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PROLEGOMENA ON TAXONOMY OF ECONOMICS

***Аннотация.** This article reviews the problems of investigating the objective laws of economics and attempts to prove the view that the main economic law — the law of value — has two spheres of operation. A great educational benefit may be derived when analyzing the practice of socialism construction and the problems faced by the economics during that period, as it will help to see into the matter of economic laws and their effect, as well as consequences of their negation or poor interpretation. The thought which prevails in the considerations described above is that the laws have an objective character. However, the idea of the laws being either specific or general is doubtful, as well as the possibility of their limited operation. If an objective law exists, it can never be prevented from operation. The social laws probably face a number of deviating and counteracting factors, and do not provide instantaneous or automatic reaction to the situation. Supposedly, but not necessarily they have been mediated by vigorous human activity which significantly influence the processes and their results. Anyway, a certain perspective shows the objective economic necessity or law in its pure form. The author suggests that the overall equilibrium of economy can be achieved (and its crisis-free progress ensured) only provided that each of the spheres is balanced (the first one as a result of redistribution of property-related rights at the level of a business unit; the second one through the equivalent exchange on the market).*

***Ключевые слова:** objective laws, economics, law of value, marginal utility theory, labour theory, exchange, labour and property, market economy, overall equilibrium., planned economy.*

In terms of history, the humanity came to subsistence economy as a result of the Neolithic Revolution (according to various estimates, 9 to 11 thous. years ago), which means at the time when the productive economy had ousted the primitive one based on gathering and hunting. However, many years had to pass before the economy was recognized as a relatively isolated and specific area of human activity. It took place only in the Modern Age (on the threshold of bourgeois revolutions) after a single economic and national space had been formed and due to transition of division of labour

and social production output to a higher level. It is the emergence of bourgeois market relations that gave rise to political economy. It is noteworthy and revealing that the latter stems from the natural law doctrine, this fact being indicative of an obvious interdependence between law and economic fundamentals. In our opinion, the natural law covers all sciences concerned with the human nature while economics stands apart from other humanities by using the methods employed in natural, exact sciences (mathematics, statistics). In particular, A. Marshall underlines that the exact monetary value of the most stable stimuli

in the economic environment made it possible for economics to get far ahead of other human sciences.

Yet every coin has two sides. For example, when investigating the trade cycles, R. Harrod observed that economists had to drop the idea of distinctness which could exist only while remaining within the limits of its geometric configuration. «From being one of the most exact, albeit narrowly circumscribed, sciences, economics of necessity becomes one of the most conjectural».¹ Partially accepting this opinion, it should be noted that on the contrary any adherence to theoretical clichés and preferences largely hinders a deeper investigation. It is therefore advisable for economists not to restrict themselves within the limits of their geometric configurations while holding to the traditions of a certain school.

Having emerged within the natural law doctrine and fast gaining momentum, a new scientific school of political economics focused, from its early steps, on specific categories such as exchange, value, labour, property (capital), wealth (gross product), profit and so on. Thorough analysis of these categories (independently and in conjunction with each other) had indeed brought the scientists closer to a more precise understanding of the essence of economics. However, the investigators had a wider field of research and continued to search for something more essential and conclusive, lying beneath the above mentioned economic categories (factors) and determining their content.

In the context of the latter, two tendencies can be distinguished. According to the first one, the investigator tries to find and practically apply relevant models of economic systems, which means that the study focuses on the functional value. For example, in his letter to R. Harrod (1938), J. M. Keynes wrote: « Economics is a

science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world...». Similar intentions are exercised when the main emphasis is placed on practical application of economic researches. According to the Department of Applied Economics at the University of Cambridge, applied economics «requires a sound knowledge of economic theory, statistical techniques and data sources, together with an appreciation that behavioral changes can alter apparently established economic relationships». Without doubt, the practical effect is of higher importance than the conclusions of an abstract theory and invokes a positive response, but there is a risk of political expediency of the practical solution, though for a time being, to overrule economics. For this reason, we believe that the second tendency is more advantageous; it drives the economists to set the laws governing the economic activity. This approach is attributable to classical science. Its traditions provided the framework for a viewpoint to be expressed that society develops according to the objective economic laws.

Strange as it may seem, the stated tendency can be clearly traced to the Soviet political economy. Besides, the economy of socialism had experienced the influence of quite radical political decisions which justifies the feasibility of highlighting this practice. It would seem at first sight that nothing can be made use of here because it failed to survive the test of time. Nevertheless, we think that very useful lessons can be learnt in retrospective. In our consideration, the discussion of 1951 considering the nature of economic laws can be deemed as a historical milestone in testing of the theory and practice of socialism. When reflecting on the issues raised during the discussion, it is possible to view many problems of modern economy from an unusual perspective, including *reductio ad absurdum*.

