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**IN 'THE HOUSE OF THE SPIRITS':
TOWARDS A POST-KEYNESIAN THEORY OF THE HOUSEHOLD?**

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ABSTRACT

This paper constructs a post-Keynesian explanation of the economic dynamics of households. Section 2 examines the role of the household in neo-classical and non-neo-classical economic analysis and argues the central importance of household dynamics in attempting to understand economic processes. Section 3 offers a brief introduction to post-Keynesian economic analysis. Section 4 outlines the methodological framework of post-Keynesianism and argues that such a mode of analysis opens up interesting possibilities in the understanding of household dynamics. Section 5 offers a tentative sketch of what a post-Keynesian model of the household might look like. The final section offers some conclusions.

In "The house of the spirits"¹:
towards a post-Keynesian theory of the household?

by

Lucia Hanmer

A. Haroon Akram-Lodhi

1. INTRODUCTION

A recent review of post-Keynesian economics cites Kalecki's view that "the institutional framework of a social system is a basic element of its economic dynamics" (Kalecki 1970: 311) and is therefore central to the understanding of how the actions of economic agents effect the dynamics of economic growth and accumulation. Thus, the effects on the macroeconomy of the actions of economic agents in such institutions as trade unions, firms and the state has been the focus of post-Keynesian analytical attention. Activities in these institutions such as bargaining over wage rates or class conflict between wage earners and rentiers can both cause inflation and impact upon the aggregate levels of savings and investment in the economy. However, the nature and result of these conflicts depends upon the specific nature of the institutions concerned and their place within the broader economy. Given this analytical perspective it is perhaps surprising that there has been little attention paid by post-Keynesians to the household as an economic institution. Once people move out of the public sphere and into the household their actions as economic agents are neglected by post-Keynesian economics. It is as if economic growth and macroinstitutional conflict has no effect on the economic processes that occur within households. Moreover, it is as if the institutional nature of the household itself has no influence on labour markets and the type of bargains struck over real wages and labour market access. Households house the "spirits" of post-Keynesian economic agents, spirits of the actors who have such a real presence in the macroeconomy.

In this paper we make a preliminary attempt to rectify the neglect of the household by post-Keynesian economics by constructing a post-Keynesian explanation of the economic dynamics of households. The following section of the paper examines the role of the household in neo-classical and non-neo-classical economic analysis and

¹ A remarkable magical-realist novel by Isabel Allende which explores the relationships between the members of a Chilean household over the course of this century.

argues the central importance of household dynamics in attempting to understand economic processes. In the third section of the paper we offer a brief introduction to post-Keynesian economic analysis. The fourth section of the paper then outlines the methodological framework of post-Keynesianism and argues that such a mode of analysis opens up interesting possibilities in the understanding of household dynamics. In the fifth section of the paper we offer a tentative sketch of what a post-Keynesian model of the household might look like. The sixth section of the paper offers some conclusions.

2. THE CONCEPT OF THE HOUSEHOLD IN ECONOMIC ANALYSIS

In any economy there are three domains within which the economic activities of production, reproduction and consumption occur: the market, the state, and the household (Wheelock 1995). Economics has expended a lot of effort examining the domain of the market and its principal actor, the firm; and a lesser but significant amount of effort examining the domain of the state. However, both neo-classical and non-neo-classical economics has had little to say about the domain of the household. Granted, in the past twenty years a branch of neo-classical microeconomic analysis has emerged which examines the household and its resource allocation decisions. Termed the new household economics (NHE), much of this work has derived from the work of Nobel prize-winner Gary Becker. Becker's key contribution was to conceive of the household as both a producing and a consuming entity operating in a market environment and following the conventional objective of optimization through the use of marginal principles (Becker 1965, 1976, 1981). By approaching the household in this way, Becker was able to unite the neo-classical theory of production with the neo-classical theory of consumer behaviour. Thus, marriages occur as a consequence of participation in an implicit marriage market wherein biological complementarities are maximized. Once a marital union is formed, households seek to maximize their joint utility as a unitary entity by deploying their productive resources in those activities which generate the highest relative return to each member. As a consequence, household labour is allocated between home and market on the basis of the comparative advantage of individual members through an assessment of their respective opportunity cost of time. As a result, in equilibrium the household is maximizing both its marginal productivity and its marginal utility. Therefore, Becker is able to propose that household behaviour is, in economic terms, rational.

However, models of the household operating within the NHE framework face major empirical and theoretical difficulties (Akram-Lodhi 1996a). The assumption of labour substitutability between household members is empirically problematic, as is the assumption that households pool their resources when seeking to maximize their utility. Such a problem is but compounded by a concept of the household which is predicated upon optimizing individuals with uniform and not gender-specific production functions. These problems are most starkly revealed in the major difficulties surrounding the construction of a joint utility function, difficulties which can only be overcome through the assumption that the household is governed by a benevolent dictator capable of imposing upon a household a utility function. Such an approach does not explain how or why the dictator has arisen. The NHE thus offers at best only limited analytical understanding of household dynamics.

