Stewart on Bus. Cycles

fertile fields for thought - [illegible] ways: By wages going
meaning here the reward of factors down & price going up.

Since price equals cost of production on marginal land, it follows that all other producers get a surplus: rent. The marginal producer's return determines what is wages and interest, everything above it is rent. (college economists tend to attribute it to superior management) This approach expresses the law of wages and interest very accurately, & comprehensively to collegiates.

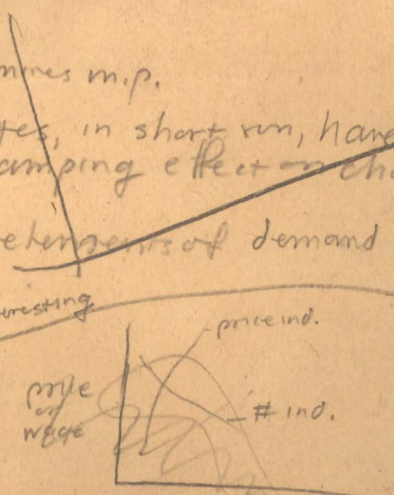
rent as all super-marginal returns

Effect of improvements on margin.

Productive improvements may actually lower the land values on which they are used, by lowering price, ~~But it~~ & raising margin. But the lowered price means that the raised margin has been filled. But first one of these factors & then the other lowers value of land on which improved prod. methods are invented. But the improved methods increase yield of better land, increasing its value. The two opposing tendencies will cancel in part, but in general the tendency to increase value wins out. ~~All~~ for whenever improvements do lower value of better land, they 1. Increase value of marg land, 2. Increase value of land used in other production or uses.

What determines m.p.

1. Wages, in short run, have an effect. But it may be regarded as a damping effect on changes originated by m.p.
2. 2 elements of demand - our m.p., & under m.p.



Ironical, but interesting

Drawing a curve for all wages is like " " " " " prices, with rent & interest left out.

False — increments, taxes, etc, must be considered too

spiral

Wages = that value at which # asked = no. offered.

The supply curve may be drawn on assumption that the # of laborers will affect the demand for labor be almost flat.

Thoughts on cycle related to product market realities

(The cyclic difficulty is in timing. The increment of products raises the real rewards of factors, but they are thinking in money terms & keep up their money demands, stopping production.

A glut of products is impossible; only a glut of one kind of product is possible. But when all products demand more in exchange than they can get, hold out, that chokes trade just as over high factor demands choke production, & a glut appears. The owners hold out so high because the cost of production was high.

Land ~~values~~ exchanges for products. It is in the product market pure. No increments to it are possible, its value rises unchecked, as the supply of all else increases, but land does not.



When goods exchange for land, they do not ~~increase~~ increase other values. Hence when much land is bought, ~~value of products declines in terms of~~ product to product ratios do not change, but product to factor rewards ratios change. Less products are available for rent, wages & interest because of the increased demand for products from incremental land values. This increased land value tends to decrease rent!

Read 'Sociology of Bus. cycle'

Marg. prod. is one element of demand for labor. Marg. of prod. is another. They will be =. The margin is a more useful measure

do wages determine them. They are demand, ~~pppp~~ proletariat are supply, and wages are price.

Concerns Diminishing Returns

That which is diminishing returns in terms of absolute product and number of laborers may not be so in terms of value of product and wages. Yet the value of product must be proportional to the absolute amount, and the wages to the number of laborers, so how can that be? (in non-monopoly case, of course) The effect of value is in determining how far beyond pt. of diminishing returns production ~~will~~ can go. Presumably the landowner will add labor and surpluses until the marginal product of the factors equals their price.

Principle: all land except marginal land ~~will~~ can be profitably used beyond the pt. of diminishing returns; marginal land will be used just at that point. ~~(under lvt, i.e.)~~ ~~Marg.~~ land will never be used in increasing returns - better to leave it idle.

The landowner is not interested in the average product of the laborers, to maximize it. His interest is to maximize the difference between product value and wages. If a laborer's marg. product is greater than his price, hiring him will increase that difference, even tho it decrease average product.

You can always get more marg. land, so never use it in dim. returns.

As wages rise, those who are producing at m.p. equals wages will have to use less labor, at once decreasing production and increasing prices. But this is assuming that rent remains constant. But rent will decrease, and total production will increase because of the new land that is being used.

Will a decrease of rent mean that those who were producing at m.p. equals wages can continue to do so with an increase of wages? That is, continue to hire the same number of laborers at the higher price,. No. The decrease in rent will be because they now have fewer laborers whose m.p. is greater than their price.

Depends. Maybe yes, maybe no.

Diminishing returns works in with rising prices. When prices rise, land will be used more intensively, because then the marginal product increases its value, and more factors may be hired. These high prices do not, however, give the factors the chance to increase their demands, which are determined on the margin. The high prices are partly ~~but~~ the increase of rent due to greater crowding, and are the economic mechanism by which the greater crowding causes more intense land use. Since the marginal productivity of the labor hired is, in product terms, now smaller, it follows that wages are now smaller in product terms. This is assuming that population and not productivity is the cause of the increased prices. The tendency of the increased pop. that lowers wages then is to do so by increasing the money payments for goods---but this fact is not derived from this example, but from the observation that psychologically money wages can't go down as easily as prices can go up. For, were it not for that, laborers would bid as hard to lower their wages as to raise prices.

they will rise, but not the whole amount.

so

Now for wages to be low on one plot that it can be very intensively used reflects the vacancy of much other land. Land can be profitably used up to the point where m.p. becomes as low as wages, but usually isn't, because of our rules and taxes which discourage making money, etc.

For any individual manufacturer, wages determine his m.p., if he uses his land fully. But that is only a small part of the picture.

The fact that under intense cultivation landowners can make

Employment

Credits must have evolved from precious goods to certificates of them. Originally if one took gold instead of ~~or~~ other goods, & hoarded it, he would not affect the economy so much because gold can be produced. Then one takes gold certif.s instead of gold, & the need for the sterile surplus is reduced. ~~#~~ No need for sovereigns to have participated in the money-making process – probably they did originally to facilitate borrowing, & to give more security in the chaotic world.

potential circular confusion

The key problem of modern ec., to put p.p. in hands of those who will spend it to stimulate production. wrong. it is already there. Solvable by letting people produce, which will give them p.p. to stimulate other production, provided other people are allowed to produce.

Stimulating production has 2 parts: 1) Creating a demand for products 2) Getting the factors together. The demand is created by p.p., which is ultimately the result of getting factors together elsewhere. So the key is to get the factors together in general. Once that is done, no miracle or priming is needed to start exchange – entrepreneurs will see good prospects, borrow from banks & go to work.

½ true

When demand slacks off because the factors cannot get together, Keynes wants govt. to borrow hoarded credits & use them to buy products. This 1) Creates an unpayable nat debt, 2) ~~Does not~~ Encourages the factors to keep their demands high, creating a habit demanding ever more govt. spending. 3) Wastes much of what is bought, imperfectly satisfying desires. ----

The problem is to ~~keep the~~ keep the factors demands from preventing production. That means creating pressures forcing them into use. Labor, where not in monopoly unions, is forced by nature to work, & it would be foolish to tax idle labor for we are all labor & want to be free., etc. Surpluses, if their price is too high, will be produced, & they waste bringing price down. But the pressures on monopolies & land ownership are least of all. They can & do hold out longest. Land should be taxed, & monopolies broken.

This leads to an examination of landownership

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1 July '47 – it was considered a great discovery by Chamberlin that the number of producers is not infinite. Actually every factor has to be somewhat 'scarce', not a 'free good', to get any reward. So we all have elements of monopoly, & some holdout power. Depression significance.

Speculation in products ~~is~~ encourages production, in land discourages; & vice versa when spec. stops.

Employment, cycle, money

What is the relation of money and credits to purchasing power? Ultimatelh p.p. is goods in exchange. When the stores are full of goods 2A that no one will buy, why cannot the owners of the goods exchange them with one another? Because the exchange system has broken down. Why? ?- Because insufficient production occurs to supply the surpluses with which exchangemust be carried on. What appears to be a glut is then really a shortage. The products of those who do produce cannot be sold because others have ceased to produce and have not the purchasing power with which to buy.

But in a situation such as postwar, the shortage of material goods does not prevent production. How is tht? Because plenty of money and credit floats around as p.p. However that is not the real reason that "credit is easy", but that the outlook for future production is good, and that is good because the factors are not asking too much. (In this connection note that various marginal groups among all the factors will come in and out of the market as the rewards vary and their ideas of what they should get vary. The influence of money, as opposed to goods, is ~~it~~ psychological. Just now everyone and all factors will work because they are getting what they think they should in terms of money, altho in terms of goods it isn't so much. After people become accustomed to the new higher price level they won't fe l the same, production will decline. But this is not the whole story, because post war is the time of most strikes, and the crash is not noted for its strikes. I think probably the post war strikes cause the cessation of production that causes the postwar depression; the present coal strike could very well stimulate the awaited postwar depression, as all these people are thrown out of work, p.p. declines. It is probably labor which must decrease its demands after the war, for its war pay was so high. Or perhaps it is the farmers----after all, factors are not the only categories in which differences of behavior will be noticeable---anyway, the demands of various factors will probably stop production soon, and adjustments will be made fairly rapidly, and on we go. Perhaps we might say that the primary postwar depression is labor's, the secondary land's: and the difference of time in coming out of them refle ts the difference in thebargaining powers of those two factors. This means that the primary post war depression will be worse this time, the secondary not so bad.

But money? When one takes credits instead of goods (or land) in exchange, a time lag between sale of goods & expenditure (or stimulation of other production). ~~occurs~~ This lag may be important. If credits are hoarded, That should increase the value of all other credits, & production go on as before. But This demands a price change downward in the demands of factors, a dynamic ~~situation~~ phenom. While the factors are refusing to change, much production ceases, where the factors cannot get together. ~~It~~ This stops production, which tends to continue until so few goods are produced that the factors are starved into meeting each others demands. ~~This time~~ It takes so long to meet because each time they get ready to meet on a more reasonable terms production has meantime X further decreased so less p.p. is available. The reverse of This process makes inflation stimulate production. Inflation does not alter p.p. in terms of goods, but makes people think they are getting more, also prevents their living on past income, forces them into current production.

~~The more~~

A 'glut' of products should stimulate production, by the p.p. created. But, if the p.p. is hoarded as idle credits, it will not, & its existence, (reflecting lack of p.p. to buy it) will discourage other production. Production of one product encourages prod. of others, but discourages prod. of more of the same.

{ Why is i.r. higher in Texas?
{ Why must income tax discourage production — experience shows, is all.

Were it not for the separation of sale & expenditure, would a glut of products be possible? Yes, if everyone demanded more than most would give. The glut is another manifestation of the unmeetable demands, in anticipation of "inflation," made by all factors. The glut is created as people hoard goods, increase inventories, etc. — getting rid of money. (or, in barter, just producing without selling)

The glut is because $ is being spent for land instead of products.

Potential article. / Employment

Rent slows the velocity of money that stimulates production by 1. Inevitable.

Purchasing power causes employment, and employment causes purchasing power. This is just a description of exchange. Modern economics assumes that employment is caused by purchasing power, that something prevents the purchasing power of the past from being spent, this causes unemployment, or lower wages.

But changes in the value of money negate such reasoning. If some persons do not spend their credits, that means the credits remaining will purchase more, so real wages have not lowered. However wages are static so unemployment for some would have to occur before low wages for all.