Referring to the issue of the economic laws of socialism, a group of economists (I. A. Anchishkin,

¹ Raymond Harrod. «Scope and Method of Economics.» The Economic Journal 191 (1938): 388.

N. S. Maslova, S. Merzenev), for example, brought forward a statement that their main content was represented by the policy of the Soviet government which constituted and determined these laws. Even in the period preceding the October Socialist Revolution, the Marxists predominantly supported the opinion which denied the objective nature of the economic laws of socialism in view of the impending loss of spontaneous market mechanism in economics and, together with it, the environment where the specific laws can emerge. In other words, the capitalist market relations being forced out from the historical scene by the socialist production cause the specific laws of this system to die away. Along with this, those economic laws which are common for various historical steps operate as a «recognized necessity». In this context, the need in a separate theoretical science (economics) is eliminated, and on the contrary, the key role shifts to the applied economic disciplines designing the specific applications of the knowledge on the forms of appearance of the common economic laws. Thus the political economy is restrictively understood as a science limited by the historical period of capitalist market economy.

On the other hand, Y. Mikolenko drew a conclusion that the socialist society retained all economic categories (value, capital and others) attributed to capitalism; the labour force remained to be a commodity; and as long as the socialism did not eliminate the commodity form of production, the socialist economic laws still had a spontaneous nature.

However, the majority of the contributors to the discussion were in favour of the third viewpoint suggesting that the economic laws of socialism being intrinsically attributable to the socialist mode of production represented the inevitable result of development of the material life of a society, rather than a spontaneous product of the human mind and will. A government or a party can never make or form the economic laws. The policy of a government or a party must be based

on the laws of society's development. At the same time, the economic laws of socialism operate as a recognized necessity, rather than a spontaneous, or arbitrary force. This majority opinion was reflected in the paper by J. Stalin «Economic problems of socialism in the USSR». Though not being a great economist, from the force of circumstances, J. Stalin was in a way in charge of selecting the ideas raised during the discussion of 1951.

As a central tenet, J. Stalin advanced a statement that the laws of political economy reflected «regularities of the processes occurring irrespective of human will». Criticizing the «subjective idealism», he rejected the position which assumed that the economic laws emerged as a result of conscious human acts, through the state's or government's power, thereby refusing to accept identification of the economic laws with the judicial ones. Though actually his former activity was aimed at supporting such identification. In addition, he differentiated between objectivity and spontaneity which meant that the objective economic laws could operate in a non-spontaneous manner. In his opinion, any «society having explored the economic laws and using them as a basis, can limit their scope, implement them in public interest and «override» them».

His position clearly featured an effort to equate the economic laws to those of nature. At the same time, J. Stalin associated the existence of specific laws with the «fragility» of economic laws in general, in comparison with those of nature; he linked their historical change to the alteration of economic conditions, production relations that generate the economic laws of a certain production mode. Without concentrating on the problem of subordination of general and specific laws within the structure of a given economic system, Stalin identified the dependence of a certain type of production relations on the nature of productive forces, and the level of their development — discovered by Marx — among the first laws and determined this dependence as a «law of the

mandatory correspondence of production relations to the nature of production forces».

According to Stalin, Marx's general laws of reproduction retain their effect in socialism as the Marx's theory of reproduction contains a number of basic postulates of reproduction held true for all social formations, along with the capitalism-specific ones. Among them, there is the regulating law which determines the way how the proportions emerge and vary in public production, and the law expressing the social orientation of production, its target. The law of value ("invisible hand") has been acknowledged as the former law in terms of capitalism from the time of Smith to manage the production-consumption ratio and their structures through determining the level of socially necessary costs, price movement, and competition of goods' owners. The latter law is associated with the theory of surplus value offered by K. Marx and included in his economic theory as a concept of «fundamental», «absolute» economic law of capitalism. Having discovered no exact notion of the law of value, Stalin still recognized its effect in the socialist system due to the remaining commodity production. But still he believed that the named law stopped operating as a regulator of production. No more did it govern the relations, nor did it distribute the labour among various industries.

All positions regarding the problem of objective law generally matched the spread of attitudes to the law of value which also constituted a broad range — from complete negation to its identification in a new quality. For example, D. I. Chernomordik suggested that the law of value had lost its effect in the socialist economy as the social labour was distributed among industries through the national economic plan. The value was reduced in the socialist economy to a category which was only considered when drawing a plan to evaluate the costs of social labour for certain product types. Several economists (S. G. Strumilin, I. D. Zlobin, A. N. Sidorov and others) disagreed

with this statement and regarded the law of value as an eternal law governing the proportions of labour distribution among various industries in all social formations. As for socialism, it governs — on the one hand — exchange relations, with production proportions, on the other hand. When the transition from distribution by labour to distribution by needs is completed, the law of value will lose its importance as an exchange relations' control, but maintain its function of managing production proportions.