Although grounded in a dramatically different approach, non-neo-classical economics by and large also fails to deal with the specificities of the household. By way of example, classical marxian economics explores the processes under which surplus is extracted from the direct producers by the owners of property at the point of economic production. Such relations of production define economic classes, which are aggregations of individuals engaged in conflict over appropriation of the surplus. The role of the household is largely explained in terms of its relationship to the process of surplus appropriation. Thus, in conjunction with other such agents grouped within economic classes, the household as a unit struggles to claim a larger share of the surplus that

it produces using the assets of those agents which own property. This is done so that the household can better fulfil the social and physical subsistence needs of its members. How the household decides on the specific composition of the bundle of goods and services that can meet its physical and social subsistence needs is not defined. Neither is the process by which subsistence reproduces the capacity to work specified. That a methodology predicated upon conflict should simply assume such processes rather than offering some theorization of household dynamics is a major, some would say decisive, difficulty (for an exception, see Fine 1995).

The failure to integrate the household into heart of economic analysis is not just a theoretical failing; it is also an empirical failing. Table 1 details the gender division of labour between market-mediated economic activities captured in the United Nations System of National Accounts and non-market-mediated economic activities which fail to be captured in conventional national accounts. Granted, not all non-market-mediated production occurs within the household. However, a large proportion is likely to do so. Table 1 is striking in that non-market-mediated activities comprise almost 50 per cent of all work. Moreover, the vast bulk of this work is performed by women. The failure of economic analysis to explore the domain of the household is thus a failure to understand the inner dynamics of real economies and to understand the place of women in economic activity.

The empirical importance of the household demonstrates that it may play a focal role in mediating the relationship between market-based economic processes, non-market based economic processes, and individual welfare. As a consequence, it would not be on the household that market processes impact; rather, it would be within the household that market processes impact. How such processes result in an allocation of a household's resources and products between its members, including a household's labour resources, in turn effects the welfare of individuals. In allocating resources and product, the household is not necessarily a consensual institution; it may also be a site of struggle. This dual character has led Sen to characterize the household as a site of "cooperative conflict" (Sen 1987).

Sen recognizes that the interplay of cooperation and conflict crucially depends upon the deployment of social power within the household. Cooperation within the household occurs because the possible increase in the total amount of goods and services available to household members as a consequence of their cooperation is in their individual interest. Thus, household cooperation in production benefits individuals. However,

there are many cooperative outcomes (beneficial to all the parties concerned, compared with non-cooperation) but the different parties have strictly conflicting interests in the choice among the set of efficient cooperative arrangements (Sen 1984: 375).

The resolution of conflict over which of the set of cooperative arrangements is to be pursued is the object of a bargaining process which may be explicit or implicit. Household members deploy the social, cultural and economic resources at their disposal in order to effect the outcome of the bargaining process (Seiz 1991). Thus, those engaged in bargaining need not be equal: there may be overt or covert differences in bargaining power which establish the bargaining process as an asymmetrical relationship.

Sen's model of cooperative conflict is probably currently the most widely adopted approach to the resource allocation decisions of the household. In part, this is because it can be made amenable to game theory, which is being increasingly used to examine intrahousehold processes (Cigno 1991). Thus, the tools of game theory can be deployed to explore a cooperative conflict bargaining process within which preference formation at the

level of household is itself endogenized and modelled. The resulting choice sets are decomposed in an attempt to understand the distribution, control and flow of resources within the household. Notwithstanding this substantive research agenda however the economics of the household remains at the margins of economic analysis.

Given that in its approach to the household neo-classical economics has been attempting to reconceptualize preferences by endogenizing them, it is somewhat surprising that a major branch of modern economic analysis, one which utilizes an alternative theory of preference formation, has not moved into the realm of the household. That branch is post-Keynesian economics. In the following section we introduce post-Keynesian economics.

3. WHAT IS POST-KEYNESIAN ECONOMICS?

Post-Keynesian economics is a "portmanteau term" which unifies a "heterogenous group of economists" who share a "dislike of mainstream neoclassical theory" and who try "to provide coherent alternative approaches to economic analysis" (Harcourt 1987: 924). These approaches are derived from the work of Keynes (1936), to be sure; but also from work such as Kalecki (1971), Robinson (1962), Kaldor (1955) and Pasinetti (1981). Thus, post-Keynesianism offers a diversity of views. It is noticeable that issues surrounding households and gender are absent in post-Keynesian analysis. Thus, in the work of Keynes, Kalecki and Robinson the role of women is consistently couched in terms of female labour force participation rates. The emphasis is therefore squarely on marketed economic activity. The role of household production is even more tangential, referring exclusively to the production and consumption decisions of peasant households that are only partially integrated into market processes. Scanning the pages of the pre-eminent publication of the approach, the Journal of Post-Keynesian Economics, one would think that households did not exist. In the more than fifteen years since the journal first appeared, only one article has been devoted to the issue of time allocation within the household, and that article followed the NHE approach rather than any explicitly post-Keynesian approach (Masoner 1979).

Post-Keynesians themselves would argue that the absence of any work on the household derives from the boundaries of Keynes's own economics. Keynes was concerned with macroeconomic dynamics, with monetary economics and finance, and with the history of English economics. However, while such a focus does delineate the work of Keynes it does not apply to all those who can broadly be labelled post-Keynesian. Many post-Keynesians have gone well beyond Keynes. The economic theorization of Kalecki and Robinson in particular have a rich, unorthodox microeconomic analysis of firms and markets, an analysis which focuses upon issues of pricing and distribution (see for example Kriesler 1987). If post-Keynesian analysis does offer a microeconomic theory of distribution, its failure to address the household becomes even more glaring precisely because it is within the household that the distribution of resources impacts upon resource flows and resource control.

