{oj} = 2769$

Measures of Domestic Product:

- The Expenditure [or Y = C + I] Approach: Final demands = 1,705

- The Factor Income [or Y = W + $\prod$] Approach: Factor earnings = W + $\prod$ = 1,705

- Avoidance of double counting approach:

$$\sum p_j Q_{oj} = \$2,769.00 \text{ (this may be referred to as the duplicated value of output)}$$
$$\sum p_j Q_{oj} - \sum\sum p_i q_{ij} = 2,769.00 - 1,064.00 = 1,705 = W + \prod$$

Measures Of Structural Parameters

$k = W/Y = 1600/1705 = .9384$; $(1 - k) = \prod/Y = 1 - .9384 = .0616$; or $105/1705 = .0616$; the rate of exploitation: $r_e = .0616/.9384 = .06564$; the rate of profit: $r\% = 105/1064 = 10\%$ (rounded). And as a check the value of output is $Y = W\,(1 + 0.06564) = 1705$; and $\prod = 105$

Note that the wage rate and the wage bill just sit there as givens. But if wage rate went up it would have an effect on prices and the values of outputs and inputs

Note the apparent relation between the value of the stock of capital and the rate of profit specifically.

> *the value of the stock of capital and the rate of profit depends on the prices that are set. In other words the higher the prices the higher the value of the stock of capital, the higher the profit rate and the profit share and correspondingly the lower the wage share in domestic income.*

This sounds intuitively correct. But, it is clearly important to know how prices are set. Here the idea is that they are set using some markup applied to some measure of the costs of production. Again, this is consistent with Fred Lee's massive work in which he said.

> "…markup and normal cost pricing procedures have been used since the time of Adam Smith…*the historical prevalence of these pricing procedures undermines the need to provide an analytical basis and an ahistorical (theoretical) justification for them*…the empirical evidence does not suggest that their usage is a function of the degree of market competition…an 'idealized competitive market is a piece of theoretical fiction which post-Keynesians can do without." F.S. Lee, "From Post-Keynesian to Historical Price Theory," *Review of Political Economy*, VI:3(1994), 311.

Table 3 provides the results obtained by using four alternative rates of profit (markup rates on costs of produced commodity inputs used (the stock of capital used) in production, for the 3-sector economy.

Table 3—Summary Statistics for the Three-Industry Economy
(w = W/N = \$10.00 and r% = 0%, 10%, 50%, 75%)

Case r%	p_1	p_2	p_3	W/Y = k	\$K	\$K/\$Y	$\prod$/K	$\prod$/Y = (1 - k)
0	4.00	6.00	**3.20**	1.00	1,000	0.63	0%	0.00
10	4.42	6.22	**3.41**	0.94	1,064	0.62	10%	0.06

50	6.61	7.48	**4.61**	0.69	1,409	0.61	50%	0.31
75	8.71	8.81	**5.83**	0.55	1,752	0.60	75%	0.45

The markup is taken as r%, and there are 4 possible rates --- successively: 0, 10%, 50% and 75%. It is assumed that there is a reasonably competitive economy so that the rate for the particular case applies over all sectors. (You can reflect on or imagine perhaps greater realism by assuming differential degrees of monopoly power and different markup rates. But this does not weaken and if anything strengthens the ideas of power in and over the distribution of income.)[3] Now using the selected r% as a markup simply apply the rate of profit to the value of the produced commodity inputs used by each sector. This will provide in each case a set of price equations.

(1) $Q_1.p_1 = w.N_{01} + p_2.q_{21} + r\%(p_2.q_{21})$
(2) $Q_2.p_2 = w.N_{02} + p_1.q_{12} + r\%(p_1.q_{12})$
(3) $Q_3.p_3 = w.N_{03} + (p_1.q_{13} + p_2.q_{23}) + r\%(p_1.q_{13} + p_2.q_{23})$

Or the equations may also be written as:

(1a) $Q_1.p_1 = w.N_{01} + (1 + r\%) (p_2.q_{21})$
(2a) $Q_2.p_2 = w.N_{02} + (1 + r\%)(p_1.q_{12})$
(3a) $Q_3.p_3 = w.N_{03} + (1 + r\%)(p_1.q_{13} + p_2.q_{23})$

Now as an example write the equations using what is known and assuming a rate of profit of 10%.