A considerable part of economists shared the opinion that commodity and value are historical categories moved over to the Soviet economy from capitalism but subjected to a drastic transformation based on the planned economy and predominance of the socialist ownership in regard of production means. The need in commodity and law of value appears in socialism from the nature of social labour required by the two types of socialist ownership of production means. J. Stalin subscribed to this position as well. He believed that, through the socialization of production means and planning of national economy, the law of planned development forced out the law of value from the sphere of managing the national economic proportions. At the same time introducing a new concept of the law of planned (proportional) development into the political economy of socialism, Stalin formally opposed it to a certain «law of competition and anarchy of production in capitalism», rather than to the law of value. Though having actually opposed the law of planned development to the law of value, he acknowledged the possibility of their «cohabitation». The latter loses its function of a production control but maintains such function ("within the strict limits") in the sphere of distribution, in exchange through the purchase and sale of mainly consumer goods. Moreover, the law of value implicitly influences the production as well: a) through product consumption covering the costs of labour force in the production process; b) at the level of facilities that carry out the economic

accounting process and calculate the production price and its profitability; and c) in pricing. As regards the first law of planned development, J. Stalin provided no detailed explanation of its content and reduced its nature to the necessity of ensuring the proportionality of natural economy, but draw a strict line between the law of planned development and planning. Using the philosophical concepts of «possibility» and «reality», he noted that the requirements of this law were reflected to a certain extent in one-year and five-year plans.

Thus given that the commodity-money (market) relations are maintained in socialism with a strong state control of economy, J. Stalin assumed the simultaneous operation of the law of planned development and the law of value, something like a peculiar concept of «mixed economy». His effort to differentiate between the areas of operation of these two laws somehow correlates with the idea of competitive (market) socialism.

A great educational benefit may be derived when analyzing the practice of socialism construction and the problems faced by the economics during that period, as it will help to see into the matter of economic laws and their effect, as well as consequences of their negation or poor interpretation. The thought which prevails in the considerations described above is that the laws have an objective character. However, the idea of the laws being either specific or general is doubtful, as well as the possibility of their limited operation. If an objective law exists, it can never be prevented from operation. The social laws probably face a number of deviating and counteracting factors, and do not provide instantaneous or automatic reaction to the situation. Supposedly, but not necessarily they have been mediated by vigorous human activity which significantly influence the processes and their results. Anyway, a certain perspective shows the objective economic necessity or law in its pure form.

Therefore the discussion of 1951 was a sort of inventory reconciliation of idea testing process

with regard to building the Soviet economy. Although the moment of truth came later, the lesson learnt had a double importance as Western economic thought was fighting its way to the Soviet practice in order to converge in one point some time. Thus in the early 1950s, J. Schumpeter, O. Lange and others brought forward the ideas of «market socialism» binding the principle of planning with the market economy. In the context of F. Roosevelt's strong government policy which helped the United States out of the Great Depression in the early 1930s, the Keynesian theory had considerably strengthened its position. The concepts of imperfect competition were widely recognized as well. In other words, the Western economic thought tended to adopt the principles of planned government control of economy, even its private sector. It was much later, in the 1970s, that the pendulum swung in favour of decreasing the use of these principles. Germany and Japan were still suffering from the shock of defeat and had a long way ahead to build their economic systems that later proved to be highly efficient. The economic «miracle» happened many years later.

It follows that despite of the large-scale actions taken to construct a new type economy aimed at overcoming the commodity economy, the efforts to displace the law of value had no success. And when summarizing the theory and practice of the Soviet economy and Western countries, the law of value appears to be the fundamental economic law in terms of mixed economy as well. All doubts and ambiguities around this law (both in Soviet political economy and in Western economic thought) suggest that its nature cannot be revealed within the limits of one geometric configuration. It is clear that the political economy in all its aspects cannot only appeal to the practice of isolated countries as the economic laws know no national boundaries. Moreover, the obvious convergence of the economies having polar opposite principles of organization leads to understanding that a more ideal economy should have two spheres

maintaining a certain balance. In addition, the view expressed by J. Stalin as to distinguishing the areas of operation between the law of value and the law of planned development — in our opinion — implies that it is the law of value that comprises two areas of operation (in a balanced state) and ensures the overall equilibrium of economic system. Indeed, the classical practice considers that the law of value determines the exchange and distribution functions at the same time; so it may be suggested that it has two areas of operation (exchange and distribution). It should be emphasized that the terms in brackets have a very relative meaning; it is almost impossible to clearly identify their spheres of influence — an overlapping effect occurs here. On the other hand, exchange is associated with the market (macrosphere), while distribution focuses on the corporation, or — as the economists call it — the hierarchy (microsphere). Let us try to sort this matter out.

Distribution is a complex phenomenon which leaves an impression on all the economic activity and influences the proportions of production and consumption. Its special place in the political economy had already been highlighted by D. Ricardo in his letter written to T. Malthus on October 9, 1829: «Political Economy, you think, is an enquiry into the nature and causes of wealth — I think it should rather be called an enquiry into the laws which determine the division of produce of industry amongst the classes that concur in its formation. No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions. Every day I am more satisfied that the former enquiry is vain and delusive, and the latter the only true object of the science».