Whence came the first employment, when no purchasing power existed? That was before exchange. As exchange slowly evolved from subsistence economy, purchasing power was first the goods that other subsistence producers bartered in exchange.

All these considerations of course are under the assumption that labor is a landless proletariat.

In the original feudal exchange, the bartered goods were notwhat caused the fellow to be employed, but what caused his work to be directed in a particular production. If he were not used for that, however, he could be used for something else.

Purchasing power then is products. Later, it came to be claims on products, but their p.p. is just equal to the products over which they have a claim. So inflation, excluding dynamic factors and differential price movements, does not increase the p.p. that causes employment.

What decreases p.p. is then that production has been stopped, not that it has gone too far. The tendency to stop production in an exchange economy spreads its effects afar.

What stops production originally? Why is not a boom self-perpetuating?

Payments to landowners do not stimulate production, i.e. create employment. It gets to a point where the landowner can no longer profitably hire laborers to produce products, for so much products have been detracted from stimulating production in order to buy land and pay higher rents. It is not that landowners take money from laborers, for landowners spend the money they get; it is rather that both landowners and laborers spend their money for land instead of products. The goods produced, therefore, no longer stimulate the production of more goods, but rather increase the rent and value of land. Now if the goods were hoarded, the price of other goods would increase and purchasing power would not decline, employment would continue to be stimulated. But the goods are not hoarded, they are paid for land, so in order to produce goods one must pay more and more for the land because its price rises. One must then demand more in exchange for his goods, claiming that their price has risen. But all he can get is other similarly inflated goods, so his rent has increased for no compensation. So the active factors are not encouraged, and production ceases. This would decrease p.p., but now land has p.p. more than before, and it might hold up production --but it doesn't. Why? Because active factors cannot work hard just to get it by the same token that they cannot pay more to produce on it.

The problem of modern employment, even in terms of purchasing power, must be prefaced thus: assuming a proletariat working on the land of others, how are they to be employed? In the first place under those conditions full employment is no more to be necessarily expected than unemployment. When the landowners will profit by producing, they will hire laborers and produce. When not, then not. When will they profit by producing? When the difference between the product and the wages of labor is greater than their effort in superintending whatever they must superintend, to rent out their land to labor. This indicates that high wages are as important a cause of depression as high rent. If wages rose so that no rent remained, a landowner would be foolish to use

the land at all. So it is not alone that rent rises too high for labor and surpluses to stomach---concurrently wages and interest rise so high that landowners won't take it. The factors of production all increase their demands, so they cannot get together, production ceases. The position of the simple entrepreneur becomes untenable. If he wants to borrow surpluses with which to rent land, hire labor and material surpluses, he must pay a high interest rate, high wages and high rent.---high because production has been high, and all can get more than before. H.G. said that in boom times the % of rent increased; maybe it does, but it needn't. The cessation of production is all that rea ly matters. When the cessation begins, if the factors changed their demands it could be stopped; that is, in the botto of the depression, what happens. But when production ceases, purchasing power is reduced, which stops more production, etc. Products given for the use of land suffer a one step removal from stimulting production but ultimately do get back out to stimulate production, except that in boom more and more p.p. goes for land, which is important because land is not produced.

How, then, to guarantee full employment? First, the assumption of the discussion reveals that access to land is all that is needed. But in terms of purchasing power, how? By preventing the demands of the factors from departing from each other, from amounting to a sum greater than the product. and by preventing p.p. from being spent for land, which is not produced. For the prices of the factors could not depart from each other were it not for the peculiar character of land, which adds to price without being produced. When p.p. is diverted from the purchase of goods to purchase land, that should lower their price so that as much production will be stimulated as before. But the rise in land prevents the lowered price. This cannot happen with surluses and labor, for they are not fixed amounts, and can be produced, or increased, in response to demand. If one tries to purchase surpluses he is himself in the market with a surplus to do it, so no net effect occurs. Labor is not bought and sold. If it were, as slaves, and their price rose, their products would be more expensive, money would be invested in them, they would be speculated in, etc; only difference is that they could be produced, albeit slowly. What of material surpluses? Again, they may be produced, sharply limiting price rises in them, and causing price rise in them to encourage production, not discourage it. When the p.p. is spent directly for the factor, instead of for the product of the factor, then p.p. fails to stimulate production. As land is the only factor that can be bought that is not the produt of the other factors, it is the cause of the cessation of production.

* Of course this first puts out marginal persons, means margin is falling.
Products are result of production, whatever makes them dear relative to cost of producing them encourages production. Rises in land & labor prices do not encourage production, i.e. conversion of land & labor into products. Even encourage the opposite, as possible.

Hansen, Fiscal Policy & Bus. Cycles

'Investment' includes producer goods, consumer goods for sale, durable consumer goods, consumable public works. i.e., surpluses. But furniture & cars are consumer goods.

It is investment that fluctuates in cycles. Surpluses built up in boom, consumed in depression. Heart of his theories. it must be integrated with the cost & price angle.

Usually major downswings are not interrupted by mild recoveries, as major upswings are by recessions. Except in 1895.

'Building cycles' - 17 yrs. This, to me, is the major cycle. The Juglar cycle averages 8 yrs - it would include '21 & '37 as comparable to '29.

Many particular products have their own cycles, different from any general cycle. 2 yr. textile cycle, 3-5 yr hog cycle, etc. Hog-corn cycle explained by slowness of producers in responding to relative price changes. They respond slowly, & then too much - too much & too late. This is a necessary feature of all cycles.

Building boom corresponds with major cycles, leading them.

Building Cycles: Low 1830 - High 36 - Low 43 - 53 - Low 64 - 71 - Low 78 - 90 - Low 1900 - 1909 - 18 - 25 - 34.

The major depressions: '37, '57, '73, '93, '29, coincide.

1843-53, after 1920-28, greatest Bldg. boom, relative to economy size.

1847, 64, 83, 1900, & 1920 depressions were the intermediate mild ones, ass. with Bldg recovery.

1907 & 13 depressions. 1913 should have been a big depression, war prevented it. So World W. 1 & 2 came at different stages of 18 yr cycle. 1 was in time to prevent a bad one - 2 prevented a slight one. It does might follow that W.W. 1 should have been followed in 8 yrs by only a mild depression, but war is more influential than other cycle factors.

Hansen p. 2

Ave Annual real investment (b $)

	1936-39	1923-29
Equipment	4.3	4,8
plant	1.9	3.9
Housing	1.9	5.1
Public	3.3	2.1

The deficit in investment in 36-9 was in plant & housing, those surpluses which are most tied to site. The difference is $2 b/annum – if this is significant, how much more so some other items.

F? → In long cycles, prices vary with r.r. Relative scarcity of products would explain it

In long upswing, cycles are shorter (7.3 yrs) than in ~~lead~~ downswing (9.3)

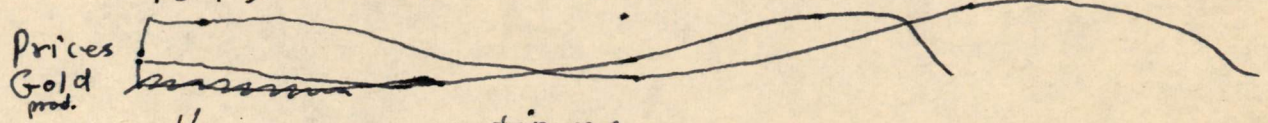
Invention & frontier, war, & gold advanced to explain long waves. Inventions supposed to alter society much on upswing, less on downswing, affecting am't of new surpluses needed. New inventions do increase useability of land, etc – but why a cycle? Schumpeter says: 1787-1815, textiles & Ind rev. in general. ~~1864-9~~ 1843-64, r.r.; 1896-1920, autos, elect, & chemical industry.

35-6

Cassel figured, 1850-1913, ratio of gold variations ~~was~~ varied with long cycles. ~~Odd, for it~~ One might argue that $P = \frac{MV}{T}$ increasing T in booms lowers P, brings crash. Making gold production not the moving cause but a constant, while T varied independently, or for other causes. I.e., this relationship would hold true if gold were the cause or not. No – if gold were the moving cause, then in booms $\frac{gold}{T}$ starts large & gets smaller as T grows; if not, $\frac{gold}{T}$ would start at 'normal' & get smaller. The complete correlation must be known.

Gold production lags other prices 15 yrs. (?) I should expect it to be just in opposition. – save for slow reaction time.

1873 1888 1896 1920 1935

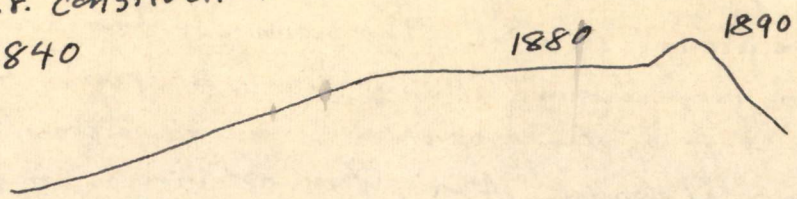


He is vague on timing.

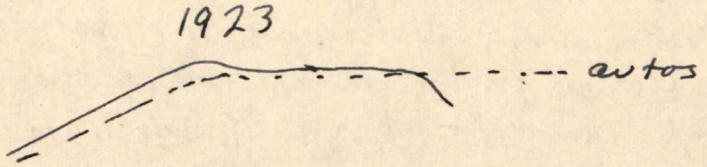
Am't of gold no longer significantly limits M. M adjusts to T.

Hansen p. 3.

New r.r. construction.



New roads



Continuing at high level but ceasing to grow ~~con~~ emphasized. 'Principle of acceleration' — which is true of any durable good, not of derived demand goods as such. significance: when total money cons. demand declines, new durables are first to be not demanded. This requires much durables in existence, to meet current demand. so first to be unemployed are durables producers. End of growth of demand does it.

The technological interpretation is optimistic. Future developments are to drag us from depression, as tremendous new investment is required. But only intensive growth now possible — in past it was extensive. But I think frontier is still with us somewhat. The crux: saving will cause deflation unless something urges people to save by buying goods, either prod or cons.

Pop growth means 'investment opportunities' He is saying that A labor increases demand for its products more than labor supply. Wrong. But a higher % of children means more cons, less saving. Maybe part of character of present depr. ~~is~~ was due to unusually high % pop. in productive ages. This ratio could account for timing of cycles, as less children are born in depr. etc. Investigate.

Ch 2 — Investment & Consumption 1920-39

Hansen's big talking point. (cover)

Kuznet's data show investment leads cons, esp. in upswing. Greater ampl. durable cons. goods lead perishable & services. - ? as perishables are in part produced by durables, this is natch.

Durable values: 4-10 b; others, 40-60 b. $.

Net Investment in inventories lags general prod. good inv. cycle. i.e. we invest in other durables before inventories

Inventories do not accumulate thru out major upswing, but pour out in each 3 yr minor recession

House inv. led 1921-2 recovery, not 1933 one. 'Equipment' ~~was~~ increased in '33, not plant. Equipment fluctuates less.

Inventory acc. dominates minor cycle, he thinks.

The 'cumulative process' — inv. stim. cons, cons. stim inv., etc.

While the producer good swings are greater %, cons. are greater magnitude.

The '23-4 recession was in inv. only.

'Inv.' means money spent for producer goods. Evidently it characteristically leads cycle of money spent for cons. goods. I venture that durability rather than use is a more accurate criterion. The beginning of boom is time of depleted surpluses, so match demand at that time is for them. It does not follow they lead us out of depr. – rather, when production is once again possible, surpluses are at that time demanded heavily. Again, when production becomes expensive, surpluses are the first thing foregone.