(1a*) $100.p_1 = 100 + (1 + 0.1) (p_2.50)$
(2a*) $100.p_2 = 500 + (1 + 0.1)(p_1.25)$
(3a*) $500.p_3 = 1000 + (1 + 0.1)(p_1.75 + p_2.50)$

An Example of How to Solve the Price Equations, for p₁, p₂, and p₃, when the Rate of Profit is r = 10% and the wage rate is w = $10.00

(1)	$100p_1 = 10w + 1.1(50p_2)$
(2)	$100p_2 = 50w + 1.1(25p_1)$
(3)	$500p_3 = 100w + 1.1[75p_1 + 50p_2]$
or (1*)	$100p_1 = 10w + 55p_2)$
also (2*)	$100p_2 = 50w + 27.5p_1$
(1**) take (1*); and divide by 100. ie., (1*) ÷ 100	$p_1 = 0.1w + 0.55p_2$
Take this result and substitute in (2*)	$100p_2 = 50w + 27.5[0.1w + 0.55p_2]$
	$100p_2 - 15.125\ p_2 = 50w + 27.5[0.1w]$

[3]   Note too, that the rates of profit and derived prices could conceptually apply to both a capitalist economy and a worker owned economy in which it had *been democratically decided* to generate a surplus in excess of the wage bill.

	$84.875p_2 = 50w + 2.75w$
	$84.875p_2 = 50w + 2.75w$
	$p_2 = [52.75w]/84.875$
(2**)	$p_2 = 0.6215w$
Since w = $10.00	**$p_2 = 6.22$ (rounded)**
If w = $20.00	$p_2 = 12.44$
If w = $30.00	$p_2 = 18.66$
Substitute $p_2 = 6.22$ in (1*)	$p_1 = .1w + .55(6.22)$
	$p_1 = .1w + 3.42$
Since w = $10.00	**$p_1 = 1 + 3.42 = 4.42$**
If w = $20.00	$p_1 = 8.84 = .1w + .55(12.44) = 2 + 6.84$
If w = $30.00	$p_1 = 13.26 = .1w + .55(18.66) = 3 + 10.26$
Substitute $p_1 = 4.42$ and $p_2 = 6.22$ in (3)	$500p_3 = 100w + 1.1[75(4.42) + 50(6.22]$
	$500p_3 = 100w + 1.1[642.5]$
	$500p_3 = 100w + 706.75$
Since w = $10.00	**$p_3 = 1{,}706.75 / 500 = 3.41$**
If w = $20.00	$500p_3 = 2000 + 1.1[75(8.84) + 50(12.44]$
	$p_3 = 6.82 = [2000 + 1.1(663 + 622)] / 500$
If w = $30.00	$500p_3 = 3000 + 1.1[75(8.84) + 50(12.44]$
	$500p_3 = 3000 + 1.1[75(13.26) + 50(18.66]$
	$p_3 = 10.23 = [3000 + 1.1[994.5 + 933.] / 500$

Interpretation of the real world

Power (the root of governing dynamics) is centered in capitalists' animal spirits, control of output decision and markups on costs. The example meets the definitions of capitalism provided by Sweezy, Macpherson and Bowles and Gintis. *The profit rate a controlled and therefore controlling parameter?*

In an accounting sense we normally think that profit falls out as a residual. But this exercise suggests that it is the wage-share that, in a social control sense what falls out as a residual. That is workers get, as a share in net output, what ever is left after capitalists take what they want from the system. John Kenneth Galbraith said once, (I don't remember where), that the job of the management side during wage negotiations was to find out what labour wanted and to give it to them -- because, as this exercise suggests, management can always get back whatever they gave to labour, and generally whatever they want from the system, just by raising prices.