The core of the problem of distribution was attempted to be explained by a variety of theories. Supposedly, the most popular and widely used political economy appeared to be the theory of value which obtained various interpretations such as A. Smith's theory of price, D. Ricardo's labour

theory, J. B. Say's utility theory, K. Marx's theory of surplus value, and others.

The matter of value is actually the most tangled and ambiguous as the value is hidden in the commodity. To understand its nature, the concept of exchange value was employed which covered the general content of the commodity being the product of human labour. Altering the substance of its nature and associating it with the value of past labour embodied in semiproducts and production means, besides its intrinsic value, the labour generates a new product, or commodity with its value determined by the social division of labour and consumption. That is why it is no mere chance that the labour theory of value held a special place in the economic theory; in its context, value is the abstract labour materialized in the commodity, or the commodity value is a function of labour costs. The theory was elaborated by A. Smith, D. Ricardo, K. Marx and others. A. Smith, for example, wrote that «labour, therefore, it appears evidently, is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places».

Certainly, it cannot be deduced from his considerations that it is the labour to be used as a special measure of value. Indeed, he noted and stressed the importance of labour and its priority in the commodity pricing, and that this tendency represented the course of nature. In his interpretation, the market «invisible hand» measures various commodities according to this criterion. But if to hypertrophy this theory and use the very relative concept of abstract, socially necessary labour as a unit of measure, a cost-based mechanism will appear in practice, which will mean production for the sake of production. The same mechanism was actually implemented in the socialist economy when the steps towards total government planning and regulation of all stages of economic reproduction resulted in the downturn of economic mechanism, production

of poor-quality goods, deficit, and stagnation of economic development.

As opposed to the sphere of distribution, exchange is probably a narrower concept in economics (actually reciprocal or mutual transfer of property between owners-counterparties) compared to the common idea thereof, with the direct meaning of exchange relations. W. S. Jevons who was almost the first of marginalists to lay down the foundation for the concept of perfect competition, suggested that the equilibrium of goods being exchanged was determined by a number of prerequisites: the exchange must take place on the market; full information available; no collusion possible; free competition; uniform commodity. By a market he meant two or more persons dealing in two or more commodities. Each participant performs exchange solely in pursuit of his own interests. The market competition is absolutely free, and any person accepts the exchange at the same moment as another market participant offers slightly better terms of exchange. The goods traded on the market are perfectly uniform in their properties.

Therefore, it is easily traceable that W. S. Jevons identified exchange with the market. Though to enhance the notion of market, two important things should be added with a view to better understanding its substance. First, as the market is conditioned by the social division of labour and following exchange of labour outputs among their owners, the market exchange maintains its equilibrium and functions efficiently only provided that it is performed on an equivalent remuneration basis, and that its parties recognize each other as separate equitable owners. Second, it is impossible to ensure the equivalent exchange of labour outputs without legal guarantee statement of economic rights and freedoms. This results in the government influence on market relations which has per se both positive and negative action.

Market pricing involves establishing supply and demand and includes the idea of marginal

utility of goods as its basis. To cut down on costs and increase profitability, the economic entities make use of such methods as resource substitution to ensure their marginal utility; reduction of production costs; establishment of the economic equilibrium, that is equality of marginal costs and marginal revenue. These methods drive the pricing mechanism for production factors. Therefore it is fair to say that the market mechanism is best characterized through the law of diminishing marginal utility.

Hence it comes that in the context of the theory of marginal utility, the law of value focuses a producer on the consumer interests, governs the proportions of social production, differentiates commodity producers, and stimulate development of production forces. At the same time, with all its advantages, this approach has its limits of application and can be effectively applied only in terms of exchange. In 1870s, explaining the price in the models of exchange, W. S. Jevons, K. Menger and L. Walras shifted the emphasis from calculation of labour disutility (as the Classics did) to the neo-classical ideas of utility and relative rarity. The general starting point for the neo-classical theory of capital became the one-commodity Samuelson/Solow/Swan aggregate production function model: $Q = f(L, K)$, where the one produced good (Q) can be consumed directly or stockpiled for use as a capital good (K). This simple model exhibits what Samuelson called three key «parables»:

— The real return on capital (the rate of interest) is determined by the technical properties of the diminishing marginal productivity of capital;

— A greater quantity of capital leads to a lower marginal product of additional capital and thus to a lower rate of interest, and the same inverse, monotonic relation with the rate of interest also holds for the capital/output ratio and sustainable levels of consumption per head;

— The distribution of income between laborers and capitalists is explained by relative factor scarcities/supplies and marginal products.

