Peter Kenyon, Pricing, GPKE 34-45

34 In Kaleckian fashion, PK theorists divide markets into two broad categories:

(1) competitive "flexprice" markets in which prices are set by balancing supply and demand;

(2) "Fixprice" markets in which prices reflect both "normal production costs (see below) and the demand for retained profits to finance planned investment expenditures

Flexprice markets trade mainly in raw materials and primary foodstuffs; supply is more or less fixed during the market period; demand settles on a price that will clear the market.

35 Fixprice markets deal in commodities, produced by means of other commodities, and adjust to demand, not by modifying price, but by increasing or decreasing output, with prices more or less unaffected.

PK theorists argue that it is the second type of market which is the far more important part of the private-enterprise sector of modern capitalist economies. There firms are oligopolistic, in control of conditions of supply, and able to set prices so as to provide financing for planned investment.

36 Martin Shubik (1970) surveying orthodox microeconomics affirmed "there is no oligopoly theory..."

37 Paul McNulty (1968) ".. the emergence of the idea of competition as itself a market structure was a distinguishing contribution of NC economics."

36 There is no a priori reason why price and quantity variables should be selected as the strategic ones.

37 As reflected in investment and growth policies, competition involves the process by which resources are allocated -- and ultiately income distributed -- between social classes over time rather than just their allocation among individuals at a point in time. This emphasis reflects the preoccupation of the classical economists (particuaarly Ricardo and Marx) with the conept of capital and the process of capital accumulation.

On this view the key strategic variable becomes the level of capital expenditures derived from investment plans of firms, with competitive rivalry focused on relative growth rates and relative market shares. Rather than making short-run profit maximization an end in itself, firms see profits as a means to an end, that of enabling them to expand over time, preferably by increasing their market share. PK writers argue that the behavioral goal of firms is to maximize the growth in sales revenue over //38// time, subject to a minimum profit restraint.

38 An important corollary: this approach leads to a method of analysis called periodization, whereby, in the tradition of classical/economy, attention is directed to "causal" links. In other words, certain "effects" (such as the way in which prices and investments are determined) in one time period, can be explained by antecedent "causes" in another time period. This view can be contrasted with the methodological approach of NC economics, in which all factors are deemed to influence one another simultaneously.

political/

39 The mark-up is linked directly with the need to finance planned investment expenditure [38: .. between 75% and 90% of gross fixed capital expenditures in US manufacturing industry is financed from retained profits (Eichner 1976)].

40 The role of demand is not to prices to adjust in a thermostatic manner so as to clear markets and achieve Walrasian equilibrium. Rather the role is to shift resources among industries over the longer period... When expected profit rates are not uniform... capitalists can be expected to shift resources away from less profitable uses toward more profitable ones. The process of competition takes place through investment and accumulation.

These [normal costs] are defined as the costs that would apply at some standard or expected rate of capital utilization if the economy were on its secular (or long-run) growth path. ... Neither temporary changes in production costs nor temporary changes in product demand directly influence output price to any significant extent.

Policy implications

The importance of the level and distribution of income.

Hence considerable insight into coincidence of high unemployment and high rates of inflation.

Functional shares of wages and profits: distribution depends on proportion of investment to total spending.

.. prices and incomes policy a necessary adjunct to demand-management policy