Measuring the Wealth of Nations.

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book provides a wonderfully informative guide.

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Measuring the wealth of nations. By ANWAR M. SHAIKH AND E. AHMET TONAK. Cambridge: Cambridge U. Press, 1994. $59.95. ISBN 0–521–4142–5. *JEL 95–0077*

The distinction emphasized by the classical economists between production and nonproduction activities has received increasing attention in recent years among heterodox economists (e.g., Wolff 1987; Moseley 1992). Shaikh and Tonak's long-awaited book is a very important addition to this literature.

Their main contribution is to develop an extremely detailed, consistent, and comprehensive alternative to the conventional input-output tables and income and product accounts, based on the classical distinction between production and nonproduction activities. Others have made attempts to derive alternative estimates of the main value and product measures based on this distinction (including Wolff and Moseley), but no one has succeeded to the same degree. Shaikh and Tonak's book is certain to become the standard reference for further empirical work in this tradition.

After an introductory chapter, which emphasizes the need for an alternative approach to the measurement of national income and product, Chapter 2 carefully lays out the theoretical distinction between production and nonproduction activities. *Production activities* are those which result in the creation of new use-values (not necessarily physical goods). *Nonproduction activities* are those which, however necessary to the functioning of the overall economic system, nonetheless do not result in the creation of additional use-values. The two main types of nonproduction activities are *distribution* activities which transfer ownership of preexisting use-values or titles or money (e.g., sales, rentals, advertising, accounting, finance, etc.) and *social maintenance and reproduction* activities which protect the private property of resources and maintain the social relations based on this private ownership (e.g., military, police, the judicial system, general government bureaucracy, private guards, etc.). The authors argue that the classical economists were interested in this distinction because of its influence on the growth of nations (a relative increase of nonproduction activities reduces the rate of growth). It is also shown that if these general definitions are applied to the capitalist economy, they correspond to Marx's concepts of productive and unproductive labor.

Chapter 3 then describes in considerable detail the estimation procedures used to convert the conventional estimates of the main aggregate measures of income and product into alternative estimates based on this distinction. The main innovation is to explain in step-by-step fashion the conversion of the conventional input-output tables into alternative classical Marxian input-output tables. The results at each stage are summarized in helpful, consistent charts and in algebraic formulations.

Chapter 4 presents a similar description of the derivation of estimates of the same aggregate measures in terms of Marxian labor-values, which is possible because of the use of the comprehensive, double entry input-output tables. The main advance over Wolff's previous estimates of these labor-value magnitudes is to take into account that the conventional input-output tables are constructed in terms of producer prices, not final sales prices. The labor-value estimates also make it possible to calculate the rate of exploitation for both production and nonproduction workers. Chapters 4 and 5 are supplemented with 130 pages of appendices, which document in exhaustive detail the sources and methods used to derive the estimates. The appendices provide many interesting insights for the specialist and also provide an excellent introduction for interested newcomers to this field of research.

Chapter 5 then presents the estimates derived on the basis of these definitions and estimation procedures for the United States economy from 1948 to 1989. The key result is that the ratio of nonproduction to production workers increased dramatically from 0.77 to 1.75, reflecting an enormous relative increase of nonproduction activities. It is argued that this relative increase of nonproduction labor is the main cause of both the decline in the profit share (also emphasized by Moseley) and the productivity slowdown (also emphasized by Wolff) in the postwar U.S. economy. If this analysis is correct, then recovery of either the profit share or productivity in the years ahead is not very likely. Other significant results include: Marx's theory of the falling rate of profit is fully supported by these estimates; the "social wage" of production of workers was negative for most of the postwar period (i.e., production workers paid more in taxes than they received in government services); and the deviation of the price measures of the key aggregate variables from their labor-value measures was less than ten percent throughout this period, so that the infamous "transformation problem" in Marxian theory had almost no effect on the trends in these variables. This result is useful for other researchers in the field, because it means that for most purposes analyses can be based on the price data provided in the NIPAs, which is available on an annual basis and is more accessible than the more comprehensive data in the input-output tables.

Chapter 6 presents a thorough comparison of Shaikh and Tonak's estimates with prior empirical studies in this classical and Marxian tradition, which again is useful for further research in this field.

This book is obviously a "must read" for all those interested in heterodox empirical work, especially related to the classical-Marxian distinction between production and nonproduction activities. It should also be of interest to those who are dissatisfied with the conventional descriptions and explanations of the dynamics of the postwar U.S. economy (especially the conventional explanations of the decline of the profit share and the productivity slowdown) and who are seeking alternative explanations. This book is an excellent place to begin, especially for the serious scholar.

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D Microeconomics

Paradigms and conventions: Uncertainty, decision making, and entrepreneurship. By YOUNG BACK CHOI. Economics, Cognition, and Society series. Ann Arbor: University of Michigan Press, 1993. Pp. ix, 184. $39.50. ISBN 0–472–10422–5. *JEL 94–0081*

Can envy, status, malice, or benevolence be considered economic forces in the same way as income and prices? Is envy related to entrepreneurship and property rights, to innovation and market functioning? Is competition for status wasteful?

The last three chapters of the book by Back Choi are devoted to answering questions of this kind and to overcoming the embarrassment often felt by economists in dealing with agents' emotions and habits, their vices and virtues. Though opening this black box may be tempting, the usual protective move is to say that we have no model or paradigm to handle such things. Choi's early chapters aim at removing that defense.

Choi starts by analyzing the inner structure and steps of individual decision making. Decision making, in his view, is linked inextricably to the presence of genuine uncertainty, of unique, complex, and unpredictable events. We decide to end a situation of doubt or indeterminacy between us and our environment. It follows that every decision, and every related action, must have two structural elements: first, an idea or an understanding of the situation (a paradigm), and second, given this understanding, a process of search and selection for a course of action which seems to, but might not be, the best. "Paradigm seeking" conveys a sense of the dynamic and never perfected process of reasoning and handling doubts. Choi then elaborates a set of propositions and corollaries which are meant to organize and expand the behavioral consequences of this approach. For example, from the fact that prior to choice and action an understanding appropriate to the situation has to be provided (prop. 1), he infers that indi-