However, when referring to more complex models with heterogeneous capital goods, the parables listed above give rise to concerns — problems of Wicksell effect (reswitching and capital-reversing). For example, reswitching occurs when the same technique — a particular physical capital-labour ratio — is preferred at two or more rates of interest while other techniques are preferred at intermediate rates. At lower values of the interest rate, the cost-minimising technique «switches». The same physical technique is associated with two different interest rates, violating parables 1 and 2. The second concern is associated with capital-reversing, as in comparing two steady-state equilibrium positions, it is as though capital services have a lower price when capital is «more scarce». Capital-reversing implies that the demand curve for capital is not always downward sloping, violating parables 2 and 3.

To solve the problem emerged in relation to capital, Samuelson intuitively suggested to employ the Austrian concept of capital as a time (the productivity of capital is the productivity of time itself). Referring to the theory of capital outlined by I. Fisher, Solow contrarily attempted to focus on the rate of return on investment. However, though ways out of this problem were actively sought after, the theory of distribution based on the concepts of relative rarity and marginal utility turned out to be untenable.

It is very important that the discussion of capital evolution brought forward a concept which deserved close attention and gained a wide consideration thereafter. This refers to the statement offered by D. Robinson. According to her opinion, the meaning of capital lay in the property owned by the capitalist class, which confers on capitalists the legal right and economic authority to take a share of the surplus created by the production process.

It should be emphasized that this statement expresses the quintessence of economic problems. This is true because the right of ownership acts

as a «stumbling stone» for further extending the scope of the law of marginal utility, while the following economic power disbalances the system of marginal utility at the micro-level (a specific production unit). Therefore, the thesis that partial appropriation of surplus is a legal right of capitalists is, in our opinion, quite shaky. It is the abuse of economic power which disrupts the balance, that is equivalent between labour costs and return. In the classical understanding, the law of ownership destabilized the marginal utility effect in terms of another production factor, which is labour, as well.

By the way, the view that property is based on labour, rather than on capital, has deep-seated traditions in political economy. For example, Adam Smith underlined that «the property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable».

There can be neither doubts, nor serious objections, that the labour is the foundation of any property. Theoretically, the true property is actually adequate to the output of labour, which means that only the value adequate to the efforts taken by a certain person can belong to the right of property. Today, however, the production activity rarely has an individual labour form; cooperative, common labour is widely employed with the individual costs being mixed up and adequate income incapable of being specified.

On the other hand, as long as the labour itself is a mental and physiological function (ability) of an individual which is inseparable from human nature (per se its integral part), then the attitude towards the labour (as opposed to its outcome — a commodity) cannot be regarded as the attitude towards the property. It is another matter that something external — commodities — is sure to be an ownership object, but not the labour function itself. Apparently, the market has no power to adequately evaluate the labour according to the principle of marginal utility.

Using the models of supply and demand on the labour, the Keynesians made similar conclusion in their typical interpretation. From their point of view, labour market differs from the other commodity market due to a specific commodity — labour force — being sold there. It makes the labour market a sphere where an overlap of interests occurs protected by various social institutions (state, trade union, employers' associations) which directly or indirectly interfere in the action of market mechanisms deflecting the labour market away towards imperfect competition. The Keynesians believed that the labour supply was never affected by the labour price fluctuations, but varied only following increase in wage rate. The wages are the only source of subsistence for employees. The level of «effective demand» on goods, rather than the labour price, determines the labour demand. «Effective demand» is given by the «point of intersection between the aggregate demand function and the aggregate supply function; for it is at this point that the entrepreneurs' expectation of profits will be maximised». The achievement of maximum profits does not mean the establishment of maximum employment level. Under the action of various factors in economy, the «effective» demand on goods may reach the level which will be much lower than the level of aggregate demand in the context of full employment. If the entrepreneurs have set the employment requirement according to the level of «effective» demand established on commodity and service market, and the nominal wage rate in terms of profit maximization, the level of labour demand will decrease with the increase in wages conditioned by escalation of employment costs. The reduction of wages is incapable of raising the entrepreneurs' demand on labour force, even by cutting down on its costs. This results from inability to extend the production in the context of permanent, «effective» demand on goods; so the wage rate changes will make the labour demand completely inelastic thereto. The price of labour can only change upwards. If the

nominal wage rate is maintained, labour supply will exceed labour demand. This labour market situation is known as a quasi-equilibrium state and ensures stability over a long period of time. Unless labour supply matches labour demand, instead of changing the wage rates, entrepreneurs and employees will attempt to quantitatively adapt to new conditions. Households will cut down their consumption, hereupon entrepreneurs will reduce the production volumes and employment level according to the changes in «effective» demand on commodity market, thus expanding the gap between supply and demand.