What about the rate of exploitation? r_e, generally is:

$$r_e = (Y - W)/W = \prod / W = (\prod / Y) / (W / Y) = (1 - k)/ k$$

Calculate the r_e in each of the 4 cases[4]:

r% = 0%	r_e = 0	Y = 1600(1.0) = 1600
r% = 10%	r_e = .0638 that is .065/.94	Y = 1600(1.0638) = 1704
r% = 50%	r_e = .437 that is .31/.69	Y = 1600(1.437) = 2299
r% = 75%	r_e = .822 that is .45/.55	Y = 1600(1.822) = 2915

The Real Wages of Labour

The exercise is summarized in Table 4 above along with the measure of real wage income and the real wage rate.

Table 4—The Real Wages of Labour

Profit Rate— r	0%	10%	50%	75%
Price of Q_3— p_3	$3.20	$3.41	$4.61	$5.83
NDP = Y = p_3Q_3	$1,600	$1,705	$2,300	$2,915
Wage Bill— W	$1,600	$1,600	$1,600	$1,600
Profit— $\prod$	0.00	$105.00	$700	$1,315
r_e	0	.069	.437	.822
Real Wage Income = W/p_3	500	469.2	347.07	274.4
Real Wage Rate = w/p_3 = $10.00/p_3$	3.12	2.93	2.17	1.72
Check: Real Wage Income = w/p_3 x N	3.12 x 160 = 499.2	2.93 x 160 = 468.8	2.17 x 160 = 347.2	1.72 x 160 = 275.2

In this economy, employed labour of 160 workers is paid a total wage bill of $1,600. How far this money income 'goes,' or how much it will buy, depends on the prices that labour has to pay. In this simple exercise the price labour has to pay is p_3, the price of the 3rd commodity. It has been shown that this price depends on the rate of profit. Four test cases on the rate of profit have been run.

The conclusion that emerges from this is that although workers do exactly the same amount of work under all profit rate regimes the real wage varies with the profit rate. (note there are no marginal products in this exercise.) In other words though there is no variation in real product produced per worker employed, the real wage rate and the level of real wage income falls with increases in the rate of profit.[5] (This is also what happens to all fixed income recipients— pensioners for example—when the prices of the commodities they must buy go up.)

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[4] Apologies for rounding errors.

[5] This observation seems to cast doubt on the marginal productivity theory (MPT) of income distribution. This theory holds that workers are paid their marginal product and in that sense are paid just what they produce and therefore they get what they deserve from the system. This theory has the effect of allowing the question of justice in the system to be ignored.

As a corollary profits are seen as emerging not because of work done by capitalists but by the power and control they exercise over the system because of their ownership of the means of existence. In effect it seems to imply that *what capitalists contribute is to allow industry to be owned by them selves*. In a sense Keynes seemed to get it right when he said:

> "Capitalism is the astonishing belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone." Keynes, quoted in: Khalid, Haythum Raaft, *Book of Famous Quotes*.

Similarly Keynes in *The End of Laissez-Faire* said:

> "...The world is not so governed from above that private and social interest always coincide. It is not so managed here below that in practice they coincide. *It is not a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest is generally enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does not show that individuals, when they make up a social unit,* [i.e., act collectively] *are always less clear sighted* [they are clear sighted] *than when they act separately*."[6]

Note that J.M. Keynes is here rejecting Adam Smith as did John Nash.

In keeping with the capitalism, democracy and the free trade theme, Keynes also said:

> "Capitalism is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous, — and it does not deliver the goods. In short we dislike it, and we are beginning to despise it. But when we wonder what to put in its place we are extremely perplexed...We each have our own fancy. Not believing that we are saved already, we should like to have a try at working out our own salvation. We do not wish, therefore, to be at the mercy of world forces working out or trying to work out some uniform equilibrium according to ideal principles, if they can be called such, of laissez-faire capitalism. … We wish — for the time at least… to be our own masters, and to be as free as we can make ourselves from the interferences of the outside world… It is my central contention that …we all need to be as free as possible of interference from economic changes elsewhere, in order *to make our own favorite experiments toward the ideal social republic of the future… We shall discover it as we move along, and we shall have to mold our material in accordance with our experience*."[7]

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[6]   J. M. Keynes, *The End of Laissez-Faire*, (London: The Hogarth Press, 1927), 39-40. Quoted in: J. R. Munkirs, *The Transformation of American Capitalism: From Competitive Market Structures to Centralized Private Sector Planning*, (Armonk: New York: Myron E. Sharpe, 1985), 36.

