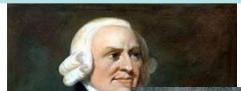


4.4.2 General Equilibrium Theory (orthodox theory)

Adam Smith

Essence of market economy: FREEDOM

Final driving force of economic decisions is exclusively OIKONOMIA
C-(...)-C'



Léon Walras



all economic relationships
are EXCHANGES of

COMMODITIES Give in order
to obtain

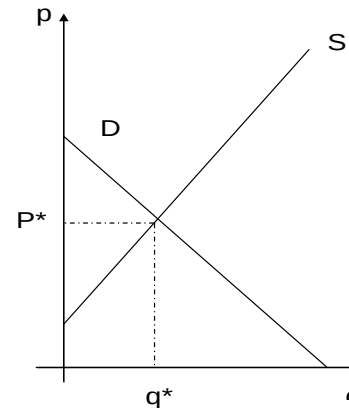


Economy can be
described in terms of
give (supply)-obtain
(demand) (i.e. markets)

EQUILIBRIUM **MAY** EXIST in all market

but only if all product markets are in equilibrium, so is the labour market ... (WALRAS law)!

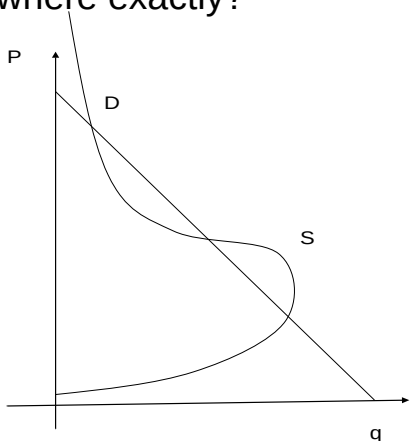
Manifestation of exchange



„..., the contention that free markets lead to the optimum allocation of resources loses its justification. The supposedly scientific theory [‘s] ... resemblance to Marxism, which also claimed scientific status for its tenets, is too close for comfort.”
(George Soros 1997, *The capitalist threat*)



PROBLEM: do we get
where exactly?



PROBLEM: do we get there?

- Excess demand
matrix

commodities

Agents
szereplők

A
B
C

total

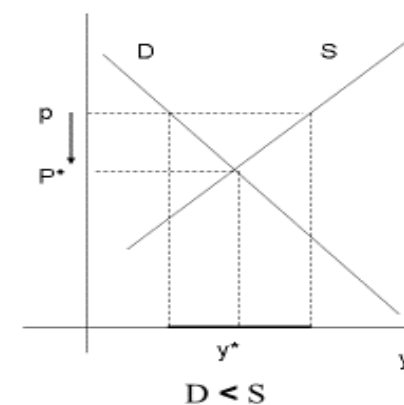
összesen

	a	b	c
A	+1	-1	0
B	0	+1	-1
C	-1	0	+1
total	0	0	0

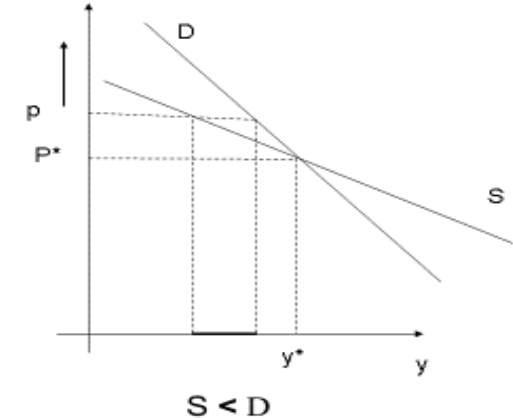
Law of demand and supply

Stable equilibrium

Marschallian cross



Unstable equilibrium



4.4.3 OIKONOMIC behavior's systemic consequence

$$\frac{C-(M)-C'}{\text{value}}$$

S = D
equilibrium

What theories add to that:

What does money analysis add to real analysis?

