Paper Presented at the International Confederation of Association for Pluralism in Economics

June 1-3,2007

Salt Lake City, Utah

The firm theory A comparative analysis between the labor theory of value and the Post Keynesian theory

Dr. Gustavo Vargas Sánchez

Full time Professor at the economics theory department at Economics School at Universidad Nacional Autónoma de México,

Mexico City.

Objective

In this presentation I intend to show that the labor theory of value and post keynesian theory reach a similar conclusion about the firm:

The firm is a dynamic and complex economic phenomenon that evolves and grows permanently.

Relevant questions

1. Is it possible to obtain a microeconomics explanation of the firm's supply from the labor theory of value (LTV)?
2. Can we construct a microeconomics firm theory from the LTV?
3. What are the differences between the LTV and post keyensian theory about the firm theory?

Layout

a) Build a theory of the firm from the LTV.
b) Compare and contrast each theory's analysis of:
   - Production theory
   - Cost theory
   - Pricing
   - Firm Dynamics
c) Conclusions

The firm theory from the Labor Theory of Value

Labor theory of value contributes to the firm's microeconomic theory

a. *The source of surplus value (profit) is produced because the labor force creates more value than is required for its replacement,*
b. *The social character of value allows the private firm to be recognized as the owner of this surplus value.*

Labor theory of value

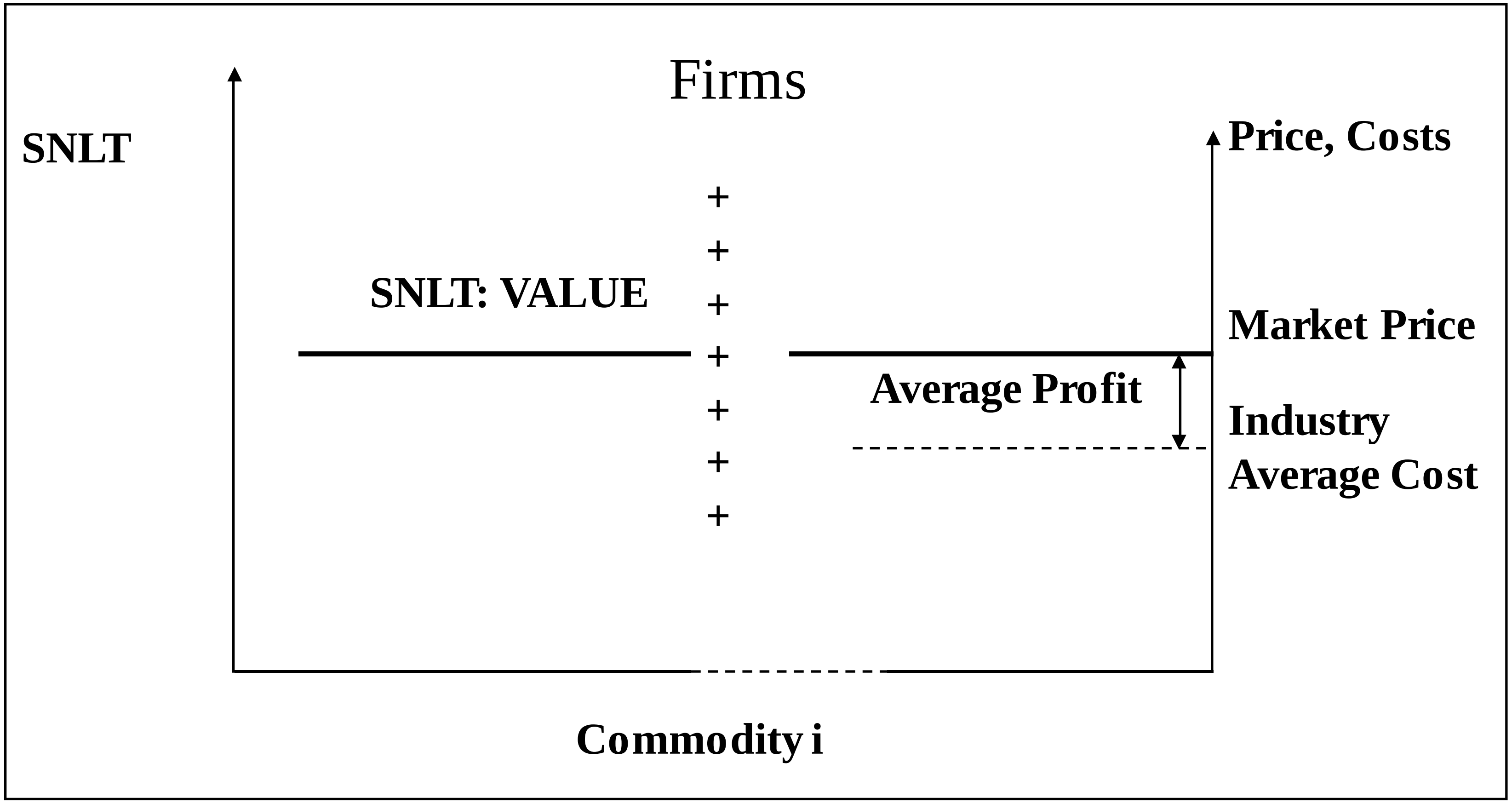
- The social process of value creation can be measured in two forms:
  - Time: *labor time* concept
  - Money: costs, income and profits