Surplus production, as previously developed, increases MV, because a) One can borrow on the basis of surpluses more than perishables (Tho This is dubious b) Much previously idle M is spent for them. Result is to reward needy factors with new money, & previously idle money, & simul to not immediately increase cons. goods. Rising prices of cons goods result. When the new surpluses start to produce (either direct satisfactions, as leisures, or other goods) & simul production of surpluses ceases, situation is reversed. They pay debts to banks (dubious), the money that was spent is held idle, cons. goods increase. Cons good prices fall. This is the significance of 'inv.' They crudely state it that the production 'creates incomes'. This dangerously glosses over the real process involved: changing MV. Result is to breed the idea that absolute level of factor rewards is irrelevant, because they 'create incomes'. (Even from this income view higher rewards probably don't, because of less volume. – but they would say volume will not increase incomes decrease, because higher incomes will prevent it. – but we can say it is an unstable eq. that might go either way & with income approach one or the other, my theirs, cannot answer.) But from money approach we see higher rewards do not create income purch. power, (tho they do create inc – but p.p. is then meant assumed). They are but xferred p.p., the p.p. exists previously, they do not create it from nothing. The market for goods then does not consist only of current money incomes, but of p.p. currently held. (not until next period do present incomes hit market) Higher rewards discourage spending that p.p. Possibly a greater total will flow, but fewer factors are demanded. (These fewer will save more, consume less.) (Then when factors are specul. in, that settles it.) The increased factor rewards themselves will not be so quickly spent as previously, & also savings will stop being invested.

etc. I have not considered price-cost yet. The relations vital to argument.

Hansen
Chap. 3 – Monetary Policy in the Depression

Not until 1913, Mitchell's 'Bus. Cycles' were they accepted as such, even by ec-ists. George, then, with his 'recurring paroxysms of ind. dep', was ahead of his times.

Eng. thought had stressed money factors, pre war 1, save D. H. Robertson. Post war, entertained thought train commenced by Tougan-Baranovsky & Spiethoff on cont. of inv & saving.

Hansen takes the 'investment' as superior to the monetary approach. Money approach stresses importance of financial 'institutions', inv. approach stresses 'natural law' view that 'inst.' just result from deeper forces.

Mises & Hayek, Viennese group of inv. theorists, thought inv. was controled by money devices. They recommended therapy to reduce boom, ~~not~~ this to reduce best. But it turned out that it brought the best without reducing it.

Fed Res policy in 20s

In minor 24 & 27 rec., FR ~~sold~~ bought in open market to expand currency — overemphasized the 40 month cycle. Perhaps they prevented these 2 from being worse depressions, but at expense of final crash.

Bank theory thought commercial banks should make only self liquidating loans, i.e. no loans for ~~plant~~ permanent supplises or inventories. Neutral money theory said money should not expand with production, comm. credit theory said it should. But banks made long term inv. anyway. 6 b 1921 to 10 b 1929.

1929, they could not choke ~~off prod~~ spec. credit without ditto prod credit. So now they directly make margin requirements, etc.

In depr, FR tried to increase its loans by buying securities & lowering rediscount rates. Succeeded, increased reserves of members. This amounts to printing govt money.

2.5 b $ govt bonds were now main earning assets of FR banks. Member reserves were $1 b over min., grew thruout 30s with gold imports. These excess reserves made possible an inflation more than any ~~inf~~ permissive inflationary program of FR might have done, but with little

· Hansen (pub. 1941)

effect, revealing weakness of policy.

Was it just this that kept i.r. so low? Treas. Bills int: 1929, 5%, 1941 ¿1% ? 4% – 1½% a more average figure.

F29 Stewart.

In crash, short term rate → 0; in boom, it may even go higher than long term. In recovery, difference of long & short decreased. But not so in 30s, when short term rates staid low. Gold inflow & new money from silver certificates he interprets as increasing funds to be loaned, i.e. decreasing i.r. Actually such represent the consummation of loans – to govt & foreigners – & insofar as these loans would be otherwise impossible this sates a demand without tapping supply, lowers i.r. But lowers value of all other loans, does not increase total? etc.

Great willingness to hold cash lately – ~~lowering i.r.s.~~ (?)

The low i.r.s are on gilt edge & short term city loans. Small country loans still bring 6–8%, in small cities & down. R.E. loans, spec. loans, still high. ⅕ members, 1938, averaged > 7% on loans.

chap 4

Fiscal policy in recovery.

It was mostly 'salvaging'. RFC, HOLC, & FCA loaned 18b in refinancing. 'positive' public works hardly > '29.

1934-39, $19b fed deficit, 14b for emerg.

In '29 ~~Fed~~ State & local public works $3.4b, fed almost 0. Local works decreased to $1b, 1933, stayed there. Fed exp. did not grow until 1934. By 1938, total public works still = 3.7b

1925-9, $14b level of inv., all inv.

Fed. ~~funding~~ borrowing was c. $3b/annum.

Was it only in public works, then, that local retrenchment neutralized fed spending? Get complete figures – don't rely on Hansen's half picture, weighted selection of facts.

Demand for permanent surpluses 'creates more employment' than for cons. goods, he thinks, because it is a higher % of all demand in that line, it is harder to start such, & other nonsense.

He is saying that depression comes because too much has been built. His solution: keep the govt building things. But this will prevent private recovery ever, unless what govt builds is wasted.

He thinks, if you catch it early, have govt invest before downswing is well along, 'secondary' 'cumulative' effects are stopped. But since cost reduction is primum desideratum, & it comes later,

Hansen

This is fatal to recovery.

Consumption taxes were used too much in dep., a further drag on making people consume.

1933 Fed 'cons. taxes' = 1b; 1935 $2.2 b. 1938, local govt took 2.5 b such.

Sem: a) exp were purely salvage b) They were relief instead of public works c) Too much financed by cons. taxes.

Ch. 5 - recovery in G Br.

Britain was depressed in 20s, not much changed in depression, recovered ok. Balanced budget throut recovery. Nat inc. fell only 15% in dep., 50% in U.S. Ceased falling '31. $2 b budget maintained with little trouble. Saved by 'converting' public debt - to lower i.r. I guess. Raised tariffs to get more revenue, 1932.

Pound depreciation an important saving factor. France, Belgium, Holland, Switz & U.S. stuck to gold, ~~talking Eng experts.~~ did not depreciate. Can., Austr., N.Z., Arg & Scand, the sterling bloc, depreciated proportionally. This Eng's necessary imports were cheap, while her competitive exporting position was improved.

Eng. had not 'rationalized' in 20s, like Ger & U.S., hence did so in 30s. Depreciation helped recovery in Eng, tho not in U.S., because Eng was in a position where it could do good, Am. was not. (i.e., more adjusted to foreign trade)

Tariff ruined Eng export industry.

When prices of foreign food declined, Eng. did not take much more, but her people had extra credits to spend at home - (instead of the foreigners' spending them there) c. $1b/annum extra. Higher living standard in 1932 than '24-7. Boom in housing & domestic industry.

Fact that taxes were high discouraged saving. 1911, 16% nat inc saved; 1927, 11%. or 13% to 8%, different investigation.

Social welfare expenditures of govt increased by about the savings decline.

Local govts went into debt. 1930-38, total Eng. public debts 9-10 b £. Δ = 4b $, or comparable to $12b increase in U.S. debts.

Hansen p. VIA

ch. 5 cont.

A small 90 increase for them, for Thur debt is already very large.

Contradicts eaother assertion of balanced budget. Probly that referred to fed, not local.

Part 2: The Changing Role of fiscal Policy

Chap 6 – fiscal policy, new & old.

F29 Groves

17th century wars, like all previous kingly wars, financed by large govt borrowing, using fractional reserve banks. Ass. with stimulated trade, etc. Helped capitalism grow.

Not until World War I was war considered econ. evil!

Eng. Nat Debt: 1691, $15m; 1815, $4b! Most of securities sold on stock exch. were govt obligations: 1843, ~~1/5~~ 4/5; 1870, 2/3.

foreigners lost much $ in Am. r.r. swindles, 19th cent. Eur. r.r.s all financed by govt, for only thus could so much $ be raised.:

(over) all state owned. We had public land to give away.

Only in late 19th & early 20th was govt credit unimportant. Now re-emerging, with mercantilism.

ch 7: Changing character of govt expenditures.

	Fed	State	Local
1913	960	380	1,800
1929	~~3400~~ 3,200	2,000	6,700
1931	~~8440~~ 9000	3,000	6,300

State increase: highways & education. Tremendous increase in both.

1900, 10% 14-17 yr olds in school; 1930, 48%; 1934, 56%. Prodigious rise in living standard.

1900-1929, highway exp .2b – 2b; educ, .3b – 2.5b. (All units.)

Social welfare, .2b – 1.3b. (mostly local). Public service .2 – 1.5.

In 30s, soc. welfare jumped to 5b, others stay at '29 level. & fed. increase.

	1929	37
State	2.0	3.1
Local	6.7	6.3
Fed	3.7	9.1
Total	12b	18.5b

1934-40, unemployment relief, public works to stop unemp, & agric aid, in that order, ~~to~~ took 50% fed exp., or $26b.

This hardly supports his assertion that local govts. neutralized fed depr. spending — or was that borrowing? It was only up to '36 they did so, he says.

p. 125

Free competition guarantees that feasible production may be undertaken, not that it will be. That depends on ingenuity etc of people. r.r.s were, however, built in e. U.S. without fed govt aid. They were launched by local community drives. Considering how ~~some~~ they raise l.v., it follows they could charge much higher rates, thus existing without subsidy. Probly original subsidy means little now anyway, because it was squandered in corruption — tho I recall some ~~Dr~~ W. r.r. is very large timber holder, some famous issue on it. It is, anyway, not possible that r.r.s should be ec. feasible & yet not exist without subsidy. — once they are already built, anyway.

Yet in marginal cases may they not give this appearance? (It is fair for govt to maintain hiways free, as anyone can use them.) They raise mp, also all productivity. Communities will come to exist that previously did not. But these communities will not be able to support the r.r. without subsidy. Then they are not ec-ly self supporting.

Does l.v.t. amount to a subsidy to the uneconomically located? This is another view of the question, will l.v.t. destroy desire to use better land? It is a subsidy to below median rent, not to wages, & that is economic. etc.

Hansen

chap 8 - The tax structure

Post war I surtax rates lowered much, re raised in '32 & '35.
Custom & excise taxes are 'regressive' - i.e., proportional. How this 'regressive' is twisted.

In 30s, despite tremendous inc tax increases, tax structure was more regressive than in 20s because of new ~~excise~~ 'consumption & payroll' taxes.

F 1932, 35% ~~tax~~ fed rev. from cons. taxes; 1940, 38%. Liquor (1b) gasoline (1b) + manuf. excises etc (1b), payroll taxes (1b). e.g. He introduces vaguely some contradictory figures later.

For all units, 1938, inc-prop-& cons taxes c. =, @ $4b., + payroll taxes = $1.5b

Previously, prop. tax way in front.

1902 - ~~38~~, Local taxes, always, on prop.
State taxes increased 25x, prop. tax becoming minor from major. Inc., excise, corp. taxes replace it.
Fed - from custom & excise to inc. & excise. - which is a change to the progressive.

