Money capital in the theory of the firm

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A preliminary analysis

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Preface

The place of money capital in the theory of the firm is interdependent with the analysis of production, pricing, and capital investment. In this book I have examined those areas of economic theory that bear most directly on that analytical interdependence. In doing so, I have had principally in mind the needs of advanced students, including those who are making an initial approach to the subject at both undergraduate and graduate levels. I hope that my professional colleagues will be interested eavesdroppers, and that in those areas in which some novelty is proposed it might be thought that prospects exist for a meaningful reconstruction and new advances in the theory of the firm.

I have not set out, however, to construct a theory of the firm in its entirety. I have addressed the main issues of the relation between the firm's employment of real capital and money capital, and I have examined the linkage of those questions to the cost and availability of finance and relevant decision making in the firm. My perception of the needs of the student has determined the method and level of exposition. I have found, for example, that students have benefited from a reasonably painstaking exposition of the statistical foundations of probability theory and from a good degree of motivation for the mathematical development of such advanced topics as the utility function defined over stochastic arguments, the equilibrium theory of financial asset prices and yields, the cost of money capital, and investment decision criteria. A large number of more advanced treatments of these issues are referred to in the course of the argument and are noted in the list of references, but they are not all developed to the degree that might have been desirable if different objectives had been in view.

In the neoclassical tradition, the theory of the firm has not provided a rigorous working out of the analytical interrelations I have in view. As Boulding has lamented, the firm "as generally presented in the textbooks . . . is a strange bloodless creature." It is usually examined without any recognition of the place and significance of money capital. No serious attention has generally been given to sorting out the conceptual distinctions between, and the mutual dependence of, real capital and money capital. A lack of clarity exists as to the meaning and interpretation of capital as a factor of production whose cost may or may not be coordinate with that of factors of production in general. The need exists to reconsider the timeless, static, certainty or certaintyequivalent analysis of the firm to which our absorption with the general equilibrium apparatus has directed us.

The manner in which that need is addressed is indicated in more detail in the outline of the plan of the book in Chapter 1, which makes extensive prefatory observations unnecessary. After a preliminary sorting out of basic ideas and areas of analysis in the three chapters of Part I, I have arranged the main body of the work under the headings of "The neoclassical tradition" in Part II and "Postclassical perspectives" in Part III. The six chapters of Part II refurbish and expand the neoclassical theory of the firm in such a way as to approach, from that perspective, the possibility of an analytical integration of the kind I have referred to.

In Part III the argument is relieved of the weight of the conventional neoclassical assumptions. The chapters of that final part present an alternative view of the firm's pricing, production, investment, and financing interdependence in which, however, certain aspects of the preceding analysis are seen in a different guise and are accorded a different analytical significance. In the final chapter a new analysis is given of the firm's decision problems in the context of the uncertainties and ignorance in which economic action is bound. The neoclassical apparatus of the probability calculus and stochastic utility of Part II is replaced by potential surprise and a new Decision Index in Part III.

Parts of the book are unavoidably influenced by my previous writing on this subject, and that is referred to where appropriate. I am grateful to the University of Pennsylvania Press for permission to reproduce in amended form part of the argument contained in my *Financial Markets in the Capitalist Process*. My heavy indebtedness to the architects of the neoclassical theory will be clear from the chapters of Part II, and I have endeavored to make full acknowledgment to all those scholars whose work has formed my impressions and understanding in these areas. I am indebted also to those who have preceded me in the task of erecting a new and hopefully more satisfying and relevant body of theory, and I trust again that my acknowledgment of that debt will be clear in the argument of the book.

My thanks are due also to my colleagues, Professors Donald W. Katzner and Randall Bausor, with whom I have discussed many of the ideas contained in the book, and who gave me the benefit of their critical evaluation at earlier stages of the work. I absolve them, however, from responsibility for the blemishes that remain. I happily record my deepest thanks to Ann Hopkins, who undertook responsibility for the word processing and the production of the manuscript.