[7]   J. M. Keynes, "National Self-Sufficiency", *Yale Review*, XXII(1932-33), 761-762, 763-768; and quoted in: S. Bowles, D. M. Gordon and R. Edwards, *Beyond the Waste Land: A Democratic Alternative to Economic Decline*, (Anchor Press, Doubleday, 1984), 258-259. It can be noted in passing that, if 'we are saved already', the view of Dietrich Bonhoeffer, that "God is teaching us that we must live as men who can get along very well without him." [Quoted by J. A. T. Robinson, Bishop of Woolwich, *Honest to God*, (London: SCM Press, 1983), 39]. From a socialist point of view the implication is that Christian values are to be expressed in the conduct of everyday life. In this, the normal secular principles of liberty, equality and fraternity or community mindfulness, provide their own 'trinity' of social values. Clearly it seems Keynes wants a return to a political economy approach (which he never left) and away from mainstream neoclassical economics. See also Barbara Wootton, *Lament for Economics*, (London: George Allen and Unwin, 1938).

And what of Adam Smith? Smith was not one to abstract from reality. While constructing a theoretical model of *natural liberty* he was also an acute observer of the role and relationships amongst men in the real world. Thus of the capitalist class he observed:

> **"...[profit] is naturally low in rich, and high in poor countries, and it is always highest in the countries which are going fastest to ruin**. The interest of this third order, [the capitalist class] has not the same connexion with the general interest of society as that of the other two [workers and landlords]. ...As their thoughts...are commonly exercised rather about the interest of their own particular branch of business, than about that of the society, their judgment, even when given with the greatest candour (which it has not been upon every occasion), is much more to be depended upon with regard to the former of those two objects, than with regard to the latter. ...The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it." [While, of the workers, Smith argued that] "...though the interest of the labourer is strictly connected with that of society, he is incapable of comprehending that interest, or of understanding its connexion with his own. ...In the public deliberations, therefore, his voice is little heard and less regarded, except upon some particular occasions, when his clamour is animated, set on, and supported by his employers, not for his, but for their own particular purposes."[8]

Also on an evaluative theme concerned with the sometimes mistaken equation of capitalism and democracy, noted Canadian David Susuki said:

> "You end up by mistake with this definition of democracy: *capitalism leads to middle class, which leads to democracy*. And that idea is not only common, it absolutely dominates throughout the West today … And its just garbage. It doesn't stand up to a historical analysis in any way, shape or form … the extent to which individualism, real individualism, and the concepts of responsibility, the public good and democracy didn't come out of the Industrial Revolution and the formation of the middle class. They, in fact, came out of a very long process that you can take back to Athens." Suzuki, David and Holly Dressel, *From Naked Ape to Superspecies*. (Toronto: Stoddart Publishing Co. Ltd. 1999).

The Implications for Continuous Inflation:

These calculations say that if the rate of profit remains at 10%, then doubling, tripling and quadrupling the wage rate results in a doubling, tripling and quadrupling in the prices of each of the commodities produced.

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[8]   A. Smith, *An Inquiry into the Nature and the Causes of the Wealth of Nations*, (New York: Modern Library, 1937), 250.

It is clear that inflation results from raising profit rates and it arises from increasing wage rates. In the real world we know that wages and prices seem to chase each other. It can be expected that labour will want to redress declines in standards of living occasioned by increasing prices.

The people who are most hurt in the ensuing cat and mouse game are fixed income earners.