Labor time

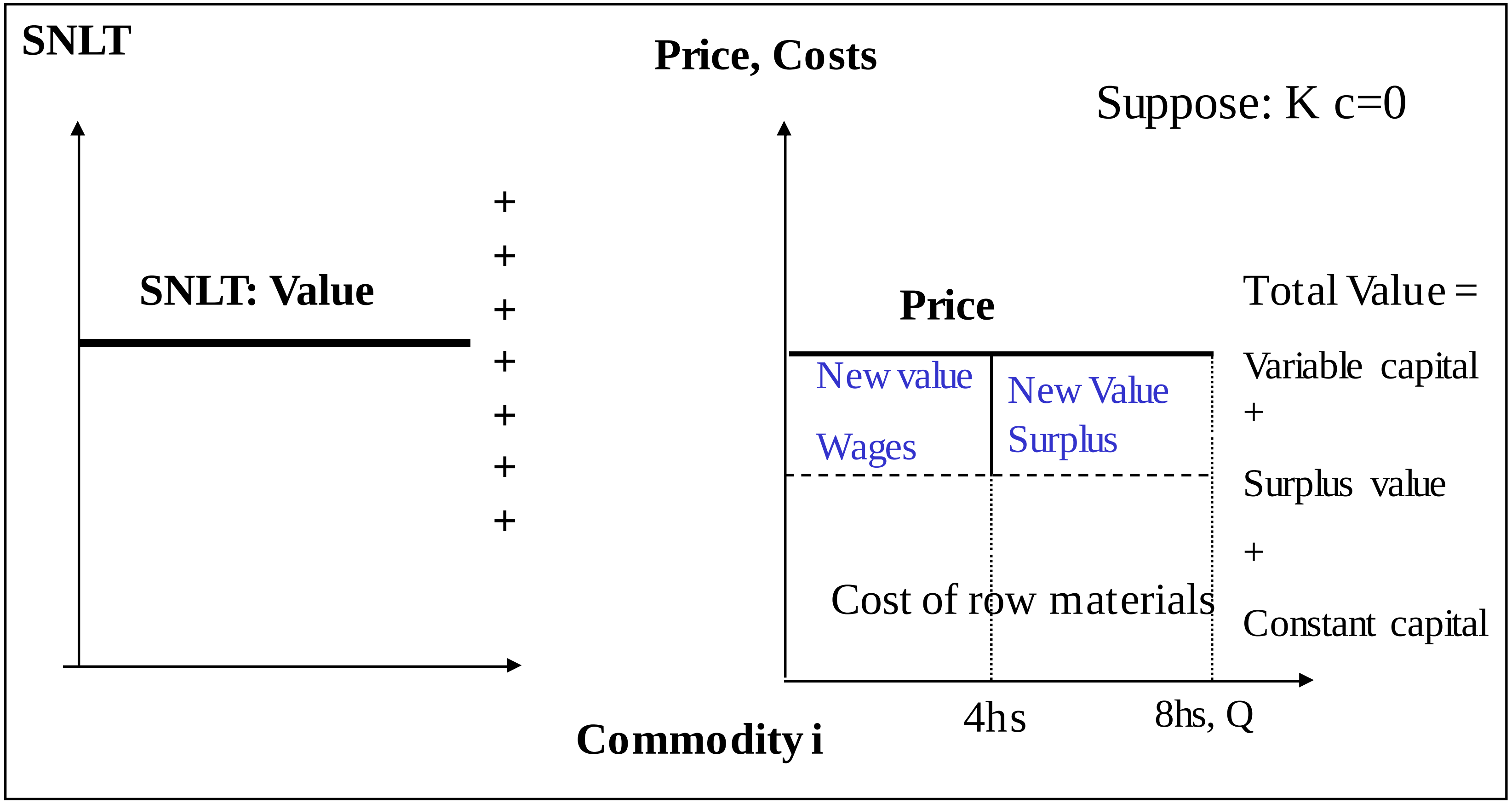
- *necessary labor time NLT*
- *incorporated labor time* ILT
- *socially necessary labor time* SNLT