This rezoning disproved the neo-classical concept which claimed the labour market to be similar to any other commodity market, and the labour to be a typical production factor characterized by uniformity and divisibility. Therefore, the labour market functions in the context of perfect competition; maximizing the profits, the entrepreneurs continue to hire employees until the volume of additional revenue per employment matches the incremental costs spent for one employment by a firm. Actually, the equality of final output of labour and actual wages cannot be set automatically. It appears that not only the price of capital services (interest rate) cannot be determined through the relative rarity and marginal productivity of aggregate capital, but also the price of labour services (wage rate) cannot be driven by the relative rarity and marginal productivity of labour. It follows that Robinson's statement that equilibrium analysis is inappropriate for explanation of the processes of growth and accumulation of capital is good for labour as well.

At the same time we believe that lack of satisfactory results with regard to stability cannot contravene the concept of equilibrium being the final component of economic process. As the analysis has only proved our suggestion that the theory of marginal utility has its boundaries, which means that it functions only in terms of exchange, in the process of producer-consumer

interaction, then it can be reasonably felt that the labour (cost) theory is limited in its application as well. Wrongly claiming its self-sufficiency, each theory has a specific drawback which prevents it from extending its action over the complete process of reproduction. This justifies the statement that each of them has its specific area of operation. In this context, it is clear why some economists (A. Marshall, J. Bernstein, M. I. Tugan-Baranovsky and others) suggested not to oppose these two theories to each other.

Then the law of value contains two equilibriums. One of them shall be set inside a firm as adequacy of labour costs and returns; the other one shall emerge on the market between producer and consumer as a result of exchange. These equilibriums are indeed interrelated as the disbalance of one equilibrium will negatively affect the other one. And since the economies with the shifted center of balance (planned or market) can exist for quite a long period of time, this interrelation turns out to be quite flexible.

Consequently, both in the sphere of exchange and that of distribution, the equilibriums guarantee the overall balance of an economic system. To make clear the situation on the whole, we shall recur to considering the law of value in terms of the cost (labour) theory. Logically, the area of its operation pertains to micro-level (inside a firm, a single company); it means that internal distribution of aggregate revenues of a firm has an equilibrium point which causes overall disbalance in case of deviation therefrom. It is clear that there would be no problem of distribution of revenues if the only economic body were an individual producer. On the contrary, this is a very rare case in reality; companies usually unite several labourers among which the joint-stock form of business is mostly wide-spread in modern economy. For example, A. A. Porokhovskiy noted that although the small-business, individual enterprises held up to 70 per cent of all business units existing in advanced countries, it was nevertheless the joint-stock

companies that were at the top and accounted for the lion's share of GDP and national revenues.

The aggregate revenue of these companies is usually distributed among three categories which are owners, production organizers and employees. Shareholders are a separate group consisting of owners and managers of a company, sometimes its employees. The right of ownership allows them to establish the rules of distribution of company's revenues and freely withdraw the surplus share of revenue. Only two factors are known to restrain the abuse of economic power. First, the social partnership plays an important role in redistribution of revenue as the rule of owners may be balanced only by an organized labour force (trade union). However, a compromise agreed upon during the collective negotiations appears sometimes incapable of bringing the distribution system to a balance. Second, today the states use two pressures for the purpose of redistribution. The first one provide for implementation of the state policy of revenue and expenditure (fiscal measures). The second one includes provision of a legal ground for adversary proceedings between the representatives of employees and their employers, and ensures the minimum rate of labour payment.

Finally, as life shows and periodic economic crises confirm, these methods are insufficient. A strike is not always an effective means of revenue redistribution, since the search after the balance of interest can hardly be ensured in social partnership by a set of regulatory measures, and indeed as an extreme remedy taken by employees against the owners, it will have an adverse effect on its initiators. It is, however, obvious that the main target is to achieve an optimum distribution of the added (surplus) value among the participants of production. This diagram was typically narrowed to two production factors (labour and capital) and a deliberation which of them is an original source of profit. In this context, several approaches may be outlined. The first approach explicitly links

the process of profit generation only with the capital. For example, J. B. Say felt that the profits result from the productivity of capital. I. Fisher, J. Clark, and L. Walras identified the capital as a discounted flow of income. The second approach is polar opposite to the first one. In line with his doctrine of class conflict and theory of surplus value, K. Marx, for example, mentioned that the labour force generated a new value in the process of consuming, with this value being even higher than the labour force had actually cost. Therefore, he drew a conclusion which was quite logical within his «geometric configuration» that the profits result from expropriated labour time, or «unearned income». The third approach includes various views located between the above mentioned extreme positions. The right of profit (income share contained in a new surplus value) is given to both classes (workers and capitalists), but this right is based on the labour costs. Considering the capital to be a resource of long-term use, created with the aim of production of larger quantity of goods and services, D. Hyman extended this concept over to both factors. Physical capital includes the material supplies of production (machines, equipment, consumables, facilities, structures). The human capital consists of human skills. The next step was made by K. Wicksell who noted that in the real sense, it is not soulless capital but living human beings, and self-perpetuating forces, especially the sun and the earth's physical and chemical forces, that are productive.

