2 Skeletons of the Past

Some fundamental differences between the post-Keynesian and the orthodox Neo-neoclassical theories can be found by looking at the evolution of the theory of value. There we find two distinct branches, one associated with the Classical economists from the Physiocrats to Ricardo, and the other with the neoclassical economists, such as Jevons, Walras and Marshall. This difference in approach of the two branches can best be described in terms of 'physical' and 'subjective' conceptions of value. Most often, in recent times, the latter conception goes under the name of price theory in order to escape the implication that it has to do with unscientific 'value judgements' and normative theory. Whether a simple change in name is sufficient for this purpose may become clear below.

ECONOMIC PRE-HISTORY

The problem of economic growth is by no means a new one in the history of economic theory. It was the main preoccupation of both economists and men of affairs (in fact they most often coincided) from the rise of the nation-state. Any reasonable explanation of the activities and writings of the Mercantilists must take into account their practical recognition of the value of physical resources and the necessity of using them to make a nation strong, not only in the field of trade. Strong trade balances and strong nations were both synonymous of rapid economic growth (not to say anything of geographical conquest). But this practical approach to the economic affairs of the state did not produce anything that could be called a theory in the proper sense of a system of logically coordinated ideas. Mercantilism was simply a general method of analysis that was worked out by applying it to specific cases as the need arose. A strong nation was more important than consistency or economic logic.

With the French 'economists', the Physiocrats, comes the first attempt to organise and understand the production of output at an aggregate level, and the role of the mechanism of exchange. The
unifying conception, patterned after the discovery of the circulation of blood in the human body, was symbolised in Quesnay’s Tableau Economique. This conception placed economic study in line with the philosophical movement of the time towards the belief in the natural organisation of the universe on simple and general principles or laws. The theory was in direct contrast to the preference for economic controls expressed by the Mercantilists, but at the same time it guaranteed results that would be at least as successful while philosophically more pleasing. Thus ‘laissez-faire, laissez-passer’ became the order of the day.

The most important concept of the approach was the produit net, the amount of physical product that remained after the physical costs of producing agricultural output had been recovered when all products exchanged at prices calculated in terms of their values in physical terms. The fact that the Physiocrats only recognised a physical surplus over inputs in agriculture simply reflects the economic and social conditions of the time; it by no means diminishes the usefulness of distinguishing between real resources used up in production, gross output and the remaining surplus.

In terms of natural law the produit net was something that was left over after exchange at natural values had occurred in the system, this between the farmers, the manufacturers and the landowners. This process implied, as natural law logic must, that the real cost of agricultural output could be measured in physical terms: the produce that was necessary to provide labour and raw materials for the next season’s planting. Real physical cost of production was then equal to natural exchange value. This left the surplus, which was claimed by the landlords as the natural inheritors of the fruitfulness of the soil. The approach can hardly be said to have been egalitarian, but none the less it is obvious that the problems of growth, value and distribution were all part of the larger process of the production and circulation of the national produce.

THE CLASSICAL APPROACH – THE LANDOWNERS UNSEATED

The concept of real physical cost was taken up by the classical economists who followed the Physiocrats, and is especially obvious in Adam Smith. Smith, however, made two major additions. First he took it as given that a surplus in the production of agricultural