


Reply

The comment offered by Amariglio and Callari agrees with my argument in "The New Labour Theory of Value and Freedom in Marxian Economics" that under a labor theory of value, consumption bundles of workers must be taken as "data." However, Amariglio and Callari defend this formulation. Economists, they argue, correctly begin with the result of consumer choice—consumption bundles, or set of differentiated bundles—because the process of consumer choice is essentially extra-economic. They ask "to what grounds does Matthesi argue that it is not sufficient for Marxian theory to assume the differentiated wage bundles as a datum of the model of value-price relations?" My answer is in three parts.

First, the assumption of wage bundles as a datum in determining value-price relations falsely depicts the process through which wages, prices, and profit are determined. Taking differentiated wage bundles as a datum of the model means taking real wages as a priori given, and viewing profits as the residuals, or "surplus value" remaining after real wages, and "constant capital" costs, have been net. In practice, it is often real wages which are the "residuals," determined by the pricing decisions of firms. Wage bargains set money wages. Firms commonly "mark-up" above their wage and other variable costs to achieve a target rate of profit. Their combined pricing decisions then determine the purchasing power of workers' money wages. If workers win "raises" in their money wages, firms are often able to protect their profit margins by increasing their prices which keeps real wages from increasing. Many economists recognize this struggle over distribution between capitalists and workers as a common cause of inflation.

Second, the Amariglio-Callari revision of the labor theory of value to allow differentiated wage bundles for different kinds of workers still precludes consumer choice. Since the theory views the (non-differentiated) bundles comprising (non-differing) wage levels, it can not grasp consumer choice. This is because consumer choice proceeds in the opposite manner: workers take their money wages, and choose their "bundles." If there were choice, even workers with the same money wage might consume different bundles.

Third, the necessary corollary of the Amariglio-Callari formulation—that consumer choices "are to be understood as the result of non-economic (e.g., institutional, cultural, psychological, political) endowments" incorrectly denies the effects of economic forces on consumer choice. The remainder of this reply addresses these effects, and the alternative formulation of pricing within which they exist.

To understand consumer choice, one must reverse the causality used in the labor theory of value: it is the money wages of workers, combined with the prices set by firms, which place limits on the value of the consumption bundles workers can acquire. The fact that workers are individually paid in money instead of commodities forces each of them (or members of their families) to choose how to allocate their incomes among different commodities. One's choice of commodities makes one an individual, a unique person. In this way, the organization of consumption under capitalism is responsible for the existence of consumer choice, and indeed, provides an essential arena of freedom.

In capitalism, the economy further affects consumer choice by shaping the needs which underly these choices. The options between which consumers choose are the different commodities produced by firms. Firms create and develop these commodities in the hope of capturing consumer demand. Through this process, and in the related advertising of their commodities to consumers, firms participate importantly in the development of needs. The continual struggle to grow means that firms must constantly sense out, develop, and fill new needs. Class and workplace hierarchies fuel the infinite expansion of needs by making one's level of consumption the expression of one's worth in an economic hierarchy. So while economic forces do not determine the particular consumption bundles of consumers (this is left to the individual), and this fact is the basis of individuality -- such forces do influence consumption choices in important ways.

This interpretation of the role of consumer choice in capitalism is very different from the neo-classical interpretation in which the market economy is viewed as the result of the utility-maximizing choices of isolated individuals. Indeed, in their class the choices are "extra-economic." Amariglio and Callari are in agreement with neo-classical theory, which takes utility-maximizing behavior and consumer preferences as givens upon which they build their theory.

So I reiterate my point that the labor theory of value's formulation of wage determination prevents an understanding of consumer choice and should be rejected on these, among other, grounds. However, my argument does not, as the commentators suggest, imply that, as in neo-classical subjective value theory, consumer preferences and marginal utility play a part...
in the determination of prices. An alternative to the neo-classical formulation, which is consistent with the essence of Marxian theory and the recognition of choice, is the conception of mark-up pricing: firms set prices by marking up over price costs to the extent that their market power over consumers and over competing firms allows, and adjust their output to the level of consumer demand. Real wages are determined through wage bargains and the pricing of consumer goods, and hence are affected by the relative market power of capitalists and workers, as well as by the degree of capitalist price competition.

Further, rejecting the labor theory of value does not mean, as the commentators imply that one must reject the concept of a working class as divorced from the means of production; "homogeneity of workers with respect to the means of production" is preserved without the labor theory of value. Going beyond the labor theory does however allow Marxists to better understand the staunch support of the U.S. working class for capitalism, especially for the economic freedom it allows them.

Julie Matthew
Wellesley College, Wellesley, Massachusetts 02181

Eastern Economic Journal, Volume XII, January-March 1986

"Temporary General Equilibrium Theory": by Jean-Michel Grandmont
A Review Essay
Harvey Grove

Neoclassical theorists continue to search for an intellectually satisfying explanation of persistent unemployment—an explanation not inconsistent with the concepts of supply and demand equilibrium and efficient allocation characteristic of Walrasian general equilibrium. In pursuit of this will of the wise, theoretical problems arise which are not motivated by any particular concern for the political economy of macroeconomic policy-making. Rather, these problems are internal to models which deny the completeness of markets and/or the flexibility of prices within the Walrasian framework, a framework which is taken as the self-evident starting point for any rigorous theoretical investigation into Keynesian problems. It is not an exaggeration to say that the theory of general equilibrium is regarded by the majority of economists as a sort of headquarters—an incorruptible citadel of proven results in relationship to which all new propositions must ultimately bear a logical consistency. This methodological position tends to create an intellectual environment in which problems are well-defined only insofar as they are expressed in such a way as to give full recognition to the sanctity of established neoclassical theory. Statist problems in such a way as to deny the central importance of the concept of efficient equilibrium is to invite blank misunderstanding and to be suspected of ideological bias.

Developments in the theory of temporary general equilibrium illustrate how the terrain over which neoclassical theorists feel confident in making authoritative statements has been extended. In a recent survey, Grandmont (1982) divides the subject into two parts: temporary competition—general equilibrium and temporary equilibrium with quantity rationing. Unemployment does not arise in the first class of models; yet they reveal some fascinating aspects of the recent efforts to provide new mathematical foundations for ideas originally propounded by Hicks (1946). The initial attractiveness of the models, despite the typical assumption that endowments of perishable goods are parametric in each period (which is to say that the process of production is ignored), is that plans, which are sets of contingent future actions, need not be mutually consistent even though, when the future becomes present, the actions taken are market-clearing. This goes hand in hand with the incompleteness of markets. For-

*Department of Economics, Queens College, Flushing, New York 11367.
Grandmont's paper is in Arrow and Intrilligator (1982).