State's (economic policy's) role)

CLASSIFICATION OF ECONOMIC THEORIES		FUNDAMENTAL LOGIC OF ECONOMIC ACTIVITY	
		OIKONOMIA	KHREMATISTIKÉ
NATURE OF INDIVIDUAL AND SOCIAL WEALTH	IDENTICAL	Ortodox theories	Marx
	DIFFERENT	Keynes	Rosier



We MAY get to an equilibrium state

- GE: all product markets are in equilibrium, so is the labor market
- KEYNES: all product markets are in equilibrium, but not necessarily the labor market (durable voluntary unemployment)

Product market equilibrium may exist = product market equilibrium system



Assure the conditions for well functioning markets, no need to intervene

- GE: (because by faith the economy is in or tends to equilibrium)
- KEYNES: if there is unemployment, increse demand (income, GDP) to obtain full employment
- **Silvio Gesell (liberal!)**: very different conclusion



Free land and free money reforms are needed!



How does Silvio Gesell conclude that land and monetary reform is needed when he is a liberal and departs from the general equilibrium theory?

1916, Die Natürliche Wirtschaftsordnung (The Natural Economic Order)

Logic of the GE: **FREEDOM** → **well-functioning markets** are efficient (1. Theorem of Welfare Economics) and **does not redistribute wealth** (there is exchange),

If well-functioning market does not hold (=market failure), that is not any more true



Optimization problem : prices are parameters (constants) and are the only variables that affect choices.

- Non price taker economic agents – market force (**monopoly**, oligopoly, etc.)
- Not only prices influence the decisions (externalities; public goods)
- Information asymmetry

The liberal socio-economic system is NOT FREE



There is redistribution of wealth
There is no need to quantify contributions and appropriations



No well-functioning market



If there are monopolies caused by social rules

There are two basic monopolies in the real market economy:

PRIVATE PROPERTY OF LAND – rent
ASYMMETRY OF MONEY AND COMMODITIES – interest

abolish

Free land

Free money

FREE SOCIETY AND ECONOMY

This is the desirable and
NATURAL ECONOMIC ORDER
(because see animals)

Marx won,
Gesell's theory
was „covered”

This is not a
coincidence

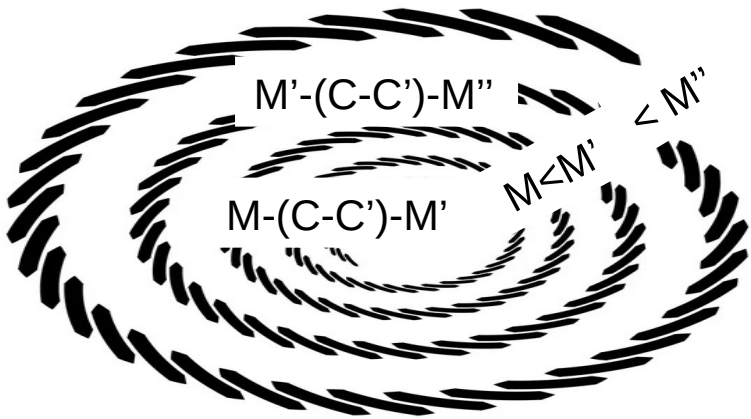


László Bogár



Jacob Schiff

4.4.4. CHREMATISTIC behavior's systemic consequence: without economic theory



Growth imperative in monetary terms

Wealth concentration (at least lending)

3.2.2 Some historical facts (Medici, Fugger, Rotschild)

3.3.2 Evolution of monetary systems: economic analysis/ 2

For long (Aristotle, **BIBLE**) well-known

1 Timothy 6:10: **For the love of money is a root of all kinds of evil**

Merchant
society

VERSUS

5 Mose 15: **“At the end of every seven years you shall grant a release.** ² And this is the manner of the release: every creditor shall release what he has lent to his neighbor; he shall not exact it of his neighbor, his brother, because the LORD’s release has been proclaimed. ³ **Of a foreigner you may exact it;** but whatever of yours is with your brother your hand shall release. ⁴ But there will be no poor among you (for the LORD will bless you in the land which the LORD your God gives you for an inheritance to possess), ⁵ if only you will obey the voice of the LORD your God, being careful to do all this commandment which I command you this day. ⁶ For the LORD your God will bless you, as he promised you, and **you shall lend to many nations, but you shall not borrow; and you shall rule over many nations, but they shall not rule over you.**