SNLT

Socially necessary labor time



The firm: value, price, wages, surplus and costs

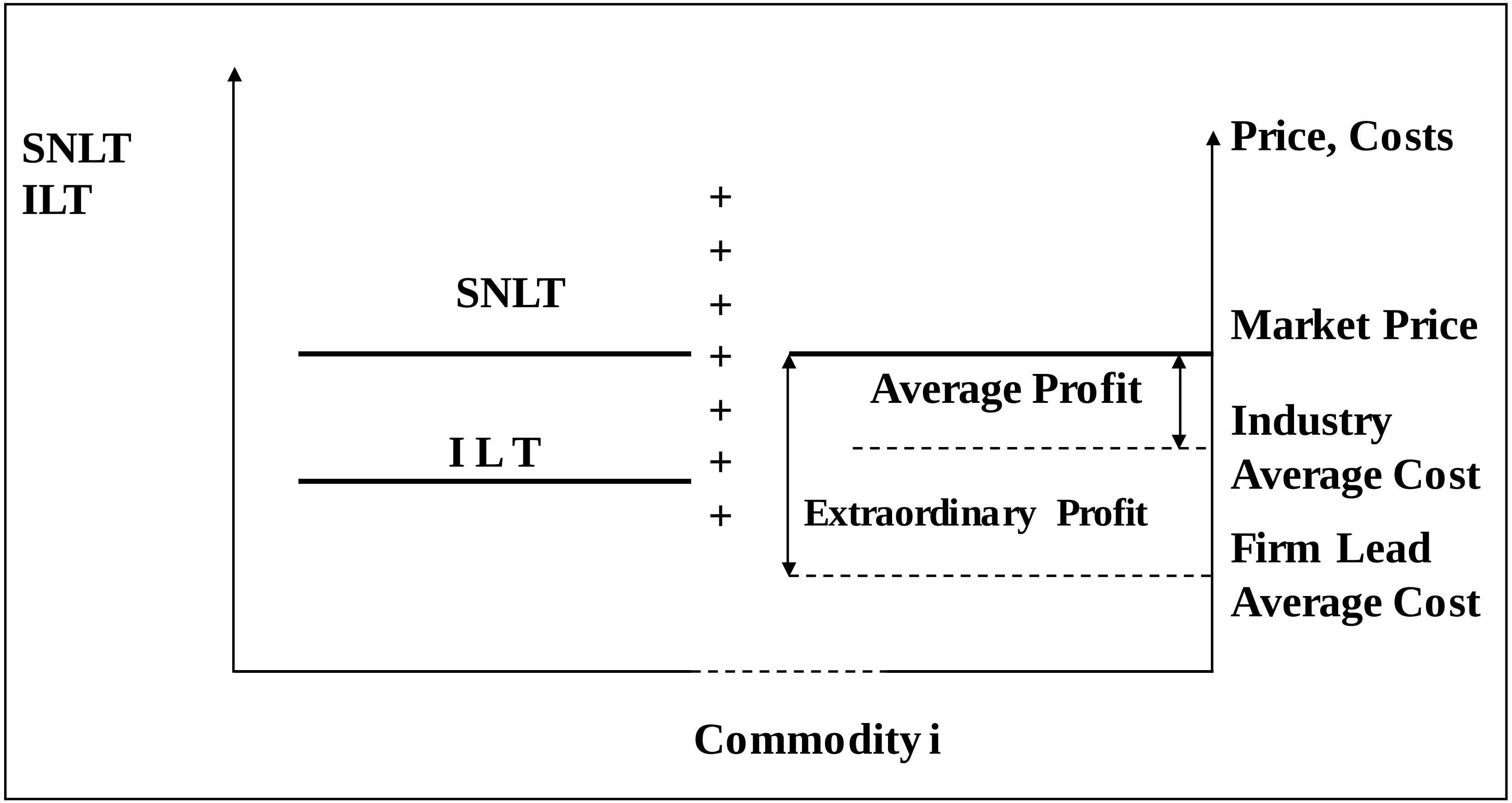


The most important form of competition

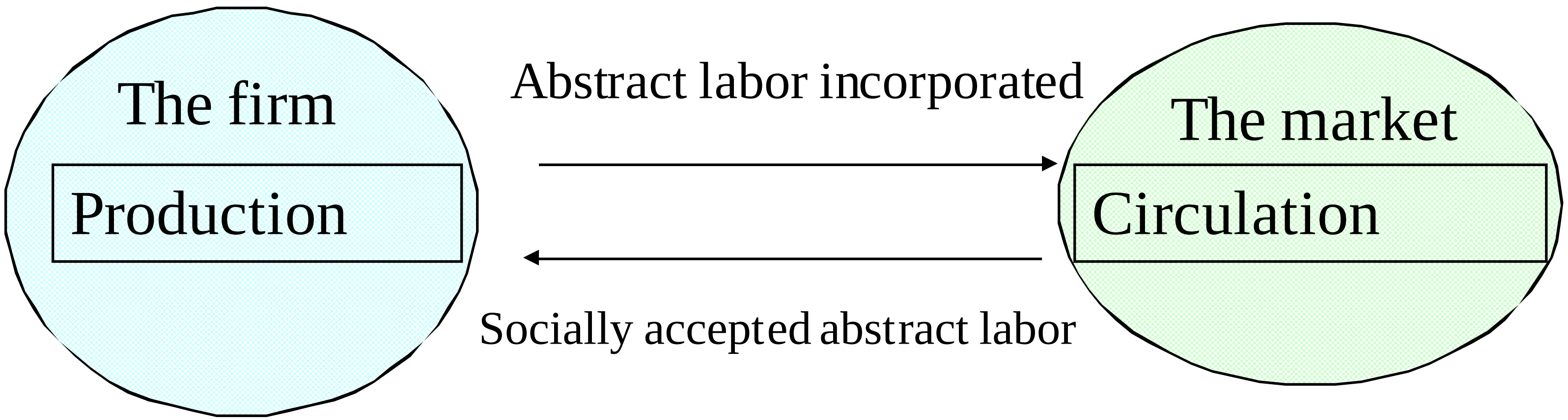
Reduction of labor time employed in the production of the merchandise

"*The incorporated value – IAL*- would now be *below* its *social-SNLT value*, this is, would cost less labor time…"

SNLT and the ILT at lead firm



The Value has two moments and a social dimension



Process of transformation:

Value into prices

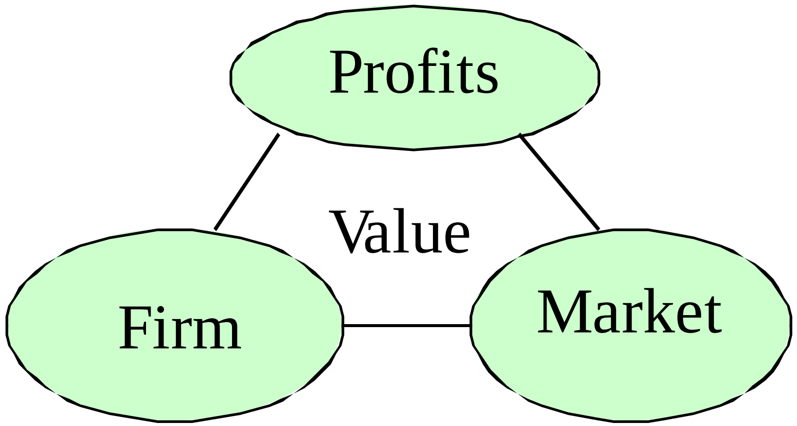
Two kinds of labor

Labor can be classified in two types:

1. *Productive labor* is the labor that creates value in the form of a good.
2. *Nonproductive labor* is the one that does not produce value but that is necessary for the circulation of the capital and has to search the maximization of profit rate.

The firm has three nodes:

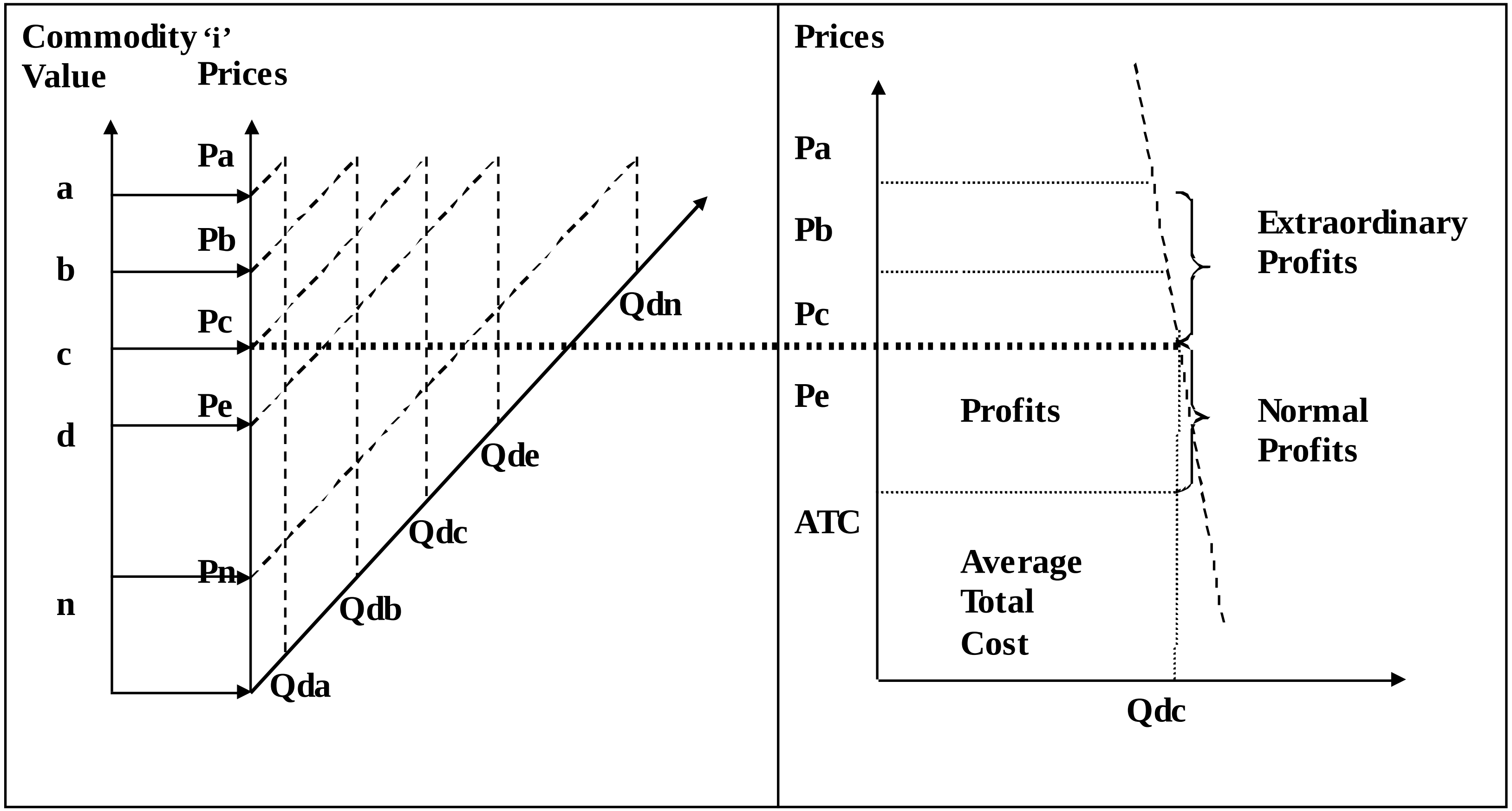
- Production
- Market
- Profit



The firm's dynamics and general mission is determined by the general law of the capitalist system: the production of private profits.

"The production of surplus value, … is the absolute law of production..."

Microeconomics representation of value, prices, average profits and cost in commodity “ i ”



The firm definition based on the labor theory of value

The firm is an economic space that manages the creation process of value.