1938 taxes

Locals:		
Prop	4.5 b	
cons	.3	
	4.8 b	
State:		
Prop	.2	
Inc, inh, corp	.9	
cons.	2.0	
Payroll	.7	
	3.9	
Fed:		
Inc, est, corp.	3.1	
Cons.	2.1	
Payrol	.7	
	6.0	
	14.7	

(cf his '37 totals from chap. 7. F29)

6.3

3.1

9.1

Total cons: 4.4, c. 30%

What is a payroll tax? It ~~is~~ reduces consumption, says Hansen. Sov. sec, I guess.

Prop. tax has been inexpandable in depression, ∴ Hansen natch dislikes it. I'd say it could be expanded, but wasn't. Yet what the $ just isn't there.....

Total tax structure is not progressive until c. $10,000 income.

Hansen chap 8 cont.

Taxes as % of inc. (1940)

	Fed.	State & Local	Total
500-1000	6.6	11.4	18
3,000-5,000	7.0	10.6	17.6
10-15,000	15	10.6	25.5
> 20,000	27.2	10.6	37.8

Chap 9 - Growth & role of public debt

Taxes on transactions should raise prices by reducing T - as well as other ways.
? If so, Hansen's opposition to them is blasted. No - they raise price to cons, lower it to producer.

Public debt in Eng. became permissible as interest & taxes did - part of whole emergence into modernism, with its good & its bad.

U.S. paid its 1812 & 1865 debts. Eng, 19th, kept debt constant. Frence increased hers. In W.W. I, Eng debt from 1 - 9 b £, French 50 b fr. - 500 b. fr. French inflated 5x, W.W. I. p. 140

U.S. is only country whose debt came from reliefs & that post 1933.

Swedish debt, exceptionally, is 'far more than covered by productive assets' Inc. from state assets = 2x int. on debt.

A. Smith, while repealing Physiocrats on 'productivity' of ind:, said services were unproductive.

Eng, 19th, taxation mostly excise, savings of rich not stopped.

Taxes to service debt are another fixed cost, a danger.

High stock market of 1929 caused many corps to pay bonds with new stock. Bonds used more in 20s than before, mostly mortgage bonds.

Private debt has almost = nat inc. since 1902.

F — close odd.

1937:

		("bond & mortgage" debts only)	
Fed debt	36.7 b	R.R.	13.1 b
Local & State	19.1 b	Ind.	7.7
	55.8 b	Public Util.	13.8
		Farm mortg.	7.0
		Urban mortg	25.5
			70.3

Value of common stocks on N.Y. exch. $42 b

Local projects & depression also account for some public debt, but mostly wars.

The currency is a public debt without interest.

Hansen, ch 9, cont.

1799, public debt was greater in respect to govt's fiscal ability than now. Hamilton's bonds circulated like money. He thought they would lower i.r. p. 164 perhaps his extension of public credit did help trade by improving medium.

Actually, govt borrowing should ~~lower~~ raise i.r. by increasing demand. The one who accepts cash is the real lender. ? From a money view, the only way to get people to hold more value of paper is to increase the reward for holding it, i.e. i.r. This applies to bank credit esp. So the effect of increasing M is either to raise prices or ~~lower~~ raise i.r. (Might lower i.r. in peculiar circumstances by increasing security of lending) The only increase of M that is independent of S&P for loans, ∴ apt for illustration, is govt. printing. If govt prints int. bearing obligations, it increases i.r. If govt prints money, it increases prices. ? Or what does determine whether ΔM increases i.r. or prices? Whether it circulates or is held. & that is variously determined, but mostly by nature of obligations printed.

As long as resources are unemployed, ΔM will not increase prices, but bring out more production. ?

British nat. debt = 2× nat inc.

Thruout Hansen 'income' is the key confusion word, used to confuse money & reality, no attempt to distinguish.

In 20s, decline in fed debt offset by rise of state & local.

No govt. in w.w. I printed money to inflate. Modern 'greenbackism' tries to create non-int. bearing deposits, the modern means of payment.

? — Do banks get int. on their deposits with FR Banks? I think not.

? Colonial paper issues were mostly to lend on mortgage to business at 6%. Somewhat for reference.

'Slope' of income distr. in US & Eng has not changed, 1800 - now. W. King & Josiah Stamp researches. (King accused of NAM venality by Seldes)

Chap 10 - Budgetary Theory & Practice.

Danes have operating vs capital budget, & when they borrow do not consider it necessary to repay, just service.

Swedish govt owns r.r., t&t, forests, bus lines, elect power, & related stuff. These earned an income. Also tobacco monop., iron ore plant, & p.o.

France: match, powder, t&t, p.o., & several other minor state monopolies.

USHA lends to local agencies, never is fully repaid. A subsidy.

Hansen favors calling some exp. 'investments', giving them special place in double budget.

no states talk at 3 F29 Susan Haase ?

to fund debt?

Hansen ch. 10 cont.

U.S. issues no intelligible report of expenses.

Part 3 - Fiscal Policy & Full Use of Resources

ch. 11 - Cyclical Consumption - Income pattern.

p. 227

Keynes asserts that Δ M income means more saving [prurient / heroic] even if it is not Δ real inc., is dubious.

85 - 90 % inc. is normally consumed. If the remaining 10 % is ~~vital~~ important cyclically, so may ec. rent be.

Long run increase in secular income has not increased % saved. It may have tended to, been counter balanced.

F29 '31 - '34, 'cons.' was actually greater than 'income'. Probly from debt payments, perhaps dishoarding. Other years, '21 - 39, inc. slightly higher than cons. He says it is from depletion, which would be if depletion were subtracted from inc. stat.

237 Gross nat. product = inc. + replacement. But repl. should be called income, except that cons. of prod. goods has not been discounted in computing inc., this is the way of doing it.

Nat inc. is computed oddly. If you sell an old product, you are said to have increased your inc. Maybe this is factor in 'higher inc.' of boom.

Says Hansen: Gross ~~nat~~. product = inc. + replacement inv. exp.

Gross sav = net sav. + depr, depl. & obsol. allowances.

Replacement replaces something that has been sold for income. 'Income,' evidently based on 'realization', is quite different from production. ~~Cons~~ money exp. create 'inc', ~~which is not~~ ~~but if one buys by 'saving' then~~ whether for saving or cons. This is base of their confusion. They think if M is spent once, then p.p. is increased because inc. has increased. Production & exchange must be differentiated. Still, if their 'income' deducts value of goods sold from inc., it is value of current production. — except that goods produced & not sold are not counted as inc. So 'inc' differs from production by unsold products - which includes large corporate plowbacks. Also included in inc. is land sales - & sales of anything ~~no~~ produced earlier than current inc. year - & spec. gains. So it is not syn. with production, in current year. & when we add Δ M, not syn. with prod. at all. So when he says that cons. is lower ratio to inc. in boom years, consider how 'inc.' is bloated by Δ M & sales of old products in these years. ~~ks~~ But cons. is increased

even more % thereby, so really his figures understate the change. - except that what is called cons. is very much buying for inv. — just so it is not done with borrowed money it is cons to him. Never forget that 'consumption' means just 'buying with your own money', is a wide misnomer. What his figures really show is that borrowing money increases in boom years. It is possible that money spent by owners might be more for cons., thus nullifying the probability that borrowed money is spent for durables. But really what matters is not what cons & saving imply, but only the money situation to which they really refer as used, so let us concede that more money income is not spent directly by owners in booms.

As to gross product. We get income by subtracting price of things bought from things sold. Realization & time cause errors. ~~But what we spend to replace what is sold is, aside from these, further cons.~~ Replacement cost attempts to account for unrealized products, but is the crudest approximation — for what if realized item is not replaced, or if stock is increased?

Back to Hansen

In high inc. years 88 % is spent directly. - more in low inc. years. That means 12 % was 'saved'. ~~This was~~ 'Gross saving', which is this + deprec. allowances (but I don't see how they ~~can be~~ are distinguished from other saving ??) was 22 % of gross product. Which means that 'net', however defined, cuts off more than ½ 'real' ~~money~~ 'savings', ~~Hardness~~ Maybe 'allowances' mean not what is put aside but what is actually spent for ~~&~~ preventing depreciation. This would explain the difference. As he later calls it investment, it is likely what he means. So ½ ~~invest~~ buying durables is done with ~~the~~ owned money.

maintenance, equals the inc. derived from item.

Inv. should be increased, not cons.

Life Ins. co.s: 1940, assets, $30 b. Because ~~his~~ life ins. is growing so rapidly, it acquires more than it pays out — because of new policies. — but of course it ~~x~~ furs the money on when it invests. His point is that people want to save, so encourage inv. instead of cons. →

In 20s, r.e. mortgages not amortized usually, came due all at once. 30s, change

Hansen, ch. 11, cont

135 banking act requires it, for banks. Ins co.s do it voluntarily.

Farm & urban mortgage debt = c. 35b

Corp depr reserves the largest 'single source' of funds to borrow.

c. $4b/annum. Plowbacks c. $1b/annum. Fixed cap. exp. c. $7b.

? c. $4b/annum.

Depr. res. not part of net, but of gross sav.

c. 40% net profit corps retained, U.S. 1923-9. c. 20% in GB.

He calls owned money spent for inv. 'saving' at one point.

Corp. incomes fall sharply in depr. & account for most Δ in sav. Personal incs fall less. Factor dist. changes very little, with slight advantage for renters in '30-33. F29

Dividends fell, int. rose — as %s.

Labor cost per unit of output remains remarkably stable — i.e., it is not a fixed cost as commonly claimed, other fixed costs must take blame. Probly as no. of laborers is reduced prod. per increases.

Skipped Samuelson on cons. function stat.

Chap. 12: Pump priming & compensatory fiscal policy

Taxing & spending programs.

Pump-priming not 'compensatory', latter being a negative term of replacing missing private inv., former 'gets it rolling'.

Mult. eventually comes to this absurdity: const. increments, eventually merely serve to keep inc. at what it is. So if increments are stopped, inc. decreases. So at present inc. is probly decreasing. However in times of great M hoarding, not so absurd.

When mult & acc. are combined, ultimate level is what mult. alone would have est, but approached by different path, because inv. must occur first. Much truth in this. But higher cons. level demands continuous higher inv., no?

Hansen concludes from this that acc. princ. is unimp., that new cons. does not eventually stimulate inv. at all. a) In the lite of their belief that eventually hoarding comes to = +ΔM, this follows, for then injections do not increase M, are merely compensatory. Still, the new = libr. is at higher level of production than before. - this will require more steady inv. than previously. Does Multiplicand supply this? Possibly, depending on how it's spent.

Hansen, 12, cont.

b) Actually continued injections mean continued inflation, ~~or~~ and/or production increase. If latter, continuous induced inv.

Hansen rejects the spiral view insofar as it features cons. increasing inv., inv. cons, cons. inv. etc ad inf. Because of this analysis, tho he has not shown why it must be. They had to find some way of repeating this absurdity - this is their way. Actually it is because a) of monetary non-spiral factors b) physical Δ cons. means less inv, v.v., etc.

A Keynes anomaly: how can inv. increase cons. if ~~Δ cons.~~

Δ inv. = Δ sav, & Δ sav → −Δ cons. ?

Only if $\alpha = 1$ will ~~cons ex~~ ΔM not be lost.

Chap. 13: Compensatory Tax policy.

If economy saves much, dynamic cycles. ~~If not,~~ This is opposite from Keynes, who said high saving prevents great fluctuations by lowering α. Hansen's point is that if α is small, much saving ~~must occur~~ when ~~not far~~ from 'basic level' (no sav) to full empl. Keynes' is that, if α is small & lot of ~~sav~~ inspires little Δ cons.

Payroll tax - to deflate in boom, inflate in crash. Sales, ditto.