But if the system simply roles through time producing the same bundle of real commodities and services one can ask why allow wages to chase up prices or prices to pull up demands for higher wages by labour?

One can go further and imagine the system as we now have it as comprised of a basement or base structure in which the real commodities and services are produced. In this ground-zero area or level are found the engineers and workers who know how to design and make the things that are important to sustain life.

Superimposed on top of the basement are pyramid-like layers of superstructure. At one level of the superstructure are the accountants and financial officers who control the offices of price administration. On top of this are included the people who are more clearly nothing but financial manipulators. They speculate in currencies and prices of stocks and bonds and contribute nothing to real output and standards of living but *financial gimmickry*.

Any number of people have described this situation. The financial manipulators can make vast fortunes — and sometimes they bring ruin to even the largest institutions, (Barclay's Bank as one example; Enron as another.) Overall their highly inflated incomes allow them to lay claim to the real products that ordinary people need and increasingly find difficult to obtain.

The 1988 indictment of government support[9] for the corporate sector by Kierans and Stewart echos that of Adam Smith from 1776. The question of system morality is emphasized.

> "There is a certain irony, to students of economic history, in the argument that the "science" of economics requires its practitioners to bring cold, hard logic to bear, foreswearing all moral and political judgment. If a thing is economic, it is worth doing; if it is uneconomic, it is not. No other considerations need apply." …when the facts suggest, however, that ……"We embrace a corporate system that bankrupts the ethical and re-sponsible, and rewards greed and exploitation. … they behave as we would expect them to, without compunction, compassion or morality; that is the nature of the institution. …**This is a new and different and dangerous corporate world, in which virtue is punished and greed rewarded, in which hard work, clever ideas and consistent quality count for less than financial gimmickry, in which the main purpose in taking**

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9   L. McQuaig, *Behind Closed Doors: How the Rich Won Control of Canada's Tax System …and Ended up Richer*, (Markham: Penguin Books, 1988). See also Linda McQuaig,   . (Toronto: Penguin/Viking, 2001).

over another corporation is not to make it work better, but to loot it."[10]

Michael Walzer summarizes the basic issue in governance that is relevant to the concern for the contradiction between capitalism and democracy:

> "…corporations are—this is now a commonplace of American political science—private governments; their transactions are significantly political in character, taking the form of command and obedience rather than free exchange; their owners and agents make decisions that determine the costs and risks that other people must live with. It is the experience of private governments that prompts the internal opposition of unions and the external interventions of the state. The unions represent men and women directly subject to corporate power; the state represents men and women radically affected by corporate decisions. But these two forms of representation are only sometimes effective, and effective then only to a limited degree, **because corporate power at its core remains exempt from the rules of democracy**. …justice requires … we …explore systematically the alternatives to private government: public ownership and workers control and combinations of the two."[11]

A Note on Background to the Three Sector Model outlined above.

The three-sector model seems rather straightforward. Hidden behind it, however, are significant debates that are anything but straightforward. The debates took place in the 1950s through 70s, and pitted economists at Cambridge University (England), particularly Joan Robinson, against MIT economists in Cambridge Massachusetts, particularly Robert Solow and Paul A. Samuelson.[12] The debates had to do with the theory of capital, the measurement of an aggregate stock of capital and the dependence of the values of the stock of capital on the rate of profit and the distribution of income. Perhaps too simply, to know the value of the stock of capital you must define it and know the rate of profit; but to know the rate of profit you must know the value of the stock of capital. The three-sector model deliberately took the stock of capital to be the produced commodity inputs used in production. They were valued or priced with an assumed rate of profit, or markup, and the assumed wage rate. Economic power, or governance, was central to that.