In monetary terms we can say,it is the space where the production is managed with the final goal to obtain profits. It is the place where the production of value and accumulation processes take material form, of course at private level.

Coincidences:

First coincidence: production techniques

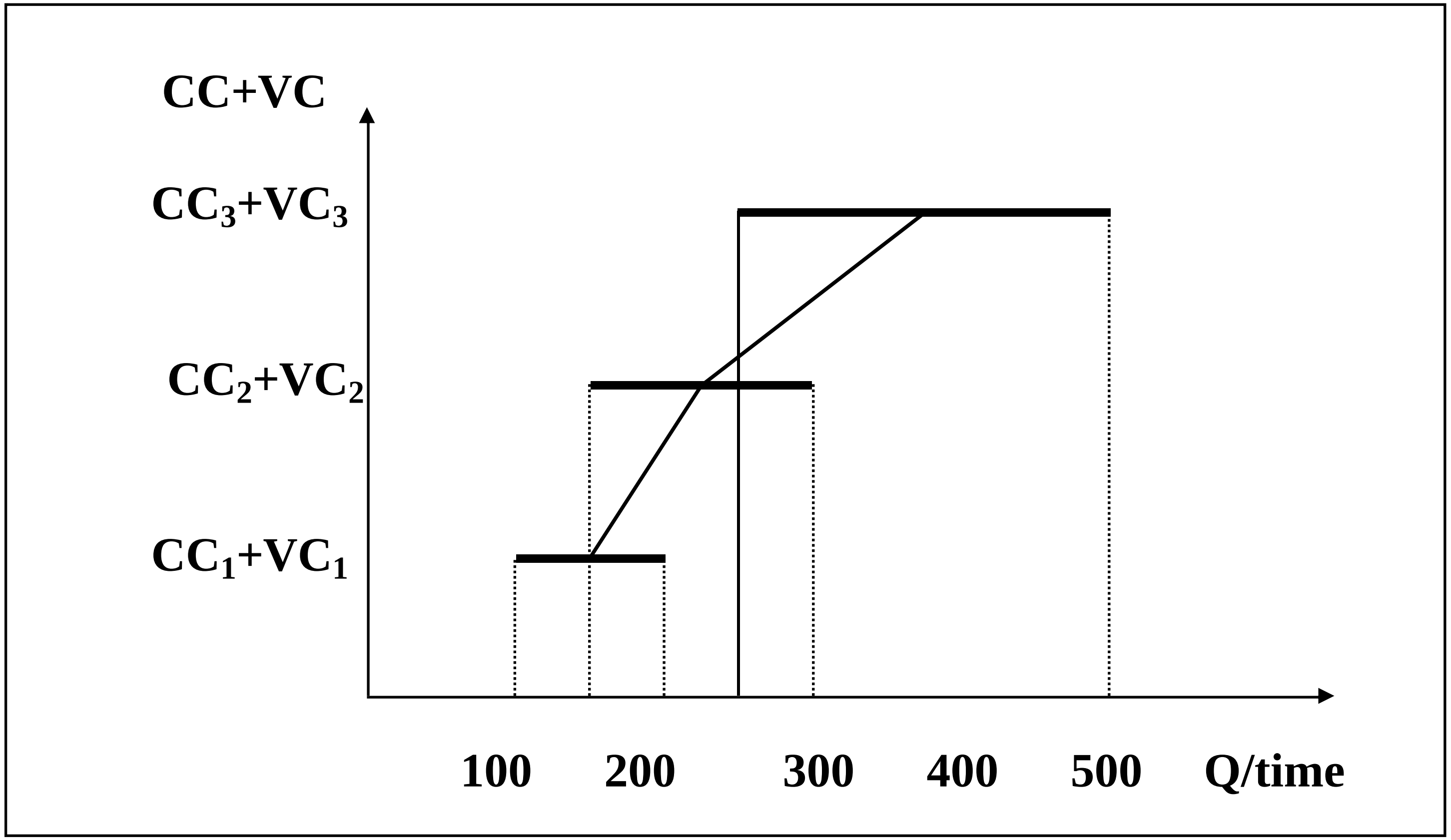
Marx supposes a relation of inputs to outputs with *fixed coefficients*

This means that constant and variable capital are complementary

- Post Keynesians suppose that production factors cannot be substituted (CC, VC), therefore they are COMPLIMENTARY.

Also, it is possible to obtain increasing returns

Long term input-output relationship



Second coincidence: TWO KINDS OF LABOR

MARXISTS	POSTKEYNESIANS
Productive labor	Direct labor
Non-productive labor	Indirect labor

Third Coincidence: COSTS THEORY

MARXISTS

Average cost of variable capital is constant.

