Neoclassical theory: under-determined, over-determined, or unable to move?

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Abstract:
Complete stock-flow intertemporal equilibrium appears to reconcile traditional neoclassical theory, in which the value of capital is a given parameter, with neo-Walrasian general equilibrium theory, in which a vector of capital goods is a given parameter. The associated dynamic sequence of equilibria appears to be of doubtful [theoretical and empirical] significance (Garegnani, 1990). Just such equilibria have become central to mainstream neoclassical theory despite the generally recognized instability of the associated saddle-path solutions. Saddle-paths have the property that, in the face of any shock, prices must ‘jump’ discretely onto a new ‘convergent’ path. No such path can be ‘approached’. In this theory, prices lack persistence. The forces of competition are emasculated as is the process of production ‘as commonly understood’ (Garegnani, 1990).