J. S. Mill extended this view to a capitalist (owner) specifying that profit is, on the one hand, his labour income, and, on the other hand, charge for the risk of losses in case of unsuccessful decision. However, it would be unjust to consider the overall profits (surplus value, surplus) in terms of labour cost theory to be a merited reward of entrepreneur alone for his managing skills and the risk taken, or a result of productive force of capital (physical capital). Indeed, A. Smith and D. Ricardo assumed that profit is a result of labour,

which means the labour costs of all participants of production,— we shall emphasize — all of them.

Therefore, the labour (cost) theory of value underlines quite reasonably that it is the labour efforts taken that give the right for a share of the profits to all participants of production activity. Of course, it would be an ideal option if the profits of added value were distributed by a company automatically according to labour costs, but economic power based on the right of property actually redistributes the profits and disrupts the balance of income inside a firm. It therefore appears that the critical point in achieving the optimum proportions is distribution of ownership rights within a company, and only their adequate adjustment ensures both part and whole economic equilibrium. Hence, supposedly, the right of property shall be splitted in such a way to secure a certain extent of this right to every participant of production which would be sufficient to entitle them for a share of company's income adequate to the their efforts.

Splitting up the ownership, that is forming a bundle of rights (Anglo-Saxon tradition), is undoubtedly a complex issue and requires a separate, detailed investigation in terms of economics and law. But we may assume that according to the cost theory of value, all participants of production process have a right to participate in distribution of the company's income; two approaches have already been identified. The first one is related to development of the right of all employees to have a share in the company's property; such practice is carried out and highly promoted by some governments (programs of share (stock) transfer). The second one deals with establishing the business entities in a production cooperative form where every member has a vote and the income is distributed according to the labour outcome.

There is also a possibility of the third approach by establishing an alternative centre for property-related rights consolidation which is delegated

with the individual rights for a share of ownership resulting from the right for labour outcome. Each employee has only one vote casted for distribution of the company's income (a sort of employee committee in German enterprises).

Therefore, in our opinion, the best approach shall unite the two equilibriums — inside a company and on the market. Both equilibriums represent the law of value which determines the overall economic balance.

The economic theory mentions several approaches aimed at solving the issue of overall balance. The first approach is, certainly, a market-related one assuming that the income shall be distributed according to the final products derived from the production factors. The second one is up-market, or equating, when all members of a society receive equal goods. The third one is targeted at increasing the standard of life of the least economically secured members of a society (J. Rowls), or at maximizing the number of economically secured members of a society by means of proportionate distribution of goods according to various functions of their utility (J. Bentham).

The main drawback of the first approach is known — it is unable to balance the income inside a company. When the socialist countries attempted to put the second approach into practice, it turned out to bring the economy to stagnation. The third approach is applied by developed countries to fight the poverty; they maintain effective demand which drives the economic growth and mitigates the adverse effects of pure market economy.

Our option can be provisionally called cost-market approach. In line with it, the equivalence of efforts and award shall be achieved at the corporate level through the splitted right of property which ensures effective demand adequate to the produced commodity, while the market exchange of values is performed outside the company according to the principle of marginal utility. This gives us two equilibriums, somehow similar to the

concept expressed by V. Pareto who noted that there may be an equilibrium when not only supply equals demand, but also a balanced welfare of all participants of economic relations exists. Pareto optimal is an ideal which presupposes both a balanced exchange and a growing welfare of all its participants.

When analyzing the cooperation of cost and consumption theories of value, the problem of understanding the mixed economy appears per se; and our conclusions may be reviewed from a critical point of view. The term «mixed economy» itself has no definite interpretation. Its most-known interpretations place an emphasis either on combination of various economic sectors (private and public), or on combination of market, market mechanism and state regulation (Keynesian economics). In addition, there is a third option suggested by reforming socialist groups which was based on uniting the interests of private enterprises and social protection. The brightest predecessors of modern mixed economy were the Lenin's system of «new economic policy» and the U.S. liberal concept of convergence of two economic systems. The Lenin's model presupposed the coexistence of two alternative political and economic sectors («structures», in line with the Lenin's terminology) — capitalist and socialist ones. It seems like these considerations have a fair amount of sense, but nevertheless, it is felt that something important is left beyond the field of view provided that the mixed economy is understood as a combination of private and state structures, or elements of command (planned) economy and free market. Let us try to address this issue. In terms of command (planned) economy, the state is all-pervasive; it carries out directive regulation of proportions of the complete economic system, including its minor aspects. The practice of socialist countries demonstrated that this approach causes the side effects which influence the whole economy and transform it into a very inefficient mechanism. The worst drawback of

such economy is that it is not focused on meeting the individual requirements. Strict regulations suppress the freedom of economic activity which is a drive of social development, while the limited freedom of creativity has a destructive effect in the context of scientific and technological revolution. The method of through-planning had narrowed the exchange scope of the law of value to such a degree that it impaired the complete economic system. It is impossible to determine the value of a commodity using rational reasoning (plan), since the most precise value of a commodity adequate to the costs is made up in the process of exchange on the market as the critical role is played here by the principle of ultimate utility.