In other branches of social theory it is possible to examine the logic of a conceptualization in order to extract methodological foundations which can be applied in interesting and original ways to established issues. The extensive adoption of post-modernism to the gamut of social theory is an example. In principal, it should be possible to do the same to post-Keynesianism: to examine the theory and extract its methodological foundations. We perform this task in the following section.

4. POST-KEYNESIANISM: THEORY AND METHOD

Post-Keynesian economic analysis is rooted in an exploration of dynamic interrelationship between two economic domains: the market and its primary actor, the firm; and the state. However, unlike neo-classical economics,

which explores static microeconomic resource allocation, post-Keynesian economics is concerned with the macroeconomic issues of growth, profitability and social welfare. Accumulation drives the post-Keynesian economy. In turn, accumulation is a function of distributional relationships between conflicting economic classes motivated, on the part of workers, to consume, and, on the part of capitalists, to earn profit.

i. The firm

If one were to present the key elements of a Kaleckian-inspired post-Keynesian theory, the starting point of the analysis would be to stress the relevance of social institutions in economic activity (Arestis 1992). The emphasis on the social institutions of the market and the state is shared with neo-classical economics; however, the role of economic class and distributional conflict implies that social institutions operate in a very different manner in post-Keynesian analysis. In post-Keynesian analysis, the setting from which microeconomic behaviour is derived is one in which the capitalist market economy is dominated by oligopolistic firms that control large shares of the markets in which they operate. Oligopolistic firms produce goods and services bought by households and the state sector. They buy labour services from households and goods produced by both other firms and the state sector. However, control over markets by oligopolistic firms confers economic power to capitalists in both the production and the distribution of the goods and services which they produce. Control over markets has two major implications for the way in which markets operate.

The first implication is that markets are highly imperfect. Control over markets permits capitalists to price private goods and services above marginal cost in order to gain monopoly profit. Thus, firms play a major role in the determination of the price level and in the short run evolution of relative prices. In post-Keynesian theory the price charged by firms for a good or a service is based upon a markup over marginal costs. The extent of the markup will itself reflect the degree of control of the individual capitalist firm in the product markets in which it operates: what Kalecki termed the degree of monopoly. Indeed, the more control exercised by the individual capitalist firm in the product market the higher the markup. This is because control in the product market will permit capacity underutilization to be deliberately maintained by the capitalist so that when the business cycle moves into a new period the capitalist can capture the benefit of static and dynamic economies of scale and economies of scope.

However, capitalist control is not limited to the product market. The degree of control exercised by the capitalist in the product market through capacity underutilization permits the maintenance of a reserve army of labour, which sustains real wage discipline. The presence of a reserve army of labour produces a segmented labour market which by limiting the number of skilled primary sector jobs and by rendering the less-skilled secondary sector more competitive generates antagonism within the labour market. This reinforces the control of the capitalist by limiting the institutional power of workers to bargain for higher real wages. Moreover, there is at best only very limited cyclical mobility between the segments because of the human capital investment requirements of the primary sector. Labour markets are therefore also imperfect.

The capacity of the capitalist to control the product market and utilize markup pricing has an impact upon the distribution of income within an economy. In the final analysis, income distribution results from the pricing decisions of capitalists. Thus, wage and profit shares are determined as a consequence of the market control of the capitalist. The oligopolistic structure of the product market thus determines wage shares and, in conjunction with productivity, the real wages which accrue to households. Moreover, the segmentation of the labour market means that in the secondary sector real wages may be flexible.

The second implication of capitalist control of markets is that market failures extend beyond markup pricing. Markets in a range of goods and services may be interlocking: demand in one market is conditional upon supply in another market, or vice versa. Moreover, markets may be incomplete in their capacity to provide a range of goods and services: public goods, for example. Indeed, markets may be missing and, because of the nature of the good or service required, may be incapable of being created under the conditions of a capitalist market economy.

Given their control in product markets, it might appear that a profit-oriented capitalist would simply continually markup in order to accumulate. In practice, it is not as simple as that. The capitalist faces two interrelated problems. On the one hand the capitalist faces the problem of what is called "realization". The capitalist must be able to sell what they produce in order to realise a profit. They therefore require effective demand for the goods and services that they produce. The effective demand for goods and services produced by capitalists comes from workers, whose motivation is that of consumption. In the post-Keynesian world workers do not by and large save; they spend what they earn, and thus act as a source of effective demand for the goods and services produced by capitalists. However, workers must have goods and services on which to spend what they earn. This is then the second problem which capitalists face. Capitalists must continue to provide the goods and services which workers can buy. This means that capitalists must invest, in order to continue to meet the effective demand of workers. Investment decisions made by firms link economic growth and income distribution in post-Keynesian analysis. The level of firm's investment is determined by two factors. The first is the firm's ability to increase the profit share by restricting the institutional power of workers to bargain for higher real wages and simultaneously enhancing the extent to which oligopoly power allows the markup and thus the profit share to be increased. The level of investment is secondly determined by the growth of the absolute value of profits. This is in turn a function of the growth of sales, increases in productivity and the presence of static and dynamic scale economies. Given the assumption of a high marginal propensity to consume from wage income and given the further assumption of a high marginal propensity to save from profit income (Kaldor 1955), on a steady state growth path the share of profits and wages are related to the ratio of investment to income in the national economy. As a consequence, the spending decisions of capitalists, particularly on investment, determine the level of economic activity and hence of capitalist profitability. In a sense, in post-Keynesian economics capitalists earn what they spend.