KHREMATISZTIKÉ



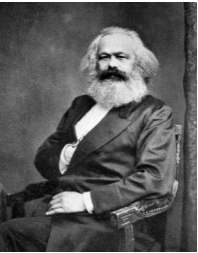
VERSUS

Sacral society

Metthew 21:¹² And Jesus entered the temple of God^[a] and drove out all who sold and bought in the temple, and he overturned the tables of the money-changers and the seats of those who sold pigeons. ¹³ He said to them, “It is written, ‘My house shall be called a house of prayer’; but you make it a den of robbers.”

OIKONOMIA

4.4.5 Karl Marx



A priori starting point: there is exploitation in the liberal socio-economic system, just as there was in feudalism.

because value is created by labour and the capitalist does not work (at least not as much as he gets)



This proposition should be supported by economic theory. (Das Capital, A tőke (1867):

Systemic characteristics of capitalism (market economy):

1/ Redistribution of wealth: HOW exploitation is possible if the orthodox theory's proposition that always equal values are exchanged is true?

- 1. Must measure how much one contributes to and appropriates from social wealth
The value of commodities = labour socially needed (to produce it).

↔ Gesell!

2. LABOUR FORCE is like grain

3. The worker is forced to sell his labour because he cannot wait, and he cannot sell his labour directly (in the form of the product of his labour) because he has no means of production.

2/ growth and decreasing tendency of the profit rate

Capitalist mode of production

Capital is value over which the capitalist wants to realize value added again and again using wage labor

khrematistiké
Wage labour

→ Amount of capital is steadily increasing

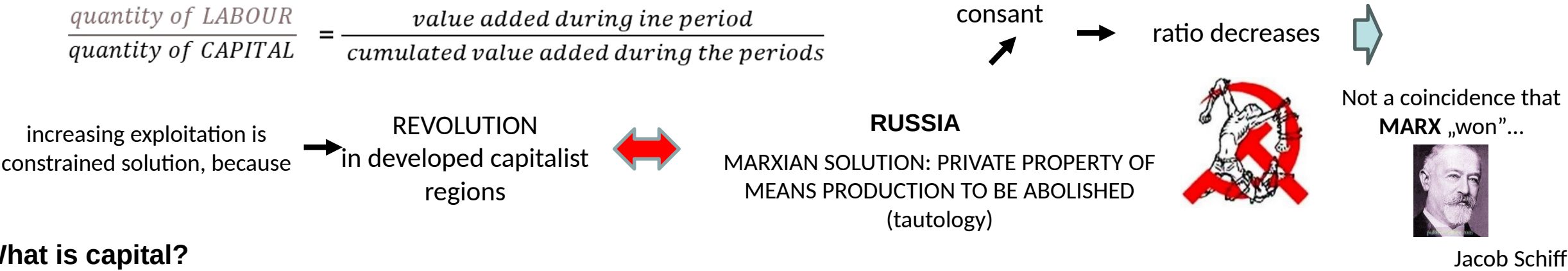
→ $\frac{\text{quantity of LABOUR}}{\text{quantity of CAPITAL}}$ ratio has decreasing tendency

In Lenin's terms: imperialism
In modern terms: growth imperative
→ globalization and "democracy" export

decreasing tendency of the profit rate

4.4.5 Karl Marx

decreasing tendency of the profit rate



What is capital?

CAPITAL: means of production (produced commodity that can be used several times in production) - **orthodox theory**

Then capital is not a distinctive characteristic of capitalism!

CAPITAL: „M-M', money which begets money, such is the description of Capital from the mouths of its first interpreters, the **Mercantilists**.” (Marx 1867, Capital, 4.Ch.)

CAPITAL: value over which the capitalist wants to realize value added again and again; *manifestation: money, commodity (including means of production)*, „M-C-M' is therefore in reality the general formula of capital as it appears prima facie within the sphere of circulation.”, (Marx 1867, Capital, 4.Ch.)

CAPITAL: liabilities (wealth) used with chrematistic aim

In accounting the firm’s own wealth is called own **capital**.