Favors these over inc. tax, because they hit cons., not just saving, & he wants to hit it. Previously he favored inv. Δ but that was for increasing demand.

~~#~~ for cycle he favors fluctuating cons. taxes; for ~~more~~ more stable economys, to raise cons, grad. inc. tax.

Chap. 14: Dynamic vs. circular flow economy.

Circular flow is Say's law, static idea.

In dynamic ec., inv. causes cons. to rise, not v.v.

Cons. must be increased by govt exp.

Chap. 15: Price flexibility & full employment of resources. c. 312

Raw material prices are 'cycle sensitive' - finished products not. so. # Only farm prices are affected, but raw material production takes much of effect - reflection of monop?

Tariff falls on foreigner just as sales tax hits merchant - by reducing demand. With tariffs, this means worsening of the terms of trade.

It is futile to reduce costs, he says, because no price can be gotten because demand is saturated. 85

Hansen, 15, cont.

& if costs were reduced, he says, this would reduce demand. BS. Hoarding reduces demand, & is caused by high costs. Even from inc. view reduced costs, by increasing total factor inc. by increasing demand, might spiral up instead of down. But this is nervous, leaves it in the balance if it will spiral up or down, as inc. approach always does.

In last 100 years wage rates have increased rel. to prices. But not wages as cost, for less labor is used per output. - This has remained e. constant. Higher marg prod of course restrains & causes this.

Hansen, of course, wants wages to remain constant - & presumably all factors. Remarkable how only wages is considered as a cost, while int. is considered as determinant of whether production shall occur & rent is not considered.

The metaphors of economists reflect their confused thought. 'Wage reduction is a 2-edged sword'. - Ha.

Wages are mostly v/ble cost, int & rent fixed. - not because of rates, but because land & surpluses are hired on long terms, more.

Part 4 - Investment Incentives Past & Present

chap 16 - rate of inv.
Of all the world, only Eng. had no 20s consts. boom.

chap. 17 - extensive & intensive exp.

Progress & fluctuation go together. c. 1900 this theme developed: Robertson, Wicksell, Spiethoff, Schumpeter, Cassel,

Capital is deepened, if more is used/unit output. Widened if output increases pari passu. In last 75 years, (while cap. efficiency has increased,) time it would take to reproduce it has not. - in this sense we are no more capitalistic now than then - of course we can produce faster. But cap. represents no more waiting now than then. - this on basis of crude & dubious stats, but the idea is sound. Has possibilities for further development. I suspect we could reproduce our capital faster than than now, but they say otherwise.

F

G 357 Should it bring more reward now? - no, if its cost of production has not increased - rent will do the increasing. Capital saving inventions lessen deepness of cap. Only in manuf., & not always there, is cap. sometimes increasing faster than output.

Hansen, ~~Full~~, cont.

17

Old people demand services, young people houses. Shift to housing demand, because it creates ~~is durable~~, increases $.

1914, ¼ Eng. total inv. was abroad.

Invention is sole inv. outlet, now frontier is closed. He favors it, then. If he only knew it, he favors inventions that produce new items, opposes those that save cap. & labor.

Chap. 18 - early financing methods.

Success stories. Taxes discourage investment

Chap. 19 - Effect of tax structure on inv.

Cap. gains tax & undistr. profits tax said to discourage inv. They just can't decide if they want to encourage corps. or exp.

F29 Berle & Means

c. 80% corp. inv. comes from plowbacks. $8 b/9.6 b. Corps are largest innovators today - no more success stories. So this inv. should be encouraged. Much of this sum was replacement, much expansion. Role of cap. market has been much exaggerated. Much of cap. market is now ~~private~~ cared for by placing new issues with just one large investor.

fixed debts increasing over equity oblig.

$36 b in tax exempts outstanding. Not too great a bias toward having rich hold them.

Favors 'last in first out' inventory valuation for tax — to give greater ~~ax~~ constancy.

Proportion of net inc. taxed is c. 15% corps, 90% in depr. !!???

Eng Houses of Lords has judicial functions? Eng stopped 3 yrs averaging in 1926

'36, ~~1929~~ U.S. ~~profits~~ 'rate of return on equity' as high as '26-29, despite much lower 'inc' - 64/80. to corps.

I want stat., but better to get them from straight stat. sources, freed of hogwash.

'37, soc. sec. taxes started, withdrew ~~$2~~ $1.3 b.

Chap 20 - The dual economy

Quasi-governmental enterprise: 400 BBC, Port of London, Central Elect. Board, London Passenger Xport, Vereinigte (United) Industrie-Unternehmungen (Industrial Undertaking) Aktiengesellschaft (Co.), German rr Co, Port of NY auth, RFC, etc. Part of Portland?

Hansen, 20, cont.

Dual production economy & dual cons. economy. Latter may help full empl. better.

Replacement expenditures are not income, he says. I.e., a surplus has been sold & that cannot be called inc. — but I'll bet that when old products & securities are sold under other circumstances, it is called inc. — & certainly when land is sold. Think, if in a year $\frac{1}{20}$ old surpluses were sold, "inc." increases c. $10-15 b, not corresponding to production. But when large cap. gains realized, it is called inc.

So, by this, in static economy, all (inc.) would be consumed. No saving, which, thus defined, only is for new expansion. i.e., no saving of current income! / Classicals thought we could reach maturity, it would be ideal. 'Modern business cycle theory' broke with that, said you must be ever expanding.

Book 5 - Defense & its aftermath

Chap. 21 - Monetary & fiscal Controls in wartime.

Depression experience with inflation taken to refute quantity theory for $\Delta M \not\rightarrow \Delta P$.

3 Sept '39, war started, Eng at full employment already, we had 10 m. on.

War I, price increase not started until c. 1916.

Britain had more food in war 2, needed less from us. - not the isles, but the empire.

In ~~this~~ war 2 demand is more specialized, but we already have so much more plant that less inv.

Chap. 22 - Defense financing. 426

Real burden of inc tax rises with inflation.

Chap. 23 - The Post Defense Slump.

Chap 24 - Fiscal Policy & International stability

137-8 depression started in US, 'spread to rest of world' as we curtailed imports. Bill?

End (thank God)

H. Gordon Hayes, Ohio State. Spending, Saving, & Employment

Unemployment is worse when people crowd in cities, for then they are more dependent on exchange, which is what breaks down in depression. - they cannot turn to subsistence agric.

6 ½ % our 3,000 cties have ½ pop.

Chap. 2 - Pressure to sell

Annual advertising bill: c $2b, late 20s

F? Before 1930 savings>inv. not used in analysis. Hoarding hardly treated.

It is all right to save wages & rent, but not to save interest, he says. Bull.

$S = P(1+i)^n$. $(1.06)^{2000} = ?$ $\log 1.06 = c.0.30$?

$2000 \times 0.3 = 600 =$ antilog ?

Claims to have figures that 1929 distribution was more to rich than 1920. But Estey shared doubt. Possibly Hayes is thinking of distr. of income while Estey's figures are for wages as % only.

F 29

British workers got higher % industrial receipts than Ger or Am, 143.

F '24 & '27, recession years. - even if not liquefied, just this first loan is quite large & significant.

'22-9, cons. credit Δ 5.5 b $ - not counting houses. Net export, $6 b.

F ½ b gold imp.; 4.4 b increased claims, rest of export inexplained. Probly rent & int.

F ? '26-9, non-agric wholesale prices - Δ 10%

The monetary approach concludes that it makes no difference who gets it, but whether he spends it. except as it affects But I say extra parasitic rewards discourage producers by lowering their real rewards, make them unwilling to work. This is the same effect as hoarding the money - using it to reward idle factors, other rent, not wages. who produce nothing. - - - - ? Spec. is in marg. land, means increased prices call forth no more land, increase prices quickly, & (over)

Mitchell concluded wages should be reduced to keep prosperity by reducing costs. Hayes considers them for buying power.

Hansen & Ayres agree def? - Do they eliminate spec. from def? i.e., capital formation. How distinguished from 'inv.' by one author? ('inv.' not used because of ambiguity)

F When slumps occur, investment usually declines before consumption. Evidently they anticipate - Δ demand - - or more important, their costs rise unconscionably. As they cease producing, they reduce V, prices plummet. - because money that would have been invested is now hoarded in some way.

Capitalization has obscured distinction of rent & int, for you can use a surplus to buy a fixed rent income, rent & int. are interchangeable.

(over)

People invest while they think they can sell products above cost. When process starts, prices rise, factors get in a price-rising mood. A point comes when they see that further investment will add to supply so that prices to be realized will not cover present costs. This is critical point, when T is growing faster than M. Adjustments could be made, but aren't until depression. If factors saw what investors see, they would lower money demands. Or perhaps at this point we should have more M, to keep it ∝ T. We probly do, in fact, but it is ~~no~~ only ∝ productive T, & see spec. follow it away.

—

Land spec. grows by its own effects: land not idle can get increased rent, This further encourages spec.

Hayes, p. 2

Fed govt spending in '30s got to those who would save it, it 'piled up as idle bank deposits'. So fed spending helps little if the maladjustments which originally caused depr. are uncorrected. Inelastic costs prevent adjustment, & Irt will make costs elastic, also will prevent original 44% by fee 144, 115 b $ saved. 22% was 'taxes & debt reduction & insurance' – i.e., unliquid items. 78%, or c. $90 b, is potentially liquid – currency, bank deposits, govt bonds. Of course the bonds must be paid off with old money taxed away. The remainder are generally considered deflationary liquid assets created during war on destroyed surpluses & govt credit, huge inflation potential. Slichter estimates c. 40% of this, or c. $34 b by end of '44, more nav. is 'hot', likely to be spent immediately.

F Consumption for 1943-4 est. 1/6 higher in real terms than 1939.

F Tremendous wartime Δ efficiency. In 1946 we could produce what we did in 1940 & leave 19 m. unempl. What a mighty giant we chain down by confused laws! How little will compensation for present values mean when production has been set free!

This rapidly increasing productivity raises real margin of course. But figures seem to show it increases rent more.

1939 – new construction of houses, roads, utilities, ind., & all other – = $6 b

F 1929, $10 b

1941, $13 b war goods produced. Inventory values $21 – $27 b – ~~par~~ est 1/3 from value Δ, 2/3 extra accumulation. 'Gain thru waste!

'Gross nat. product' does not subtract depr. etc. (how about depletion?) Net product does, but also excludes business taxes! What peculiar categories!

1943 war exp = 1939 gross nat. product! = $89 b

F $146 b war debts, post war I. Eng paid 2/6 b$, all others .7/8 b$.

F? French indemnity 1870 injured Gy, helped Fr.

New attitude of economists to sav & inv. involves accepting protection more, too. Keynes, e.g.

Not until 1921 did housing boom start. – So perhaps today's awaits the

F recession. 1925-8, plateau height of boom. c. 3 x 1920. General constr. similar,

F Housing exp:

21	2.3
22	3.8
23	4.8
24	>5
⋮	
29	>5

was exp a housing? Perhaps, for land did not rise until other costs declined.?

(over)

As productivity increases, rent rises. So housing cost becomes more & more a payment for land. This means less reward for active factors. When the $ comes round again, again land reward is higher. The same money demand ∴ a) gets less land b) amounts to less M dem. for labor, probly.

Hayes p. 3

F Housing high in 28, plant & equipment in 29. p. 109

F In boom, middle income groups moved up, but lower did not move to middle.

F ~~High~~ 90 of inc. to higher brackets increased.

F After '24 drop, employment in manuf did not reach '23 level 'til '29.