However, to invest capitalists must be reasonably certain that effective demand will be forthcoming for the goods and the services which they produce. This implies that capitalists must be reasonably confident that workers will express a preference for the goods and services that they produce. Therefore, investment by capitalists is primarily a function of their expectations. Indeed, if production and effective demand are central economic issues then in post-Keynesian economics expectations play a major role in the long run oscillations of production and effective demand.

Expectations have been an important area of debate in post-Keynesian economics. In Keynes' own work, Keynes assumes that while in the short run expectations are generally met in the long run expectations are capable of violent and unforeseen change: the "animal spirits" which cannot be deduced. Some have argued that as a consequence Keynes has no understanding of long run behaviour. Lawson (1985) disputes this. Following conventional thinking, Lawson argues that in Keynes there is an emphasis that existing circumstances form a disproportionate influence on long term expectations. This is because while individuals are uncertain of the future they are knowledgeable of the present. However, rather than using this to dismiss long run expectations Lawson uses it to explore the basis of short run expectations. According to Lawson's exposition

of Keynes, in the short run existing conventions shape much understanding. Keynes saw convention in part being formed by demonstration effects. As he put it, "knowing that our own individual judgement is worthless, we endeavour to fall back on the judgement of the rest of the world which is perhaps better informed. That is, we endeavour to conform with the behaviour of the average" (Keynes 1937: 214). However, knowledge of what exactly are the conventions of the present is obtained through the direct acquaintance of the individual in social practice--experience, perception and understanding. Indeed, as Lawson emphasizes, it would appear that for Keynes it is by taking part in social practices that individuals become knowledgeable about social practices (Lawson 1985: 916-917). Thus, individual rational behaviour is guided by the context and setting within which knowledge is obtained. Expectations thus reflect the knowledge that the capitalist has of the society within which they operate which in turn is a consequence of being a member of that society.

In post-Keynesian analysis then the expectations of capitalists will be a consequence of the degree of monopoly that they have in the product markets in which they operate: it is the context and setting within which their knowledge is obtained. Moreover, the outcome of the distributional struggle will effect the level of effective demand: it is the context and setting within which workers obtain their knowledge. As a consequence, specific factors which result in a reduction in effective demand through a cut in the real wages of workers will be self-reinforcing because of their impact upon the expectations of workers. The resulting alteration in the expectations of capitalists arising from a fall in effective demand will lead to a cut in investment which in turn reduces both the level and the profitability of economic activity. Unlike orthodox economics, in situations where labour is not a constraint upon production, an underemployment equilibrium is both possible and probable. This will in turn effect the expectations of workers and capitalists in a self-reinforcing manner.

ii. The state

It is at this point that the second domain of economic analysis addressed by the post-Keynesians can be introduced: the state. Economic activities that take place in the state sector, whether they be state owned industries or the state provision of services, results in flows of goods and services from the state to households and firms. The state also buys labour services from households and goods from firms as inputs into the production of goods and services produced by the state sector. In post-Keynesian analysis, the state is an arena of conflict and struggle between capitalists and workers. However, the state is not a class instrument. Rather, at an institutional level the role of the state is to prevent an underemployment equilibrium by stabilizing the economy through intervention designed to counter-cyclically boost effective demand in the short run and thus contribute to an alteration of expectations consistent with the promotion of accumulation. In the longer term the role of the state is to regulate the development of human and physical capital to promote growth in a manner consistent with and thus reinforcing of social convention.

These objectives are achieved through a variety of interventions, the precise nature of the which vary according to the political character and ideology of the state. However, post-Keynesians argue that because of their effect on the level of aggregate savings the share of profits and wages are related to the ratio of investment to income in the economy. This implies that to control the rate of investment state policy instruments have to control the profit share and thus income distribution (Pasinetti 1974). The state's role in stabilizing and sustaining the rate of investment thus links the firm and the state in post-Keynesian analysis. State policy may aim to tax firms in order redirect investment to the longer term need of the economy. It may seek to use taxation to promote higher levels of skill and human capital. It may seek to use taxation to promote investment in infrastructure, in research and development, and in the environmental sustainability of economic activities. Alternatively, taxation of firms may simply aim to increase consumption through a "vertical" redistribution of income in the

form of welfare services and state benefits (Akram-Lodhi 1996b). Indeed, it may be consistent with this framework to argue that the state seeks to enhance the capacity of markets to increase investment and hence economic growth, through providing an incentive regime and regulatory framework that allows firms to maximise their profit share.

