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Mid-Term Essay One:

The difference between "scarcity values" and "reproductive values," or, between scarcity and reproduction as a foundation for value

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Distinguish between "scarcity values" and "reproductive values," or, between scarcity and reproduction as a foundation for value.

Ask any well-educated New School for Social Research student about *value* and they will tell you that the concept of value came from economics (most are educated in Marxian philosophy – so most often think of value in terms of use-value and exchange-value, but that is not the subject of our essay here). To risk oversimplifying and generalizing (which is a danger throughout any short essay on a topic on which many hundreds if not thousands of volumes has been written), it could be said that scarcity values derive from the marginal revolution in economics of the 1870s whereas productive values are a concept used by the classical economists prior to the marginal revolution (and which has continued with the neo-Ricardians today).

The marginal revolution economists (of which there were the "mathematical economists" Jevons and Walras, and the Austrian Carl Menger) removed economic analysis from the system (society)-as-a-whole as the basis for analysis to the individual.[1] By using the individual as the basis for analysis, and stating that the value of a good is based on an individual's subjective value, the notion of scarcity was introduced. This has given us the most commonly accepted modern definition of economics, that of Lionel Robbins, who wrote that economics is a science which studies "human behavior as a relationship between given ends and scarce means which have alternative uses" (Robbins 1932:15).

The first group of thinkers to label themselves as economists (*les economistes*) where the French physiocrats[2] (mid-1700s) who believed that the source of value was agriculture. They believed that society reproduced and enriched itself through agriculture production, that society was 'reproduced' through agriculture production. In the classical economists, the economy was based on three sectors; labor (for the physiocrats only labor applied to agriculture was productive), land and capital, or, "rents" on land). The commodities produced under the classical's

[1] It should noted that the Austrian School "market process" theory is very much rooted in societal interaction, however, the Austrian School is indeed based on methodological individualism and subjective value.

[2] See Marx 2000:44-68 for a summary of the physiocratic theory of value and Marx 2000:308-343 for a discussion on what is considered the first "model" of the economy, Quesnay's "Tableau Economique" first published in 1759 which shows the source of value and economic growth being based on recursive periods agriculture production.

economic system had a ‘natural price’ (based on subsistence wages – socially constructed – and a competitively equalized rate of profit, meaning the natural price was based on the costs of production).

Philip Mirowski believes that the mathematical economists had ‘physics envy’ from which the concept of economic equilibrium derives, and that this is the reason that scarcity was introduced into economics (however this, to my belief, is not true, more on which later, when I discuss the classical economists view of the social surplus as ‘scarce’ e.g. limited at one point in time, and how the dualism in economics applies to both the classical economists and the neo-classical economists).

> Finally, the collapse of natural price to market price was rendered acceptable but the earlier reconceptualization of Nature herself as a niggardly paymaster – that is, with the rise of the idea that Nature kept her own set of energy accounts….Prior to that time, scarcity did not play any significant role in the value theory of classical political economy. Only with the dominant impression that Nature enforced a general state of dearth, say rather that the physiocratic notion of Nature’s bounty, could it become possible to think of economic equilibrium as a state of physiological counterpoise, hemmed in by the urgent necessity to clear markets in a state of stringent limitations. (Miroswki 1989:241)

So now, with the marginal revolution, economics became a science of scarcity alone, not one of production, reproduction and the sharing of a [scarce] surplus. Carl Menger, though not a mathematical economist, also said that economic ‘goods’ were by definition scarce goods.

> Hence, if there were a society where all goods were available in amounts exceeding the requirements for them, there would be no economic goods nor any ‘wealth….it [wealth] is never an absolute measure of his welfare, for the highest welfare of all individuals and of society would be attained if the quantities of goods at the disposal of society were so large that no one would be in need of wealth (Menger 1994:109-110.)

That scarcity as value is now part of the economic mainstream can be seen by this quote from the largest selling economics textbook of all time, Samuelson’s *Economics*, without scarcity, “Nor would it then matter if labor and materials were distributed unwisely. Since everyone could have as much as he pleased, it would not matter how goods and incomes were distributed among different individuals and families” (Samuelson 1976:18).

As stated the classical economists' approach to analysis was one of the system-as-a-whole. This concept might be considered as a *structural model* of the economy which describes the parts of the system, how these parts then fit together through contractual and property relations, and describes what *could happen* but not what *does happen* (the structural model does not describe the behavioral interactions amongst the economic agents within the system) [3]. The classical economists described the social relations of society and then economically how this social system reproduced itself through the production of commodities. Individuals in society, and their relations to reproduction, were described in terms of class, and the classicals described how the different classes then shared the social surplus (that part of production which was left over after reproduction of the social system).

The main difference between what we are calling 'scarcity' values and 'production values' is that the former views time and place ahistorically and atemporally and attempts to create general laws regardless of time and place based on the assumption that there are universal laws of human behavior where consumers (people) try to maximize their (unchanging) consumer preferences (e.g., people try to maximize their utility based on given endowments enabling the procurement of these consumption goods) regardless of the social norms where they live,[4] the market creates allocative efficiency based on utility and profit maximization,

This is of course not realistic to the way society (and the economy) really works; people are both born with innate tastes and needs *and* are socially-constructed within their environment, an environment which changes with time and societal, economic and technological change and, hopefully, societal development.

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[3] Discussion of *structural model* from Nell 2008. Post-marginal revolution economics based on scarcity and subjective utility might be considered a *behavioral model* of the economy (noting that neo-classical, or mainstream, economic models limit some types of behavior which should be in a behavioral model) Nell 2008.