F Weekly earnings fact. workers: '23, $26.6/wk; '29, $28.50/wk.

F '23-9, ind. wages from 11 - 11.6 b, while value added Δ 6b !

F Ind & mine corp profits = c. $2.4 b/yr in '25, c. 3.9 in '29.

F NY banks at one time had 4b loaned to corps for carrying sec. of other corp.

Vol. of share ~~transactions~~ on NY exch x4, '23-9. Value of indiv. shares:
(4 b. shares to 1.1 b)

F

~~Price~~ (this is a sampling, which I ~~assume~~ guess is claimed to be representative)

per share values. Must be blue chips - 30-60/share is normal.

'22	$116
23	118
24	135
27	
28	335
29	469

1 b. shares @ $50/sh. = $50 b required by NY exch alone in '29 - it

G probly was more - & this is 4x4 = 16 times 1922 requirements.

What an effect! Far greater than land speculation direct, because stocks are more liquid, can be traded many times.

F '27-9, $26b new sec. issues. c. $8.6 b/yr.

One must cf this with ΔM. 115

G Query: why didn't stock market collapse & general cessation of speculation send money back into consumption? Perhaps hoarding caused by collapse had more of an opposite effect. -ΔM due to collapse also imp. Much of what was called -ΔV was really -ΔM, as banks suspended payments.

F Aug '32 - March '33 corrupt of ind. prod. - $\frac{53}{114}$ 1929.

$\frac{8}{56}$ m. unemployed, 1940

F NRA increased costs, so when it was known to be coming production

G spurted to beat it, stopped when it came. Analogous to entire depression situation.

Roosevelt vetoed bonus more than once. '37 govt economy brought

F slump.

'39-42, Δ inventories 19 - 29 b$. Inventories very variable & very large item, ∴ very important.

Hayes, p. 4

1790, 4m. pop.

Keynes: 3 ind vbles: prop cons, marg eff, & i.r. Error is to say that i.r. (price) is ind of marg eff (demand) & prop cons (supply)

Hayes is undercons, Keynes undersinv.

Money is used i. 2 x as much in good. as cons.

F It is not that consumer demand is lacking, but that money demand is lacking. The demand may be for to consume or to accumulate material. We are

G not condemned to waste — we can save as much as we desire. It is not underconsumption, but underspending, & that in relation to inflated costs.

F 12 m unionists, $\frac{1}{4}$ extra - agric. workers. (?)

Reduce saving by taxes, increase inv., etc, he says. Low i.r. Public inv. in utilities at what price?

Ezekiel's plan: govt guarantees to buy products that industry cannot sell. ∴ industry produces, ∴ is able to sell, by increasing V. ("creating incomes"). Govt will not nec. prevent hoarding.

Govt should be able to print, he says by getting bank dep. in return for non int bearing notes, or just create fed Res notes.

Opposes decreasing time worked, says it will not raise rates.

Thinks Gesell admin. unfeasible.

Govt "took over" r.r.s in Dec 43, which meant only that 5 exec. put on uniforms — & took orders. So easy & gradual is xition from private to public ownership.

Incentive problem in very large corp. approximates govt service in some respects. But significant differences — competing employers, close eye on profits — which govt projects never have as measure, smaller size, etc.

F 135, 260 capitalite execs, $61,000 salary, 500 dividends

F Prewar, 1% Russ. inc. to research, .6% U.S., .1% Eng.

Wendell Berge, "Cartels", 1944, ch. 3, cites many deliberate attempts

F to lower endurance of products.

Govt. control of industries needn't be govt control of the market — govt could pay wages & direct its production to maximize profits & dist. except, being monopolies, that criterion would have to be scrapped for expanding

G all production until only necessary costs were met — for marginal product. & govt could keep supermarginal revenues for its expenses. This is lvt, for supermarg. rev. is rent.

Hayes, p. 5.

G Probly a good way to run nat. monops. — & incentive to economy being voters mandate to be economical, which is never given today.
Also an effective means of socializing.
Free enterprise must be democratic; socialism may be, but I doubt if it can remain so.

Wartime phenomena favor infl. interp. of boom over George's. For Original effect is to lower real rewards, as govt takes for war. George would say as less real rewards remain, due to taxes, production will decline, until rent & wages reached a new equilibrium, by falling in real terms. How would George explain utilization of idle resources in war? It is explanations are in terms of labor efficiency — but in war labor efficiency in satisfying itself declines. More is produced/cap, because idle resources go to work. But why do they go to work? Not because of higher real rewards. higher money rewards.

However, you might say in war wages rise more than rents — & product values even more. So war has effect of raising % going to wages, & perhaps absolute am't.

Perhaps most imp. is relation of product to factor prices. Inflation always affects products first, i.e. encourages production, (& accumulation of products, while rise is anticipated) etc.

F General agreement that profits increased while wages did not, '23-9. But to what extent were the profits fictitious cap. gains?

In diverting money, cap sec. spec. is more important. But latter has no effect on ? withholding land, as does direct spec. Sec. spec. does not increase rent.

3, One category is probly 'things which affect prices'; another, 'things encouraging spec'. - they will overlap, However.

History of prices and of the state of the circulation, 1793-1837, and brief sketch of state of corn trade in last 2 centuries, by Thomas Tooke Esq, FRS. London, 1838.

1807-8 speculatige boom, with many new projects being tried. I'd say that once construction starts it causes increased MV, this deludes people into thinking permanent factors have raised prices, they construct assuming the high prices. When construction of the most obviously needed things is over and less profitable ventures remain, delta MV stops or recedes.

People become less ready to buy, more ready to invest. Thus by lending to buyers they can keep prices up for a while longer

This boom raised all prices. But circulation of Bank of England remained stable! 1802-8, price of wheat almost doubled, circulation of bank of england did not change. That means the number of notes in circulation. Takes no account of velocity, which in this instance then must have been responsible for deltaP. But there might have been a change in deposits, which he doesn't mention. Deposits in 1808 were 11mL, cf. to 18m of notes. The bank held 7.8m in bullion at that time, which author says is strong presumption that it planned to "resume cash payments", which I guess means gold redeemability. He refers to "the bank restriction" of about 1795, after which notes were expected to increase but evidently did not. He does not consider the many other sources of money, just bank of England notes. This bullion reserve was larger than that held before the bank restriction---so the notes were never 100% backed. Then bank fixed price of gold at 4L/oz, buying much, this was above the "mint price".

By Sept 1808 notes were reduced, deposits increased, bullion reduced, so the sum total money in circulation was higher.

Exchange depreciated slightly.

The question plagues him: why did not bank of England increase circulation when it was no longer limited by gold redeemability? All it had to do was find someone whowanted to Bobbow and pay 5% and it could print notes to lend him. So far as I can see, nothing in the law prevented unlimited extension, only a custom, a regard for the future and stability and reputation of the bank, etc. Also they did increase their deposits.

Main cause of rising prices may have been just scarcity of production.

1809-11, imports arranged by virtually breaking down the continental system and orders in council. Also from S.A. Also exports to Eur. were prevented, being confiscated in Prussian ports. Result: most rapid and ruinous decline of prices, depression. In the middle of a war! "Omnium" fell to 2½%. Banks failed, credit restricted, as speculative values were broken. Now here we have clearly an increase in production bringing depression. Why did not those who received the money from producing keep prices up by demanding articles from England? Perhaps they loaned to England.? Why couldn't production continue at the lower prices? Perhaps because wholesale falls faster than retail, that means that the cost of living does not decrease as fast as the profitability of producing, hence if real factor demands remained the same it would mean their money demands would be higher in relation to the prices got wholesale for their products than before. Why, then, are not inventories disposed of to prevent this disparity? Here perhaps reluctance plays its most significant role? A significant role at least. Naturally people don't want to go bankrupt or take losses by selling products below what they cost them, so they just hang on. Meantime manufacturers with their heavy fixed investments keep on producing, so wholesale prices fall faster than retail. - no of cap from conversion

All this implies an original price reducing causes, which is that MV increases less rapidly than T, for anumber of reasons. make calculations

2B, 4 Money said to be extrememly scarce in Prussian ports, i.r. 2½%/mo. This would be money rate, not return for surplus. This would be an interesting study. Did the banks break down? Why were people paying such a high price for liquidity? Etc.

– 5 Another cause of English depression was that exporters had overstocked S.A, prices there were below cost.

Another angle in retail prices being upheld: merchants are "praying 5 for public assistance". The likelihood that they may get it increases their resistance.

We have the typical situation that people bought goods speculatively, this time for export to s.a., and then the price dropped. They being forced to take great losses. The decline in retail prices perhaps results from the termination of capital expansion and speculation, with its delta MV, ordinarily, tho it may have othercauses, as in this S.A. case, where god only knowswhat the causeswere, they may have been just that, or something different.

p. 306

If lower prices always encouraged buyers, instead of discouragint them, would we have cycles?

"Funding" a debt probably involves paying baks and thus destroying money, replacing with borrowings of old money. But banks also buy bonds, and loans may be from old money.

Read? Beveridge's "Prices and Wages in England", 12th to 19th century, a tremendous compiliation of minute detail. Valuable to compare the value of the money unit in various periods in terms of real goods, if you want to do this. Probably one could dig some real wage info fromit. Mostly it just seems to describe products and their prices in various isolated circumstances.

Read World Prices and the Building Industry, Warren and Pearson. An excellent compendium of significant data on building, including much on cycles.

Read Agricultual Price Analysis, Sheperd.1941
More theoretical than W&P, probably not as good, more modern. Fewer facts, but still has some, they seem fairly good.

11 Wedgwood, Ec. of Inheritance, of some small interest inits own topic, little for cycles.

Back to Tooke
Distress centered in merchants, who were then unable to pay manufacturers. Evidently no distress among those who buy at retail was an original cause. This is significant. If we could straightforwardly say:"People had no money, therefore they would not buy goods, therefore demand was lacking and c.," it would be simple. But we hear of no great distress among "consumers", oringially. Neither do we in the recovery hear of greater affluence among consumess. Prices must break when speculators realize they have overjudged demand; and recover when they realize they have underjudged it. This is accentuated because speculators in their buying contribute to demand. But they are not the whole of,it, so it is steadier than their demand.

Tremendous lack of confidence, restricting credit, in this 4 1810 depression.

This depression also felt in Europe and U.S.! Despite they were at war, and blockaded a bit. How strange that, with only 10% of u.s. business being in foreign trade in recent depression, yet it was worldwide. That 10% is sufficient to communicate the cause, from each country to another.

Speculators "struggled to maintain themselves" with more speculation, until "overwhelmed" by the facts. Such an attitude must explain every crisis recession.

Banks doubtless were affected as badly or worse by the stock market collapse as by the r.e. collapse, or decline rather, which Simpson emphasized.

Freight and insurance costs on oceans tremendously high, due to war. This increased cost pf production.--of foreign goods. Also would reduce foreign prices for domestic goods. Same as tonnage.

Nap's continental system was exercised more vigilantly against imports from Britain than exports to it! Thus did mercanitile self interest outweigh war needs.

Frequent bad harvests and restriction of food imports during Nap wars. This "gave an aspect of permanence" to high prices, so that whenever long term leases expried they were renewed at higher rents. Land speculation invariably profitable. Some instances of trebling rents, 1792-1809, but no statement of average increase.

This is the long term lease angle. Which is?----

Increasing cost of raw materals and other building costs increased price of all current buildin s. Which means demand of consumers was redirected from new buildings to old. This is another reason why increased factor costs do not put an equivalent increase of purchasing power into the market for factors. Each period's income is devoted more to buying old products.