Moreover, the provision of economic services and the establishment of legislative parameters regulate the economic operation of households and firms. Thus, social service provision and domestic violence legislation, for example, specifically effect household formation and structure and hence their economic capabilities and operation. Similarly, export credit lines and company law effect the economic capabilities of firms and thus their economic operation. Indeed, the provision of such state services and its regulation of the economic activities of firms and households can be consistent with socially articulated goals of increased equity. However, how particular policies promote the goals of equity and growth is the result of the outcomes of political conflicts within and outside the state.

In this framework, there is much that has implications for economic analysis of the household. The determination of real wages in oligopolistic product markets has implications for the level of incomes obtained by households, and in turn, for the allocation of household members to particular activities. That labour is obtained by oligopolistic firms through segmented labour markets has further implications for the levels of income received by households and for the types of labour market participation undertaken by members of households. Combined, both will effect the allocation of household resources and the capacity of households to make a contribution to effective demand. Effective demand will also be influenced by the way in which household consumption requirements, combined with expectations, shape preferences. Moreover, the types of choices made by households will be constrained by missing markets and by expectations. Finally, the state has a role to play in intervening in the household in order to shape the process of social reproduction. It should therefore be possible to take these post-Keynesian methodological points and apply them to the third, missing domain: the household. This task is carried out in the next section.

5. A POST-KEYNESIAN MODEL OF THE HOUSEHOLD

In this section we offer a means of conceptualising the institutional role of the household. We start with a theory of consumer choice already being developed in the post-Keynesian literature and then move on to examine intrahousehold dynamics, establishing where the key theoretical and methodological concepts of post-Keynesian economics could be relevant. We then turn to the constraints facing the post-Keynesian household in its resource allocation decisions.

i. A post-Keynesian theory of consumer choice

A hierarchy of needs is the basis of a post-Keynesian theory of consumer choice. In contrast to neo-classical analysis, where taste determines the preference ranking of different bundles of goods and services, in post-Keynesian theory bundles of goods and services are ranked according to their ability to satisfy a composite basket of needs. Preferences are thus lexicographic: bundles of goods and services can be ranked according to the set of needs that they satisfy. Moreover, the ability to demand a bundle of goods and services capable of fulfilling a particular set of needs depends on the resources at the command of the members of the household. Thus, the demand for goods and services depends critically on the income class of consumers and their subsequent position in the social structure (Lavoie 1992). With such assumptions, changes in relative prices become much less significant in the short and medium term than they are in neo-classical analysis in explaining changes in consumer behaviour. Income effects dominate substitution effects as they determine the consumption

bundles of goods and services that are both possible and which satisfy the different levels of needs which in aggregate constitute effective demand.

At the same time, tastes are not exogenous in post-Keynesian theory. Socially defined conventions about consumption play a key role in establishing consumer preferences. Individuals are seen as having limited capacity to acquire information. They thus rely on socially determined behaviour and conventions, which are constructed through the demonstration effects generated by social reference groups. Uncertainty about the future reinforces the social determination of consumer choice, making preferences expressed for marketed goods and services more a result of efforts to conform to the average than an expression of individual taste. Lexicographic preferences are therefore socially determined; the autonomy of the individual is, at best, highly constrained by social factors. We thus see that in post-Keynesian theory income available to the consumer, combined with socially defined conventions about consumption patterns, determine consumer choice.

As a consequence, in the first instance post-Keynesian analysis would predict little difference in consumption bundles between individuals at similar income levels. Within generic categories such as food, health, education, housing and clothing there may be some variation in consumption; for example, different types or brands may be purchased. However, individual budget shares of generic categories of goods and services would be expected to be broadly similar for individuals of the same income class.

Moving from individual choice to the choices expressed by the members of the household as a unit, it is first important to recognize that the socially defined convention which impacts upon the needs basket governing choice may preclude efforts to maximize welfare for the household as a collective unit. Needs baskets need not meet the individual social and physiological requirements of all household members. Rather, needs baskets may be defined in such a way as to cater more for the needs of some members of the household than others. Thus, the constitution of a basket that fulfils, for example, "basic needs", will differ across societies even if average per capita income is similar. In order to understand the economic dimensions of the decision making process governing choice within the household, Sen's concept of cooperative conflict is used. In Sen's approach, the object of the household bargaining process comprises such items as the division of tasks between household members, the amount of time allocated to work and to leisure, and the distribution of goods and services between the members of the household. The resources capable of being deployed in the bargaining process include items such as the non-wage income or wealth that an individual controls, the employment opportunities and remuneration levels an individual faces, extra-household environmental parameters including access to state-sponsored or kin-based support networks and legally-codified rights, as well as the dominant ideology. The threat point for individuals involved in the bargaining process can be defined by reference to structural factors: market wages, skill endowments, and by non-wage income or assets.

In understanding household choice it is important to integrate structural factors. Households are not homogenous units of analysis. Rather, empirical evidence on the composition of households in developed market economies shows that they are highly heterogeneous. In the United Kingdom 28 per cent of households are single person households, 34 per cent are made up of two adults, 10 per cent are single parent households and only 15 per cent represent the stereotypical family unit of a male breadwinner, a non-working wife and two children (Wheelock 1995). This implies that the construction of the needs basket by the members of the household, its ranking and indeed household behaviour in pursuit of the needs basket will not just reflect income class and socially defined conventions. The composition of the needs basket, its ranking and household behaviour will also be a function of the nature of the household. For example, the goods and services necessary

to meet the needs of a household with children will be different from that required by a two adult household. Thus, consumption bundles will vary between households of similar income levels as a result of differences in household structure. However, household budget shares of generic categories of goods and services would be expected to be broadly similar for similar income similar structure households. Such household budget shares would of course reflect social convention, which can be expected to be a strong determinant of the needs baskets of similar income similar structure households.

