

**PO230 States and Markets: An Introduction to International Political Economy
Seminar Week 10. The Marginalist revolution**

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Paradox of value

The paradox of value is the contradiction that, although water is on the whole more useful, in terms of survival, than diamonds, diamonds command a higher price in the market. Why?

Q. What is the politics behind abstraction and deductive reasoning?

“It is important to recall, however, that for Ricardo **abstraction was an analytical device, not a political move.**” (Clift, 70)

Vs

“That is why Engels noted that ‘political economy is therefore essentially only ever a historical science’ (quoted in Hodgson 2001: 48). According to Marx, one methodological problem with liberal political economy was its attempt to ground theory in timeless, universal postulates about human nature. This might be a bit unfair to Smith, who viewed habits such as ‘trucking’ and ‘bartering’ as being inculcated within commercial society, rather than derived from the essence of human nature. Other liberals, however, were not so careful, and **Marx was understandably suspicious of their universal, timeless assumptions** about human nature, or indeed anything else.” (Clift, 71)

Vs

What did Matthew Watson say in the lecture about the context in which Marginalism originated?

What is the contribution of marginal economics? List the contributions of various economists.

Tragedy of the commons?
Rational choice theory?

<https://i-peel.org/homepage/scarcity/>

And in order to see this clearly, we need to view ‘The Tragedy of the Commons’ in the context of Hardin’s later 1974 piece, published in *Psychology Today*, entitled: ‘[Lifeboat Ethics: The Case Against Helping the Poor](#)’. Here, Hardin railed against what he claimed was a misguided environmentalist metaphor of the earth as a spaceship, where all of the planet’s peoples have an equal right to its limited resources. Hardin argued instead that the rich countries of the earth should be thought of like lifeboats, surrounded by the desperately swimming poor of the world. Helping these poor to clamber aboard would swamp the boats and result in everyone drowning. Or as Hardin put it: “complete justice, complete catastrophe”.

Notes/ important excerpts: What is marginalism?

“The new marginalist conception of value ‘directed attention away from analysing the social basis of capitalism towards analysing how choices are made between alternative ends under conditions of scarcity’ (Gamble 1995: 518). The analytical turns taken by the marginalists were to render economics a ‘science’ of the study of relationships between given ends and given scarce means (Blaug 1996: 278).

For Jevons, and legions of economists who followed in his wake, the ‘problem of economics’, its central question, is ‘given a certain population, with various needs and powers of production, in possession of certain lands and other sources of material’, what is ‘the mode of employing their labour which will maximise the utility of the produce’ (quoted in Blaug 1996: 279). This was not just a problem, it was the economic problem to the exclusion of all others, certainly to the exclusion of comparative institutional analysis of social relations of production or capitalist restructuring. This was marginalism’s most revolutionary element. It is this specialization and narrowing of focus in academic inquiry about the economy which herald the shift from political economy as an ethical endeavour, to economics as a supposedly, but spuriously, ‘value-free’ science.” (Clift, 74)



Box 4.2 The foundational assumptions of marginalist political economy

- The focus of political economy should be the study of relationships between *given* ends and *given* scarce means, and how choices are made under conditions of scarcity.
- The maximization of utility is *the* economic problem to be addressed – *to the exclusion of all others*.
- Value is wholly *subjectively* determined.
- *Ceteris paribus*, or all other things being equal, all historical, institutional, political and social factors will, for the purposes of parsimonious analysis, be held constant.
- Individuals are rational, calculating utility maximizers in possession of perfect information.
- Markets are perfectly competitive and they ‘clear’, allocating resources efficiently and balancing supply and demand.

Sources: Gamble (1995), Blaug (1996) and Hodgson (2001).

Classical Vs Marginalist Economics:

Characteristics	Marginalism	Classical Theory
1. Criterion variable(s)	Studies using static equilibrium analysis where historical (real) time is ignored, i.e. that future is summarized into the present through rational expectation	Studies using dynamic equilibrium analysis where paths of movement of criterion variables (and their interactions) are examined over time
2. Explanatory system of variables	Focuses on the sphere of exchange and assumes that behavior is regulated by 'workable' competition	Focus on productive and social relations and assumes that developed western economics are governed by monopoly and oligopoly
3. Causality assumptions Concerning the origin of value The direction of the causal flow	Subjective theory of value emanates from the utility of consumers, i.e. demand creates value. Production and consumption decisions are independent	"absolute" theory of value is created through effective demand which is a function of the distribution of income which (in turn) is determined by social and production relations
4. Qualification in models measures basic entity	a. measures are in terms of marginal quantities and relative prices b. Individuals	a. measures are in terms of total quantities b. social aggregates and class relations
Source: Tinker, Merino and Neimark (1982: 185)		

“There was a readily identifiable discontinuity in economic thought in the 1870s and 1880s which was the genesis of neoclassical theory; and both its timing and intellectual content can be explained by parallel developments in physics in the mid-nineteenth century” (Mirowski 1984, 363).

Next Week Presentation:

Are there examples from politics today that indicate the ongoing relevance of DS approaches despite integrated global markets & freer economic flows?