Capital gains are thus made. This is income for recipients, not factor reward for current services. Will it not just counterbalance the decreased proportion of factor rewards that are spent for current factors, by being spent for current factors somewhat??

Only ships, buildings, land, wages, were higher in 1810 than 1800. Most prices were 20-30% lower. Special reason for each.

Apr. 1811, govt arranged to lend to distressed merchants on adquate security. Prices started to rise about that time, but Tooke attributes that to other causes. Original price decline was due to stoppage of English exports and great imports. Evidently this changed.

Lending to merchants will not save them, he points out, if prices continue to fall. It will only do good, he doesn't point out, if it itselfcauses prices to rise. What the lending did was to allow these persons to hold their goods longer. That is, their credit was running out, and they were forced to sell their stocks to pay the banks. If the credit could be replaced by the government, it would be used to pay the banks(and perhaps to meet the small storage expenses etc) therefore it would only serve to keep retail prices high, by restricting supply, not to encourage new production. Thus it would have a most perverse effect: keeping retail prices high prevents factors from lowering their prices, and failing to keep wholesale prices up fails to stimulate production.

Revival occasioned by liberation of Portugal and part of Spain, opening of Russia to imports from Britain due to its evident arising hostility to France--this was a possibility just speculated in at the time, and the speculation served to do the trick---

and reviving s.a. demand. Meantime poor wheat and other agricultural crops raised prices very high. Tooke is arguing that the rise was not at all due to increased M, probably it was somewhat.

agric. Evidently bad crops are considered a cause of good business at this time, unlike the agricultural theory of the cycle today. He is thinking of speculators

public opinion & price change "...certain ill informed newspapers teem with the usual deplorable nonsense about monopoly, forestalling, and hoarding farmers and dealers.".

Foreign supply again cut off, at least prohibitively highly priced. So it seems that the worst weapon Napoleon unleashed on Britain was wheat!

3eg, 4 "Every purchase of land made before 1811 turned out favorably, and it was supposed that money could nowhere be so favorably employed as in buying land". "Favorably""according to the then market rates" p.326 ---i.e., capital gain was greater than interest would have been.

"...credit came in aid of capital" to speculate in land. "land jobbing".

4,5 Thoe who bought in 1811-12 were later ruined. Some of them prayed parliament for "an equitable readjustment of contracts" which meant indemnification for bad speculations. As under New Deal.

Enclosures greatly encouraged by high agric. prices. Field for much new investment, too.

T, 4 wages at subsistence "Earlier periods of dearth" 1795-6, 1800-1. Alternative to raise wages in money or many workers would starve to death---wages in general must have been at a very low level. So money wages were raised. He makes much of the distinction between variable temporary increases, and long ones that may attain a spirit of permanence. He may have something there. Heavy wartime consumption taxes also caused the price to rise.

4 ? Maybe the speculative boom before the crash is one that is caused by scarcity, which is therefore sometime broken by subsequent flood of £ppp products. 1808 and 1812 years of scarcity and prosperity.

2B, 4 During war, money wages almost doubled. While we can attribute the rise of wheat to its scarcity, we cannot attribute this to labor's scarcity. Nor yet could labor increase its money wages just because wheat became scarce, if money had not increased. Analyze further. Gy in war had no wage infl.

4,5 Standard of living rose during war he says. So scarcities of 1808and 12 did not bring the hardship of earlier ones. Didn't rise in world wars

4 1812 agricultural prosperity, but industrial depression. Wages in agriculture, and of artisans, during the war rose, but in manufactures they did not rise., and hours were reduced. And even inagriculture and arts, wages did not keep pace with rise in cost of living. He does not specify what years he speaks of, and I suppose if he did the f29 of this with his previous statements would dissappear.

France, Nap. infl. ? Prices of wheat also rose in Eur. 1812. Author states there was no money inflation, French did not finance warby borrowing. But did not Nap found bank of France for just this purpose?

2B In France no paper circulates except in Paris, and there only a little. So?

4 Say's figures comparing pre-revolution with Nap. prices show that wages increase more on farms than prices of representative agric. tools, but not much more. and exact dates not given.

1813, prices of wheat declined, good harvests. And then it became

evident what was to be the effect of the development of new lands stimulated by high prices earlier. Much capital had been addedto lands, production per acre, and acreage, had been extended greatly. Price fell over 50% in two years, of all agric produce.

At same time, price of gold was rising--which might indicate less gold, would be consistent with falling prices, proably indicates more paper money, inconsisted with falling prices.

The falling prices somewhat preceded the actual coming of abundance, in anticipation of reopening European ports, as war ended.

1813 fall of prices was in all, not just wheat. And it happned in France too, despite war still going on and near her. And money did not decrease . so?

A further illustration of the importance of wholesale prices is in foreign trade. If a country can sell its produce at high opt size prices and at the same time buy at low, it is doubly blessed. The low prices have no depressing effect unless they mean low prices for the country's current factors of production. Low retail prices mean the real rewards of factors are higher, so the higher money rewards mean more than ever. This happened to England in 1813. Her exports were in great demand and brought high prices, while the influx of foreign wares lowered retail prices. The remarkable thing is that this need not have been at the expense of foreigners, for the revival of trade would mean the very same thing for them. But the revival of trade cannot have been the crux of the matter, for in itself this would lower the prices of domestic factors who had previously been without competition as much as it would lower retail prices---perhaps not for a time, and that would perhaps explain it. But the filling up of inventories, the neglected maintenance of wartime, the increased efficiency of trade raising margin, these are better explanations. Also the new trade causes a change in production, horizontal, which requires new capital outlays.

Thus in England at this time all articles of export were in speculative demand.

It was hitherto the rule that "colonial produce", which Eng. got from colonies and sent to Europe, should be higher in war, because of high transport. Sugar ad coffee e.g. But it was anticipated at this time that close of war would increase price, because increased demand from Eur. newly released from cont. decrees should exceed increased supply. Speculation rampant, and again it ruined many in its fall, in 1814.

Eur. produce fell in price in Eng. 50% by 1814, starting at the same time exportables rose, with peace likelihood.

Rising prices in Britain c. 1808, and large amounts of british currency and gold sent abroad to pay Spanish and subsidize Austrians depressed Eng. exchange. Note that price of foreign currency rises just as all prices do, that is one view. But it has its own special influencing factors, besides, which are all embraced in the s&d for exchange view. Now if britain sens L abroad, this increases their supply, lowers their value. But if the resultant high demand for Eng. goods doesn't raise prices in Eng, and if the outflow of Eng. goods doesn't reduce demand, the exchange will not change much, for the extra claims thrown out on Eng. goods have neither sated the demand nor made mor costly the supply enough to change the price.

Export of gold would make foreign currency worth more in gold, ours worth less, so we would depreciate.

After 1808, paper became worth less than gold. He says that this would have happened due to external circumstances, i.e. the exchange

depreciation, even if notes were redeemable in gold up to the time. That is, when their currency was actually worth less, they would have lost all their gold by gold redeemability. Now if the cause that currency was worth less was just that of scarcity, they might have done well to lose their gold for goods. --tho of course they'd never think so. But I'm sure that in addition to scarcity those foreign subsidies must have had inflationary effect. Especially as they were raised from consumption taxes so much. Consumption taxes are inflationary not only in the sense that they raise prices, but also they increase the amount of money that must be used, in distinction to a tax that doesn't raise prices, such as a direct levy.

High price of gold due to havy foreign demand, not depreciated paper. But Ricardo thought otherwise. By foreign demand I mean demand for foreign purposes, i.e. export of gold. Both could have been factors

1808-10, midst lowest prices, bank "circulation" increased most, then decreased 10-13, while prices were rising. And the bank played a passive role thruout. Again he is speaking only of banknotes, doesn't give adequate evidence, and I don't know whether to believe him or not.

4. At any rate we have the fact that it was in 1808, the great speculative year, that the increase of money started.

His table seems to show roughly that banknotes increased from an average c. 13mL before 1808, to average c. 15.5m after 1810.

1.4 4 years in a row of bad harvest, 1809-12. First two relieved
6 by imports from france, causing depression. Latter two unrelieved,
causing starvation and prosperity! He is merchant-conscious, thinks of their prosperity.
4 1813 abundant harvest, opening ports of Eur, prices fell low.

Tooke is probably quite right in pointing out that some quantity theorists were neglecting T in their calculations. Perhaps both neglected V.

In 1813, while "war demand" was higher than ever before, prices
4 of Eur. produce fell. Therefore war demand was not the chief factor in keeping them up. This is largely a matter of relative degrees of influence, and does not mean that war demand had no effect, or that if might not have the dominant effect today, when we have total war.

European produce in 1813 fell in Europe more than it did in
4? England, due I gues to the good harvest, so this would deny the influence of the cont. system on Eng. On such few and contradictory facts one can hardly conclude.

1813 was the time of the lowest state of Eng. bullion, it went to Eur. Now going back to p. 225, from the end.

public opinion, 5 1795 and 1800, Mr. Whitbread had introduced bills that wages be given a minumum, and regulated according to prices! How old this proposition must be. It was rejected, and Tooke approves, because to raise wages would have further raised prices of goods he says. (not so if the wages came out of prop income)

1.4 Few instances of actual death by destitution.

Wages rose, 1799-1801. Cause of rising prices was dearth of harvests, taxes, and impediments to trade overseas. Wages must have risen at expense of property income, or rather staid constant at its expense, since there was an absolute decline in amoujt produced. Or perhaps all fell propertionally.

Note the error of George's idea that wageswill be forced down the minumum at which labor will consent to live and reproduce. If the margin goes below that, then that labor just will not be hired, and the next higher group will be paid the minimum. The unemployed will

be a social problem and some politicalsolution will be found.

If the rise in land values occurred, it must have been the extra money rather than scarcity of goods that did it? No, for higher prices for goods would mean higher prices for the land from which they came. Scarcity certainly could cause a general increase of prices. The crux is the same as when increase is caused by increased circulation, namely a greater relative amount of money to amount of T

Thus a scarcity of goods increases money land values, and a dearth decreases them. Despite the fact hat there is still as much land as ever in relation to money. The result of production is to take land and turn it into forms not controllable by landlords, therefore decrease rents. As with scrap metals. Demand is for stocks, rather than new poductin Significant in cycle. So it is not true necessarily that increased productionincreases land values.

What of land whose products are not become scarce? Its products will bring no more money return than before, and the return will have less p.p., and labor will be demanding more and, being mobile it can get it, while land cannot, being residual.

Mentions a great clamour that monopolists are regrating and forestalling the supply of wheat, while really it is just ligitimate speculation he thinks. We have the same today, when labor complains about increasing inventories, attributes some sort of plot to the NAM, and they probably believe it. It is heartening to know that such foolish opinions were rife also in earlier times, yet produced no tremendous ill effects.

In previous wars, price of wheat did not advance, he claims.

Grain is the article which comes most frequently in contact with money and feels price changes quickest.

Demand in Gy for transatlantic produce, 1796-8, raised price. Great speculation and, "as is usual in such cases", increased price reduced consumption and increased supply so that final speculators took great loss. Now a cycle thus caused is pretty clearly the result of market ignorance, and hurts mainly the speculators, is not a general injury. Such cycles are not the object which public policy should cure. They are the inevitable result of ignorance in a free market. They cause great fluctuations in demand for factors, too. But if the alternative to the excess demand were not unemployment and starvation, the cycle in itself would be no worry. The cycles that involve speculation in land as well as commodities are the worst, and the ones in which unemployment is worst, I think I can show, and so lvt will both cure the worst cycles, and put them all at a higher level. But some cydles will remain, depending on ignorance.

heart of money ages. When land involved, longer & deeper.