Average cost of non-productive labor decrease

Average costs of machinery decrease

Average cost of raw materials are constant

Average total costs decrease

POSTKEYENSIANS

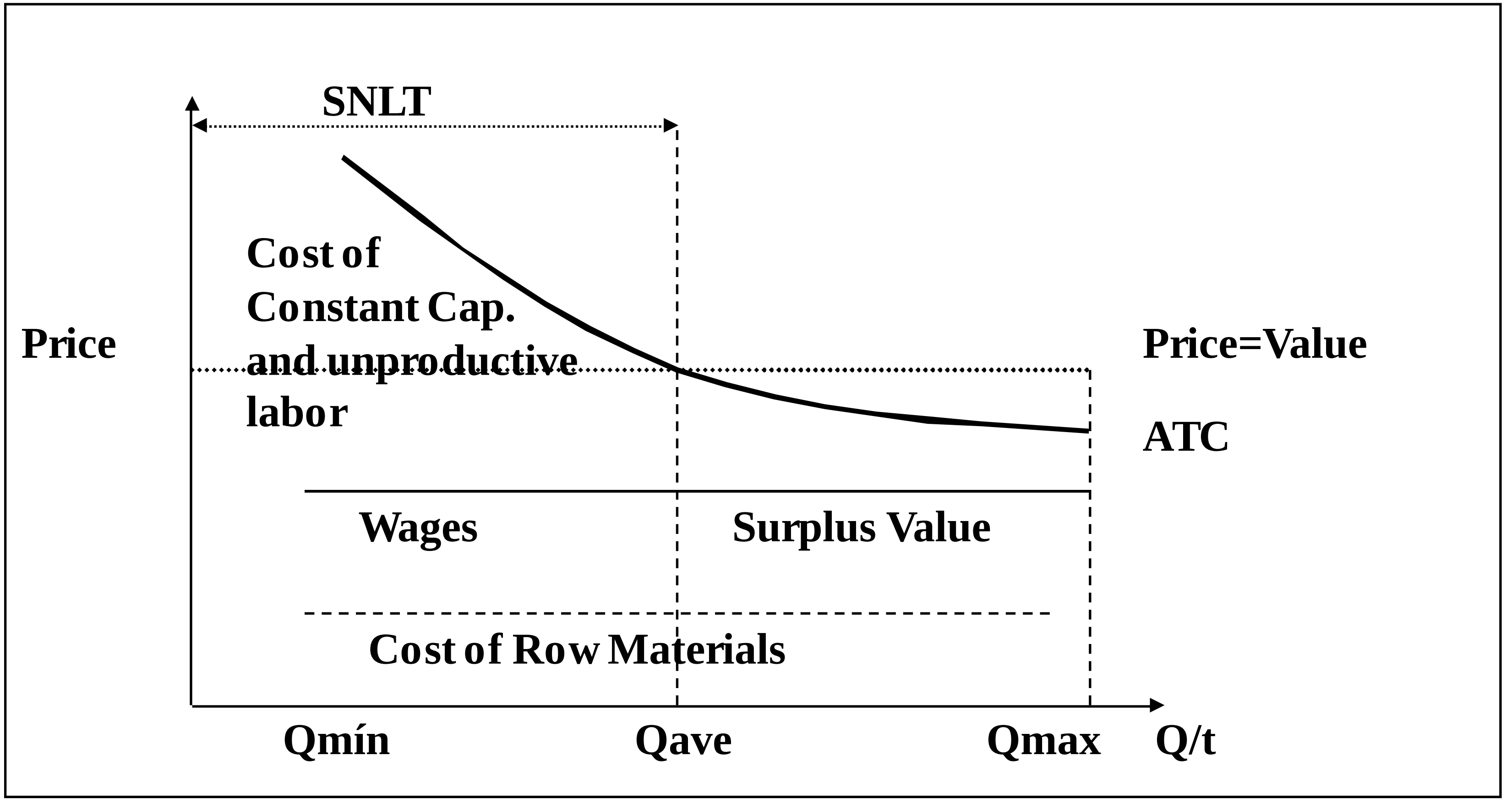
Average variable costs (Direct labor and raw materials) are constant