[4] Nell states that Marshall (who, prior to Samuelson, had the longest-standing and largest selling economics textbook) emphasized time and place and not universal laws in his supply and demand approach to individual and firm behavior (Nell 1996:30). It is only as the mathematical economists became more sophisticated with the calculus that the laws became generalized.

It should be noted too that the Austrian School of economics emphasizes context (time and place) in their economic analysis, stating that societal norms provided the basis for interaction in the market.

Edward Nell states that what is missing from the neoclassical approach of utility maximization and markets-as-allocation can be found in the original classical economists' writings.

> But if the conventional wisdom is a poor guide to how the systems works, where will we find a better one?....Who reads Adam Smith and Ricardo? Or Marx? Or even John Maynard Keynes? Yet these are great books, the foundations on which everything rests, including the conventional wisdom. And they emphasized dynamics – growth and structural change, problems of cycles and instability – rather than allocation and static efficiency. In short, they saw the development of the economy as part of history (Nell 1996: 11).

While demand theory is at the hard core of neoclassical economics, the structural models deemphasize demand for a society's technology. Bill Baumol writes,

> Demand theory plays no role in the hard core of input-output analysis. The problem is essentially technological. The investigation seeks to determine what can be produced, and the quantity of each intermediate product which must be used up in the production process, given the quantities of available resources and the state of technology (Baumol 1977:533).

One of the most common types of structural models is the Input-Output (I/O) model; many (but certainly not all) economists know of the I/O models developed by Leontief and Sraffa, the former for empirical analysis and economic planning purposes, the latter for illustrating economic theory. Sraffa (1960) used I/O to present a theoretical model of reproduction and surplus. The basic Sraffa model uses two inputs, labor and corn, to illustrate production, reproduction and surplus in an economy. Labor is paid corn and labor makes corn.[5]

In the Sraffa model if production is greater than reproduction, a surplus of corn in generated. This surplus is then divided between the workers who receive wages and capitalists who receive a profit-interest rate (like the classical and neo-classical economists – and unlike the Austrian School which is entrepreneurial not factor of production or class-based – Sraffa assumes the profit rate is competed down to the interest rate) based on the capital they advance (corn seed and wages) to

[5] It should be noted that Baumol does acknowledge that some I/O models imply demand in the fact that the labor inputs use means of production (in Sraffa's case, corn) as subsistence wage demand. "There is, however, a *closed model* in which labor is treated as a produced commodity and consumption as the raw materials used up in the production of labor"(Baumol 1966:533).

production. The division of this surplus is then seen as a point of 'conflict' between the workers and the capitalists. "The classical economists, Smith, Ricardo and Marx, and their modern followers, did not view markets that way [as a way to distribute scarce resources through the price system]….Rather than mechanisms for achieving optimal allocation, in the classical view, markets are arenas of conflict" (Nell 1996:28).[6]

In summary, 'scarcity' as a foundation for value in economics means a concept of general or universal laws which hold regardless of time and place, and where the market is used to create allocative efficiency. 'Production' as a foundation of value attempts to capture economic production and reproduction in a larger context of society's stage of development and the social relations within a society at a given time and place. The latter model allows for, one may argue, a more realistic and practical view of economics because it allows for historical and social development, ideas that are missing from what is known as the mainstream, or neo-classical, school of economics.

Before finishing this essay however, I would like to, for the sake of argument, propose that the classical, or 'production', school also has a concept of scarcity. This can be seen in the parallel dualisms of the neo-classical and classical schools.

In the 'classical school' there is just one amount of social surplus at any given time; duality means that this limited pie is divided between, in Sraffian terms, the "distributive variables", *r* (profits) and *w* (wages). The duality is such that the larger the wage, the less the profit, and vice-versa. In fact in neo-Sraffian economics when the wage is 0 (zero) profit is at its highest and when the profit is 0 (zero) the wage is at its highest. This wage-profit trade-off is the duality in classical economics. The surplus itself is 'scarce'.[7]

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[6] I would like to add that in my view, the 'class conflict' assumption was not a high priority until Ricardo, who wanted political reform through diminishing the power of the landed class in the early 1800s English political system. Ricardo called this *rentier* class 'unproductive' and recommended that the majority of the nation's tax revenue be in the form of taxes on land (Ricardo 2004). Smith argued for a Society of Perfect Liberty where the market was free from government intervention, or, more specifically, the government did not grant monopoly rights to trade to certain companies and individuals. This leads one to ask, if Smith thought that markets meant conflict, why did he spend so much time writing to promote them?

[7] It should be noted also, however, that with technological improvement, both profit and wages can increase, the duality of a 'scare' surplus is not fixed in time, it *is* fixed at a given technology at a given moment in time.

The duality in neoclassical economics can be found both in consumer and producer behavior:

1) Consumers want to maximize their utility (utility often assumed to be the consumption of a bundle of goods) subject to resource constraints (endowments, or, the material possessions of the consumer) and prices of the goods they wish to consume. Or, to maximize consumption while minimizing cost.

2) Producers want to maximize profits based on the demand for their product and subject to the costs (prices) of the goods used in production. Or, to maximize output while minimizing cost.

Therefore, I propose that both schools of thought have a notion of scarcity. However scarcity in the classical school is found in a social realm of assumed class conflict whereas in the neo-classical school it is found in individual (or firm) behavior absent socially-constructed norms.

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