It seems generally recognized that Cambridge England won the debates. Nevertheless a truce was called which allowed both sides to get on with their other work. Part of the weariness that led to the truce is that Joan Robinson ran up against a stonewall of religious belief. CE Ferguson, for example, specifically confessed his faith or belief in neoclassical theory. The truce has meant, in effect, that neo-classicals act as if nothing

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[10]   E. Kierans and W. Stewart, *Wrong End of the Rainbow: The Collapse of Free Enterprise in Canada*, (Toronto: Collins Publishers, 1988), 11, 12,134, 135. Emphasis added

[11]   M. Walzer, "Justice Here and Now", in F. S. Lucash, *Justice and Equality Here and Now*, 146-147. Emphasis added. See also: Galbraith, John K. *The Economics of Innocent Fraud: Truth For Our Time*. (Houghton Mifflin; 2004).

[12]   The debate is outlined in blow-by-blow detail in Marjorrie S. Turner, *Joan Robinson and the Americans*, (Armonk NY and London: M. E. Sharpe, Inc., 1989). See also Nahid Aslanbeigui snd Guy Oakes, *The Provocative Joan Robinson,: The Making of a Cambridge Economist*, (Durham and London: Duke University Press, 2009).

has happened and say nothing at all. This seems to implicitly amount to belief in marginal productivity theory. (There were no marginal products in the Three-sector model).

At the same time it must be humiliating for neoclassical economists s to have to merely admit a religious belief in one's own fabrications.

So when faced with belief no matter the strength of the opposing arguments of Joan Robinson. Joan must have simply shrugged when she said let Samuleson "rot in peace"

> "I feel frustrated by our round of papers because no-one answers me either yes or no. The argument started with my attacking … a fatal flaw in neoclassical methodology. … After several vain attempts to ring though, I shall in future leave Samuelson to rot in peace. …."[13]

Again one can recall the notion that silence implies agreement.

> "silence procedure (French: procédure d'approbation tacite; Latin: qui tacet consentire videtur, "he who is silent is taken to agree", "silence implies/means consent") is a way of formally adopting texts, often, but not exclusively in international political context. A draft version of the text is circulated among participants who have a last opportunity to propose changes or amendments to the text. If no amendments are proposed (if no one 'breaks the silence') before the deadline of the procedure, the text is considered adopted by all participants. Often this procedure is the last step in adopting the text, after the basic premises of the text have been agreed upon in previous negotiations. 'Breaking the silence' is only a last resort in case a participant still has fundamental problems with parts of the text and is therefore the exception rather than the rule." Wikipedia.

As I read the record it seems Joan Robinson towards the end of her life in 1983, had moved or was moving to where Barbara Wootton was in 1938 in writing *Lament for Economics*.[14] In 1938 Barbara Wootton simply shrugged, turned her back and walked away from economics to Sociology and *praxis* attempts to improve the standard of living of society.[15] Noting her dislike for the terms *economics* and *economic science* she suggested a return to political economy.[16]

I think Joan Robinson at the end was of the view that they, at Cambridge, had taken a wrong turn early on and should have pursued political economy and moral philosophy. Thus she was in effect picking up on Barbara Wootton from 1938. In advocating moral

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[13] M S. Turner, *Joan Robinson and the Americans*, 161. Citing JR, 1981d: 128-129. Debate 1970s," *What are the Questions?* 123-130.

[14] Note that subsequent authors in the anti-neo-classical tradition (including Galbraith and Myrdal) have not improved much, if at all, on what Barbara Wootton did in 1938 in *Lament for Economics*. Steve Keen seems an exception. See Steve Keen, *Debunking Economics - Revised and Expanded Edition: The Naked Emperor Dethroned?* (Zed Books; 2011). See also: http://www.youtube.com/watch?v=CehLP2iNzMA

[15] See: Oakley, Ann, *A Critical Woman: Barbara Wootton, Social Science and Public Policy in the Twentieth Century*, (London: Bloomsbury Academic, 2011).

[16] Wootton should be given posthumous honorary membership in the World Economic Association. This organization boasts a membership near 10,000 of people who have walked away from neoclassical economics.

philosophy as a staring point Joan Robinson agreed with Kenneth Arrow that "the invisible institution of the moral law" was necessary to society."[17]

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[17] M S. Turner, *Joan Robinson and the Americans*, 161. Citing JR, CEP 5:43-47.

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