Average costs of indirect labor decrease

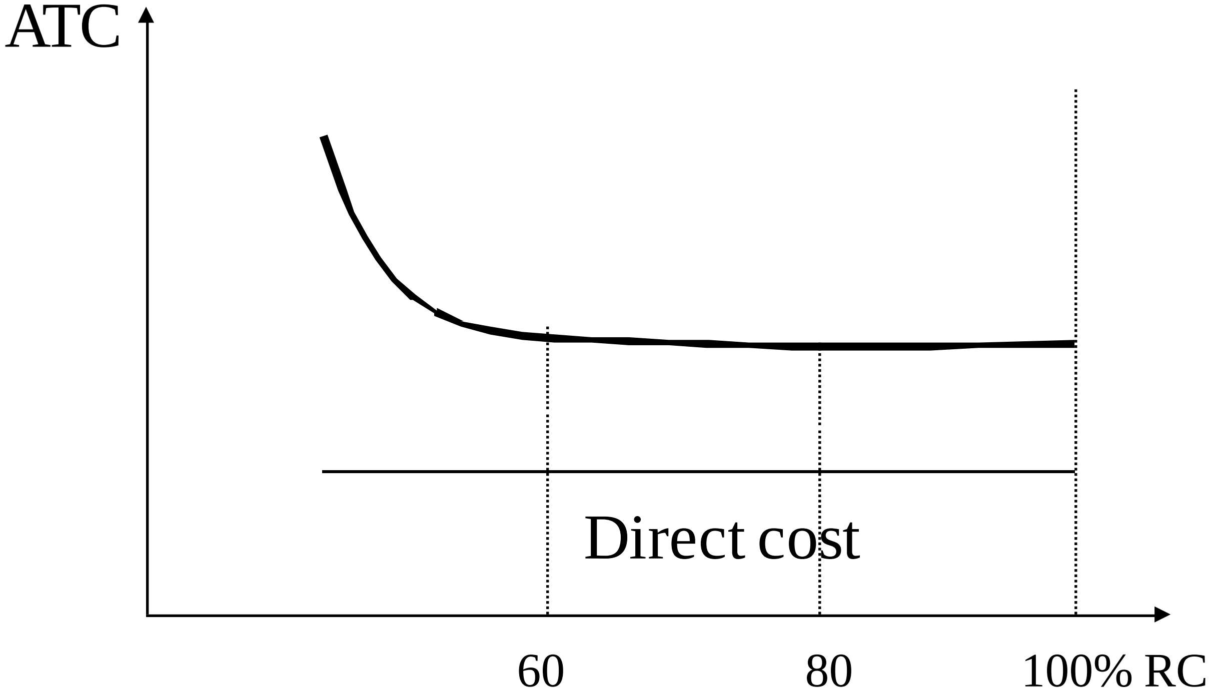
Average fixed costs decrease

Average total costs decrease

Average total costs in LTV



Average total costs in Post Keynesian theory



Fourth Coincidence: PRICING

MARXISTS

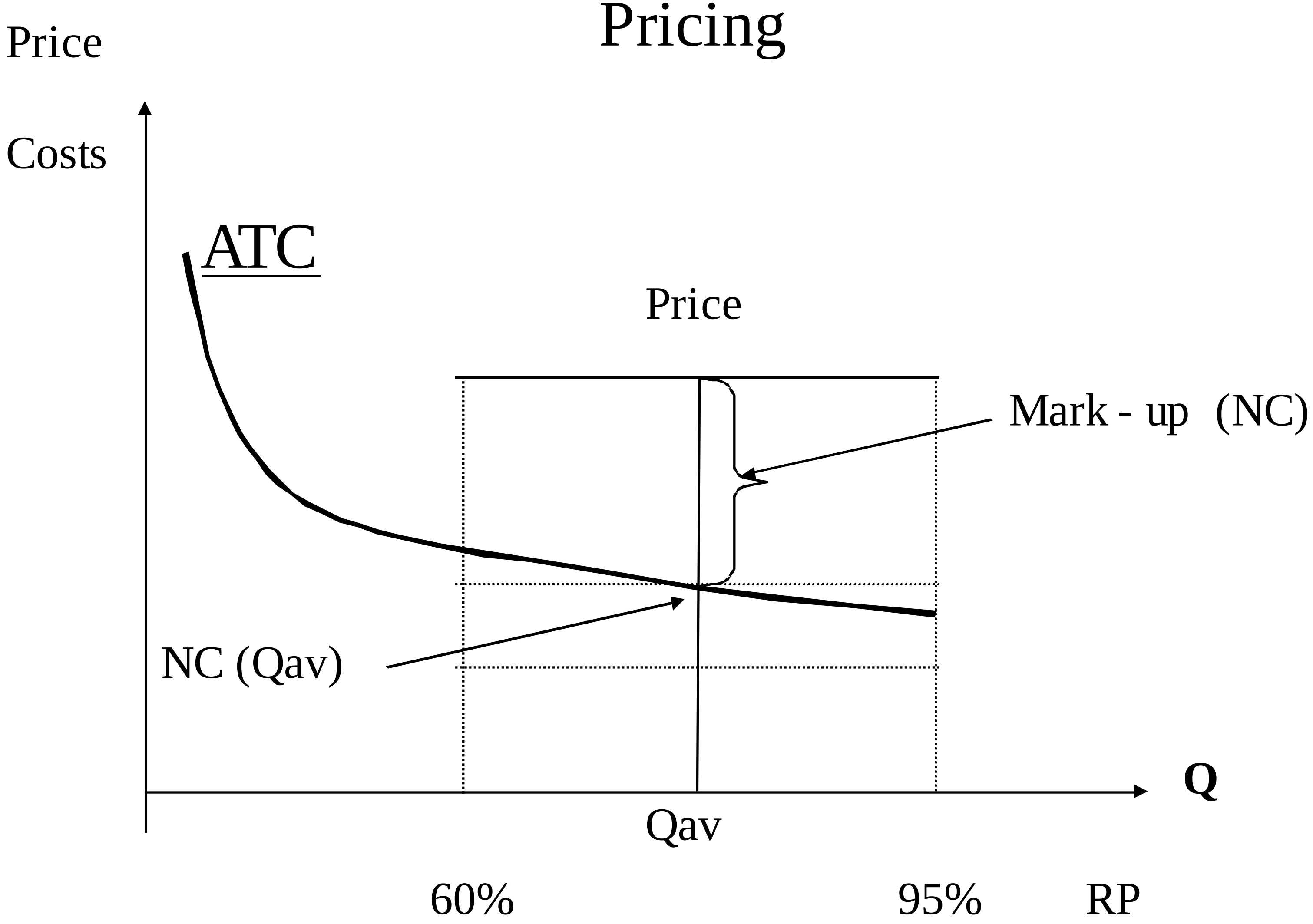
- Competition: prices are determined by the social formation of the average rate of profit.
- Prices are determined by costs and average rate of profit.

POSTKEYNESIANS

- Prices are fixed from average costs and mark-up.
- Mark-up represents monopolistic power (given a competitive environment).

Firms fix prices according to competition.