The threshold between a lower and a higher basket of needs could be expected to entail lumpy expenditures. The lumpy nature of expenditures necessary to move from one level of needs satisfaction to another implies that adjustments at the margin may not be possible. Thus, the neo-classical argument that the ratio of marginal utility for two goods will be equal to the price ratio for the goods does not necessarily follow from the assumption of lexicographic preferences. Rather, as lumpy expenditures are not easily divisible into marginal increments it might be expected that substantial increases in income would be necessary to realise a transition between a lower and a higher basket of needs. Once again, income effects dominate the choice set of the post-Keynesian household. For example, marginal housing expenditure will be highly unlikely to satisfy the need to live in a clean, safe neighbourhood. As a consequence, the marginal equalities witnessed in neo-classical theories of consumer choice are unlikely to be witnessed in post-Keynesian consumer choice theory. Instead, indifference curves will be perpendicular and the ratio of marginal utilities between any two goods will be equal to infinity or zero. Thus, in a formal sense individuals and households do not optimise their expenditure allocations. However, they do maximise satisfaction as they seek to secure the highest needs basket possible through participating in the institutional determination of their income source: the real wage rate or the profit share.

ii. Post-Keynesian household behaviour

In Section IV we investigated two economic institutions: the firm and the state. We saw that each institution produced and consumed the goods and services which were the result of economic activity. Moreover, goods and services flowed between the two institutions. Maintaining a focus on the real side of the economy and thus abstracting from financial flows between institutions, our task is now to incorporate the post-Keynesian theory of consumer choice into a theory of household behaviour. Such a theory must be able to explain both intrahousehold dynamics and the relationship between households, firms and the state.

a: Household resources

In order to proceed, it is first necessary to specify the resource constraints facing the household. In post-Keynesian analysis resource allocation decisions of capitalists, and particularly investment choices, take place within the firm. In this light, it is consistent to consider the resource base of the vast bulk of households as being the labour time capable of being allocated to the pursuit of income-earning and non-income earning economic activities. Time has an opportunity cost. The vast bulk of households have inadequate material assets, and therefore must work in order to obtain their needs. As a consequence, the post-Keynesian model of the household we are developing applies only to working households. Labour time in working households is allocated to waged employment and non-waged labour activities to realise a needs basket. However, feminist analysis has long challenged the idea that labour arrives ready to work, with no cost other than the wages and training involved (Mackintosh 1984; Edholm, Harris and Young 1977). Labour is "produced" in the household, in the sense that it is fed, clothed, rested and nurtured there. Thus, the household produces and supplies labour services and other goods and services to the private and state sector. In addition, labour services produced in the household are used in the non-market sector to produce goods and services for households and other

institutions. The production of labour requires inputs: labour and other goods and services. These are obtained from firms, the state sector and other households.

Income from waged employment buys the goods and services necessary in a specific needs basket and unpaid labour time converts them into the standard of living associated with that basket of goods and services. Thus, household needs are met through combining purchased inputs such as food, consumer durables, housing, heating and lighting with unwaged labour in the home to produce a standard of living associated with a certain needs basket of goods and services that the real wage can obtain. Thus, in common with the NHE the household is recognised as being economically active in production as well as consumption.

b: Constraints

It is well established that the division between non-marketed and marketed labour within the household is strongly influenced by social conventions: gender relations rather than ability define the gender division of labour in the production of labour. It is our contention that, through the use of Sen's model of cooperative conflict, a post-Keynesian approach to household resource allocation decisions can incorporate the role of implicit and explicit bargaining in shaping the actions of economic agents in the household. As previously noted, in this bargaining process members of the household deploy a range of resources that they have under their control. The range and ability to deploy resources facilitates the accrual of social power to individual members of households. Admittedly, this is not particularly post-Keynesian. However, we argue that post-Keynesianism does offer four specific insights into the constraints facing individuals seeking to acquire or offset the social power located within the household. These four insights are technical progress, missing markets, the labour market and agency relationships between households and the state. Moreover, they have important effects upon the allocation of labour time between non-marketed and marketed labour within the household designed to realise a standard of living associated with a particular needs basket.

To start, we assume that technically a certain amount of substitutability exists in the allocation of labour time between labour market and non-waged employment time in its use in the production of a given standard of living. That is, the needs people seek to fulfil can be realised, after a minimum income is secured, either by spending more money on goods and services or by spending more labour time in unwaged work (Hanmer 1994). Thus, households may substitute away from time spent in producing a clean home, cared-for children and cooked meals by buying more marketed inputs--vacuum cleaners, washing machines, prepared meals or nursery places. These examples demonstrate that technical progress influences the possibility of substitution. The application of new technologies can produce goods that reduce the labour time spent in certain household tasks. Moreover, technical progress, through its ability to reduce input costs, can influence movements in the relative prices of mass consumption goods and in so doing determine whether they are affordable at a given level of real income and so can be incorporated into a needs basket. Of course, the path of technical progress is itself mediated by the social conventions, including gender relations (Wajcman 1991). Thus, the allocation of time between unwaged and waged labour is influenced by the substitution possibilities produced by technical progress, the impact of that progress upon the ability to command a given level of wage income, as well as social relations within the household.