It is however misleading to understand the function of planning as only typical for socialism and negative in relation to the market, its antipode. Planning is successfully used within the specific firms in the form of a marketing management system (micro-level), and in terms of government regulation of economy (macro-level), not referring to the market itself. Forecasting the market and planning accordingly make it possible to reduce the output of aging commodities and shift to new-quality models and types of products. The state industry-specific and national programs (plans) also significantly influence the volume and structure of commodities and services provided, ensuring their improved compliance with the changing social needs, and redistribute resources for the development of latest industries. In this regard, the methods employed by planned economy act as a tool for fast adjustment to the market requirements, rather than a market substitute; accordingly, their application shall fit into the market environment.

On the other hand, the followers of classical, pure market economy claim the power of «invisible hand» to adjust and balance everything without any state involvement. But there are two problems that the market is unable to handle without external help. First, it has no power to fight against monopolies —

the state has to be involved. Second, the market is limited to the scope of exchange, meaning outside the companies, within the production process. The law of marginal utility works well during the market exchange but appears powerless when adjusting proportions inside a company, which means that it lacks sensitivity to the categories, such as labour and capital. The crucial importance here is attributed to the ownership of capital (production means). The labour price issue (wage rate, income) is resolved extremely subjectively by virtue of economic power of employer based on the property effect. It is this plane where the negative transformations occur, with the following overproduction, and crises.

The economic crisis is considered to be an immanent property of market, or a negative effect of exclusively free, non-regulated market economy. The market itself seems to have nothing to do with it,— the problem is located in the right of ownership, rather than in the plane of exchange relations. To avoid the corrupt understanding of proprietary-related category, it should be specified that it does not refer to the property itself, but to the distribution of ownership rights (bundle of rights). The divergent manifestation of a crisis includes overproduction, on the one part, and indigence of the main body of population, on the other. The major confusion and paradox is that the disbalance of income distribution interferes with the convergence of the uncovered supply of commodities, services and an obvious need in them due to the lack of funds. In addition, the unclaimed commodities have already been produced, so they include the labour costs of those who are unable to purchase the commodities which are needed but unaffordable. So the root of the crisis problem lays in a disproportion of income distribution, mainly caused by inadequate labour reward which impairs the production-consumption balance.

It appears that both market and command economies in their pure states are the two extremes. Probably, the pursuit of the mean currently drives the

most developed countries to establish the economies, typically known as the mixed ones. The model of «mixed economy», on the face of it, disturbs the «market purity». However, the pure market economy, meaning an economy which is free from any state influence, cannot exist as it is, since the political power enters the social sphere at least to maintain the common causes by means of the fiscal tool of redistribution. And indeed, the market relations per se cannot occur without the state legal support. Taking all the aforesaid into consideration, a question arises whether the concept of mixed economy is correct as there is nothing to be mixed here. On the other hand, according to our conclusions deduced from the review of the law of value, economy shall be balanced in two spheres described above, with its nature expressed more exactly by a concept of «balanced economy». Moreover, the overall balance of two equilibriums ensures the steady development of the whole economic system, and its crisis-free progressive growth. In other words, both tendencies are closely interrelated. While all proportions are balanced, the economy is growing as a whole, i.e. the overall welfare.

Finally, in addition to the foregoing conclusions, we shall refer to the application of economy. As it was mentioned above, it is sure to have a positive meaning. However, being enthusiastic to the relevant models, yet a researcher shall stick with the major aim which is to shed the light on the laws that make

a «circle» where the phenomena occur. Although these laws have various interpretations. According to A. Marshall, « a Social Law is a statement of social tendencies; that is, a statement that a certain course of action may be expected under certain conditions from the members of a social group». This interpretation adequately puts an emphasis on the existence of tendencies, but, in our opinion, the idea of law being the expected course of action of a social group seems to obscure its meaning, since we consider the law to be an objectively existing power, tendency which steadily maintains a certain cause-and-effect relation. It is vital to scientifically cognize and identify the objective laws, regularities because this provides for a positive, irreversible evolution of economic systems, rather than an immediate, deceptive achievement, as the latter inevitably leads to higher losses, greatly exceeding the gains. We believe that it is the compliance of economic activity with the laws of objective reality that determines the steady, ascending development of an economy, a socium. If not, the delusive economic upturn will shift to a deep downturn in some while. As it was mentioned above, a human is naturally subject to the extremes, passions (negative effect of free will), that have a destructive manifestation and lead to local and global crises, or system disbalance. In this context, the laws provide an invaluable service to humanity, with their original purpose to exist for its benefit.

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