Pricing



Level and variation of prices in time

$$\mathrm{P} + \Delta P = c_j\,(\mathrm{CMTP}) + Mg_j + \Delta(CMTP) + \Delta\, Mg(\Delta e, \Delta\gamma, \Delta\theta, \Delta g, \Delta b)$$

Prices are determined by: average total cost and mark-up which is determined by the competitive environment.

Variations in average total cost and monopolistic power determine inflation.

This argument is similar between the TLV and PK.

Fifth Coincidence: Long term

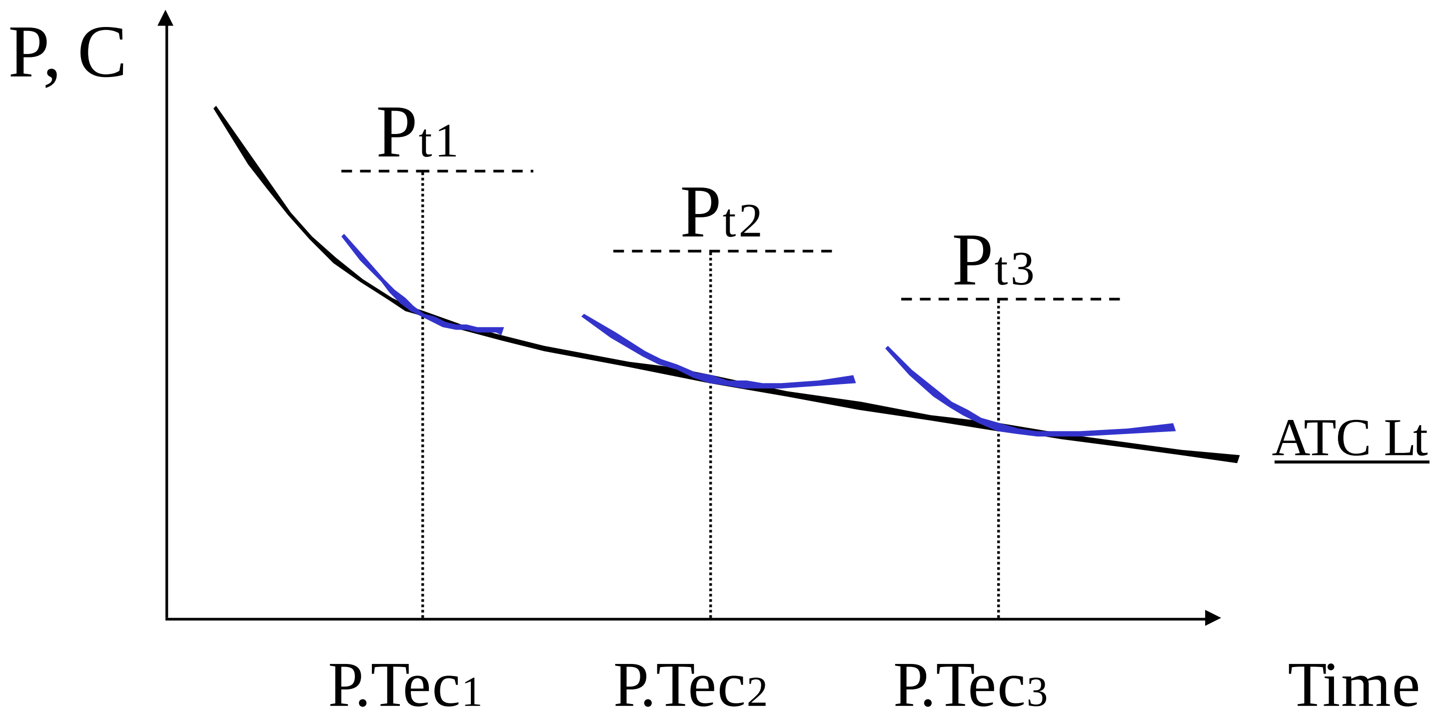
LTV

- Technological and organizational changes transform the production techniques and this causes a reduction in:
  - IALT
  - Average costs
  - Prices

PK

- Innovative firms:
  - Reduce average costs
  - Reduce prices
  - Improve quality
  - Apply marketing strategies
- This results in:
  - greater expansion than the industry average
  - “absolute concentration” of capital and market share
  - financially stronger

The firm in the long term



Sixth coincidence: EVOLUTIONARY CHARACTER OF THE FIRM

LTV

Proactive tendency:
- innovation in all areas of the firm

Reactive law:
- “catch up”

These lead to the development of the productive forces and the economy as a whole

PK

Competition leads to a reduction in average costs and a long term average cost curve with a negative slope

THEORY	Labor Theory of Value	Post Keynesian	Neoclassic
Origin of Value	Labor, abstract labor, socially accepted labor	------	Scarcity and The market
Analysis in terms of	Labor value Time and prices	Prices only	Prices only
Production theory	Complementary factors with constant and increasing returns	Complementary factors with constant and increasing returns	Substitute factors and decreasing returns
Cost theory	Constant and decreasing average costs	Constant and decreasing average costs	Increasing average and marginal costs
Pricing	Firms set their price according within the competitive environment	Firms set prices due to monopolistic power given the competitive environment	Supply and demand
Firm performance	Dynamic	Dynamic	Static
Origin of the dynamic	Search for profits	Search for profits	Does not exist as maximum profits are obtained
Form	Competition through innovation	Competition through innovation	Externalities

Thanks you

vargassanchez01@live.com.mx

http://www.economia.unam.mx/profesor/webprof.htm