Technical progress has produced a greater range of options to households striving to achieve a certain standard of living. However, it must also be recognised that there are limits to the scope of technical progress in some types of services required by households. Perhaps the most glaring example is in labour services themselves. Mass markets for a range of services people require on a day-to-day basis often simply do not--and indeed

perhaps cannot--exist. There is for example as yet no mass alternative to going shopping; the mass delivery of goods from supermarkets and shops is not available and as a consequence someone has to physically go to the shop. Moreover, there is the need to organise shopping lists and insure that goods are available when required. The vast majority of households cannot purchase the equivalent of just-in-time management techniques to organise their economic activities. These tasks are instead carried out using unpaid household labour; a situation unlikely to change however fast technical progress advances. Similarly, however much income is allocated to household consumer durables the durables themselves will not produce a comfortable living environment. For most households the attainment of such an outcome requires the performance of unpaid household labour. Markets are thus missing for many of the economic activities that take place in the household and such is very unlikely to change. So, the choice that exists is between allocating unpaid labour to produce goods and services to satisfy needs or doing without the fulfilment of those needs.

Turning next to consider how the relationship between households and the labour market contributes to the ability to fulfil needs, we note that in neoclassical analysis the decision to allocate labour between work and leisure taken by the individual or within households precedes the labour market as the sum of these individual decisions determines the labour supply curve. However, we propose that the reverse occurs. Households provide the mechanism through which non-price adjustments to labour market demand takes place. Particular household structures, when combined with specific social conventions regarding the gender division of labour, are thus best suited to particular labour market conditions (Coontz 1988). For example, the nuclear family/"breadwinner" household structure can be seen as a response to the labour market conditions that emerged between the 1950s and the 1970s (Folbre 1994). The implication for household consumption choice is that the opportunity to fulfil needs will be strongly affected by the household's labour market position and the accrual of social power used in the bargaining process. Opportunities for waged employment in the labour market are constrained--a household cannot necessarily choose to work a bit more or a bit less at the margin. The income received from waged employment is determined primarily at the macroeconomic level and is dependent on the outcome of conflict over the profit share. Conflict over the profit share is reflected in the extent of unemployment and the nature of labour market segmentation. However, people within the same household can be located in different positions as regards their vulnerability to unemployment and access to relatively favourable positions in segmented labour markets. The social power that individual members of households can bring to bear on intrahousehold bargaining over the allocation of labour time between paid and unpaid activities will thus vary, due to different capacities to command cash income. Such variation will be highly gendered (Hanmer 1995).

Implicit in the argument so far is that the goods and services produced by the private sector effects the allocation of household time between waged and unwaged labour. In other words, the product market constrains household resource allocation. So too does what is provided and produced by the state. However, the circumstances under which private and state provision of goods and services occur are very different. The private sector creation of markets for goods and services is driven by technological progress and the opportunity for profitable investment resulting from the possibility of substitutability in household production. By way of contrast, state production of goods and services that can provide substitutes for household production is driven by the outcomes of political struggles that take place at the institutional level and which reflect the identities and work of those who perform non-marketed economic activities.

The history of these conflicts and negotiations produces a series of agency relationships between households and the state that defines when and where state provision takes over from household production. The principal is

in this case the household. Households have limited capacity to acquire and process information. They therefore collectively devolve to the state the responsibility to acquire information about the goods and services they require. By way of example, consider the provision of social services by the state. Households face asymmetrical information: they do not know with certainty whether the education their children receive is of good quality, whether their medical needs are correctly assessed or whether their savings have been invested so as to give them adequate income upon their retirement. In many countries a welfare state developed to solve these uncertainties by acting as an agent for the principal. It has been argued that the nature of the political consensus and social convention about the provision of welfare services determines the institutional supply of welfare services. Libertarian views on social welfare lead to the conclusion that at the margin individuals should be able to choose to allocate more or less of their expenditure on only those services that they so desire. As a consequence, in some states social service provision is only available for certain types of household. State provision is motivated by the need to ensure minimum standards are met and is hence selective, rather than universal and complemented by private sector provision of similar goods and services. Thus, access to welfare services are rationed primarily by the price mechanism. An egalitarian view of social services provision is different. It is based on the principal that access to social services should reflect need and rather than ability to pay. Typically, state welfare provision is universal and quantity rationed (Wagstaff et al 1991).

What the state produces and for whom it undertakes such production will influence a household's allocation of labour time across alternative waged and unwaged economic activities. For example, if the state guarantees good pensions, housing rights and caring entitlements to retired people they will not need to rely upon others for their economic support. Moreover, it is likely that there would be a reduction in the unpaid caring labour performed by younger women. Similarly, supply side interventions in education and training can help ensure women have a greater range of marketable skills and allow greater equality of access into relatively well paid and job secure employment sectors. In such instances, the ability of women to command cash income is increased and hence their bargaining position in households is strengthened.

The state also can influence the social power household members can exert in the bargaining process through its regulatory activities. Labour market legislation stipulating equal opportunities in employment and maternity rights can strengthen the position of women within the labour market, reduce the risk of unemployment, and strengthen their bargaining position within the household. However, the regulatory activities of the state also effects the labour process in unpaid work, through its regulation of time use in the household and the consequent impact that such regulation has on the production of labour services for the economy. While households can produce well nurtured children there is no guarantee that they necessarily will. Children are neglected, abused and damaged in the household. Legislation defines when and where the state intervenes in unpaid work. Such intervention usually takes one of two forms. First, state actions may reconstitute the structure of the household. For example, statutory housing provision may be made for homeless families rather than homeless adults. Second, the state may act to prevent some households from carrying out economic activities that entail "producing labour services" or providing a "caring" environment for people.

As is clear, in both labour market regulation and the provision of goods and services required by households the state can strengthen the comparative position of women. Conversely, labour market regulation and state provision of non-marketed goods and services can be arranged in such a way as to weaken the position of women relative to men in terms of income-earning opportunities. Such actions by the state would weaken the bargaining position of women in the household.

State intervention and the nature of its provision of goods and services further effects the allocation of labour through its ability to influence the motivation of people working in paid and unpaid economic activities. Nancy Folbre has recently argued that the motive for work is important. Deontological and altruistic motives for work produce services that are inherently different to those produced through work motivated purely by pecuniary reward (Folbre 1995). Folbre argues that the development of the market, especially the globalisation of production, results in the undervaluation of caring labour, which is defined as labour "undertaken out of affection or a sense of responsibility for others, with no expectation of immediate pecuniary reward" (Folbre 1995: 75). Folbre goes on to argue that the undervaluation of caring labour will ultimately lead to a diminution of its supply. However, it can be argued that state policy, through its ability to effect the length of the working day in paid and unpaid work, can influence labour allocation decisions across work being performed under different motivational principles. In a sense then the state can have an impact on the social convention surrounding work. Thus, providing adequate state support for parenting can relax the time constraints faced by women who combine caring for young children with working. The distribution of the gains between households from the performance of unpaid work in non-marketed activities arising out of non-pecuniary motives is also effected by state policy. Social networks that entail reciprocity between households require time inputs and these can be more or less available according to the institutional provision that effects the length of the working day.

6. CONCLUSION

In this paper we have sought to construct an analysis of the household in a manner consistent with post-Keynesian economic analysis. Following a glance at the role of the household in neo-classical and non-neo-classical economic analysis the paper offered a brief introduction to post-Keynesian economic analysis. The paper then outlined the methodological framework of post-Keynesianism and argued that it opened up possible ways of understanding the household. As a consequence, the paper developed a preliminary sketch of what a post-Keynesian model of the household might look like. The model was based upon the premise that households are engaged in both production, consumption and reproduction. Households seek to obtain a basket of goods and services which fulfil their needs. The allocation of household members to specific activities was argued to be the outcome of a complex bargaining process within which social power is deployed by the members of the household. It was argued that post-Keynesianism offered specific insights into the constraints upon this bargaining process. Opportunities for substitutability between the allocation of labour to waged and unwaged activities are bounded. Technical progress has not succeeded in eliminating the need for household labour; markets are missing or incomplete for many of the economic activities carried out in the household. Moreover, the labour market impacts upon households in gender-specific ways. Similarly, the nature of state intervention and the social consensus reached concerning the extent to which household economic activities with high externalities are regulated and remunerated effects the parameters within which intrahousehold labour allocation decisions take place. These in turn effect time use patterns within the household.

This paper does not claim to have uncovered new aspects of household behaviour. The ideas we have presented have been developed by a range of economists over the last few years. However, their application to the household has been piecemeal. By assembling these ideas and organizing them in a manner consistent with post-Keynesian economic analysis this paper has however opened up the possibility of a substantive research agenda rooted in economic analysis. We suggest that this agenda is crucial to the development of the post-Keynesian paradigm. Our analysis points to several ways in which an economic framework encompassing the household is crucial if long run growth paths and accumulation are to be properly understood. First, the household provides a non-price mechanism through which labour supply adjusts. Second, grounding a theory of

consumption in household behaviour opens up the possibility of new ways of exploring the role of effective demand in economic activity. Third, a reconceptualization of household choices, resources and constraints is needed to give necessary new insight into aggregate savings behaviour. Fourth, examination of labour time allocation between household members and the motives driving such allocation, taking into account agency relationships between state and household, can inform our understanding of social policy and its effects on accumulation. We believe that post-Keynesianism offers a way of pursuing economic analysis in a way which is sensitive to the lived environment within which agents are actually located. As such, it represents an effort to expunge the "spirits" and replace them with real economic actors. It is however only the first sentence in what could be a long conversation.

7. TABLE

Table 1: The gender division of labour

	Women		Men		Both	
	SNA	Non-SNA	SNA	Non-SNA	SNA	Non-SNA
Developing countries	34	66	76	24	54	46
Developed market economies	34	66	66	34	49	51

Notes: Figures are per cent of total labour activity in a sample of countries devoted to work captured within the United Nations System of National Accounts (SNA) or not captured within the United Nations System of National Accounts (Non-SNA).

Source: United Nations Development Programme 1995.

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