Circulation of bills of exchange had expanded with and promoted the rise in price, and fell with fall in price. Perhaps in cycles an original scarcity causes speculation and delta M, thus starting the spiral.

Germany and Holland suffered from the fall---at least the speculators there suffered, tho I should ay the consumers benefited greatly, and the economy as a whole, tho that less.

Discount rate at Hamburg rose to 15%.

1799 Pmt granted credits to Liverpool merchants to alleviate their condition due to stopped payments from Hamburg. etc.

1799-1801, transatlantic produce fell greatly, while Eur. rose greatly.

1801-3, all prices that had risen except labor fell to previous levels.

Good harvest, death of Czar Paul of Russia with resulting removal of restrictions to Baltic imports, together with battle of

Copenhagen, increased supplies, reduced prices, and thereby brought great suffering! How old is the paradox, that improved situations mean worse times.

Yet the margin of production should have been raised, having opposite effects. Maybe it was. All he says now is that prices went down, not that there was suffering.

1799 Hamburg troubles required Eng. merchants to send large amounts of credit there. English importers, I suppose. Food was imported from Gy, which was best agric country at that time. Good bills were not available, which means that Eng. exporters to Gy did not have good credits in Marks to sell importers, for their credits were in German houses in Eng. that were having troubles, and would not have been good in Hamburg anyway because credit was in doubt there. So they had to send bullion, which was mostly done in silver for some reason.

1799, continental currencies were greatly contracted by their way of financing war (a coalition), for bullion was taken by govt and this disrupted credit.

"Country banks" may have expanded credit to upset all his assertions based on Bank of England, but he has no figures on it. 1799, country banks accused of encouraging hoarding by lending to farmers. Not true this time, but represents important principles.

p. 255

6 - not nec. desirable to reduce holdout price of labor, for why make people work when they don't want to. But desirable to enforce full use of land, for it is a resource, & in being used makes no person work more. Capital will not need forcing to go to work.

6 Legal vs. non legal influences relavent categ. here, in 6.

Raw Material Prices and Business Conditions, Copeland, 1933

Raw material prices are almost all internationally determined.
Copper price in '22-28 only increased from 13.38¢/pound — 24¢! average to 14.57¢. Then in '29 it was lifted to 18.11; 1930 12.98; 31, 8.12; 32, 5.56. This compares fairly closely to Staley's figures, with difference in emphasis. But what a fluctuation of a supposedly monopolized price! Evidently Copper Exporters inc. did not have a world monop. by any means, and foreigners invested heavily in Belgian Congo thax to the tremendous '29 price increase. Copper exporters pegged price at 18¢, but forgot to curtail production. Scrap also entered picture. So they built up large stocks, tho in '29 stocks had been very low. Then the established co.s in U.S. and Chile curtailed production tremendoubly, but the new producers in Africa and Canada did not. Here is an aspect of the depression I never dreamed of before, yet Staley's book shows it to be generally true that production declined in u.s. more than outside it, so perhaps we were creating monopolies which were all stirring up extra-national competition about that time, especially with the unconscionable '29 price increase.

Creation, not conversion.

1932 stocks were about twice the normal '25-9 figures. '29 stocks did not fall much. Post war 1, inventories were about 3 times the '32 level, and potential demand was less, yet price was maintained. It was a tremendous fall in demand that broke the price.

Lead. U.S. took worst fall in % production in depression by far. Mexico, Canada, India compete. Gy, spain, Australia.

35% supply from scrap.

1925 flotation process increased production. Stocks start to increase in 1925. 1922, 4.7¢/lb. 25, 10.1¢; 29, 6.8¢. This is not considered a typical industry, for it was declining in price earlier than most. Copper reached its 24¢ peak in March '29. Author states that general business recession started in Nov 29, but I wonder., What prices did not begin to deline before 1929? Any?

yet they call it a non infl. boom. Raw rose tho.

'29-32, stocks rose, as production did not decrease as fast as consumption. This is an angle of depression I didn't quite see before either. Inventories pile up in the recession. '32, 2.7¢. cap. ho. But They won't sell.

Copper was definitely exceptional. For the other 12 commodities on his list: lead, zinc, silver, tin, coffee, raw silk, cotton, wheat, wool, ~~pet~~ sugar, rubber, petrol: 1925-6 was height of price. Prices were constantly moving,(and were given in 100ths of a cent in other figures, indicating a free market I should think) so monopoly control seems unlikely. Cotton ws also irregular, not in pattern. With 1926 being 100, average price in '32 Dec was 34. The minerals dropped slightly less than the agricultural, going to c. 38 while agric went to c.33 with wide variations. Rubber to 7! Coffee to 46.

By Jan '29 prices had slowly eased down to 85. Then they broke, in Nov '29, and slid down rapidly.

Again, where is this talk of administered prices? They all went down, way down. 1925 was the peak year for raw materials prices. What about production?

Copper not the only industry with large war stock trouble. But it didn't make much trouble, demand was so great.

Copper, lead, zinc, silver, and petrol industries were improved---new methods. Tin and wheat were mechanized with old methods. Sugar, rubber, cotton, wool, silk, coffee experienced few innovations he says. So most of the mining costs were reduced, not the agricultural, so the agriculutal prices should have declined less than the others. That is, perhaps there was some monopoly control in the minerals.

Copper, lead, zinc, tin, petrol and rubber had expanding markets due to autos, building, radios, public utilities. Again, these are mostly minerals and this should have kept their prices up. But didn't. Evidence that there wasn't monopoly.

In wheat, sugar, tin and rubber suggested evidence that falling prices encouraged increased production, at least among some and for a time. Keynes post hoc ergo propter hoc fallacy. Mobile factors moved in from elsewhere

The signs that preceded 1929 were radically different from those that preceded 1921.

Tremendous optimism in 27-9. 1930, crash regarded as mostly a local N.Y. affair, and they thought we had only a small recession.

This pamphlet makes me think maybe this summer I'd better work on static theory, and wait for cycle theory until I've had a chance to become very familiar with more facts.

In almost all these commodities there were producer organizations which tried to bolster the price. They were formed mostly in the middle twenties to the early recession; many succeeded in boosting price for a time. None kept the price up in the depression. But just because the price fell in depression doesn't mean it fell as far as it would have without the restriction

He points out that this worldwide movement of raw material prices is something that any national banking system would be powerless to prevent by expanding credit.

Before '29, widespread confidence that a credit panic was impossible thanx to the FRSystem. The experience of 1907 had caused institution of FR system, it ws supposed to prevent trouble.

1834 Congress aranged for free coinage of silver at 16-1. This undervalued silver, so little was brought in. The act was repealed in 1873. Shortly after silver price dropped. So silver subsidized by Bland-Allison Act and Sherman Silver Purchase Act. In crisis of '93, burden on govt so great they stopped buying, silver

Copeland 3

Bryan defeated on issue, no more free silver. Silver interests took advantage of inflationary feeling to get silver coined. Their original 16-1 plan not adopted, but something was.

The pamphlet has descriptions of the various monopoly schemes, "valorization" attempts, meaning keeping price up by restricting production, for the commodities mentioned.

5, 6, 4 'Capitalism' gives way to socialism because people balk at bankruptcies & readjustment of recession, not because rewards go too low. In their balking at readjustment, they create conditions of chronic stagnation, & ent. seems to have failed.

Basic factors, financial problems, City Portland. Bur. of Munc. res & service, U of Ore, & League of Ore Cities, 1946.

p. 65: .9 distrib. of assessed valuation among Land, improvements, personal & public service corps. Land decreased, 1915: 60%. steady decline to 47%, '25. steady to 36; to 44 in '41; to 33 in '42. to 29 in '46. Improvements took the increase, 18% in '15 to 38% in '46.

3, 4 Assessment accuracy questioned.

4 Assessed valuation: critical values.
1915, 16, 20, 22, 30, 41, 46
$300m, 285, 320 300, 350, 260, 350

4 Annual prop tax levies: $2.8m 3.0, 4.8, 4.5, 6.8, 6.8, 7.5
1935 min = 5.8

Millages, total of all levying bodies on Portland prop. City & Dock Commission take c. ½ of total, slightly less. (?)

1930	1940	1946
50	62	48

4 Since land decreased from 60 to 28%, while total valuation increased only from 300 to 350 m $, it follows that absolute assessed land values declined by c. 40%, which p. 57 corroborates. Of course real values must have increased considerably.

Pop - city of P.
1944, 360 thousand; 40, 300; 30, 300; 20, 260; 10, 207; 1900, 90

4 Building permits: 1910, 25 43 peaks
$20m $40m $22m . Down to minima of 5m, 1917; 3m, 1933-4.

Portland ~~ec~~ finance, 2.

In war, food to 151, fuel to 121, of 1935-9, in Portland.

4 U.S. 1945 Dec indices of 35-9: ~~#~~ All, U.S. 130, Portland 137

geog. price change

	U.S.	Portland
food	140	153
clothes	150	142
rent	108	114
? 4 fuel & ice	110	120
furniture	150	150
Misc		

1938-46, constr. costs about double. Lumber esp advanced.

4 Common labor shared in general advance, 50¢/hr to 1.15. Union labor less % advance, same absolute. Carpenters, tho, more than double, & I suppose they are biggest item.

City taxes do not support schools, so that means additional %.

city functions 1945 City functions, in order of cost: Streets & sewers 1.9 m; Fire 1.7, police 1.7, 'public service enterprises 1.1, int. .9, mis .9, recreation .8, administration .6, sanitation .3, health & hospitals .3. Total, 10.8 m$

Evidently prop tax was only c. 75% of ~~revenue~~ expenses.

Dock Commission collects & spends considerable revenue included in these figures.

unique city land buying? Misc. includes an 'Assessment Collection Fund', which buys land. (?)

geog. 4 1920-40, Portland's ~~exp~~ per cap exp declined, contrary to common experience. '20, $46.; '30, $62; '40, $30; '46, $30.

geog. Portland, Seattle & Oakland per cap exp are c. 2/3 ave. for 250-300,000 pop cities.

Portland finance, 3

Tax structure

4

Non tax revenues, c. ½ city income. 1915 it was Special fss & Service charges that were bulk of non tax. Sp. ass. rose to ~~5m~~ 5.7 m in 1930, of a 15.7 total inc. But then they fell greatly. Now service charges are ½ non tax, remainder even among fines-forfeits-penalties, revenue from use of money & property from other agencies, & sp. ass.

The Dock Commission gets c. 5% ~~tax~~ ~~prop~~ city tax rev. only.

city revenues

1921, autos removed from prop tax by state action, hit by license tax. 1931, intangibles removed, state intangible tax levied. None of this revenue returned to cities. A factor in decreasing total value, (but not land value nor %) Tax exempt prop = c. $135 m, 1946., mostly owned by govt units; improvements/land = 13/3.

4

infl. putting land to use

~~Delinquency~~ Collections on current taxes, 27, 30, 33, 39, 45
87% 83% 64% 81% 95%

During war, past delinquencies mostly paid up. Each year much delinquent taxes collected. But even in war, 95% current taxes only. The levy is not what is collected, but what should be.

Portland's % of prop tax revenue is higher than average. Her shared tax income lower.

Dock Comm & Water Bureau receive bulk of service charge revenue. It is their income which makes non tax look so high above, & it is excluded from later tables & discussion. of %s of total revenue. Is it customarily excluded?

End.

Types: Bonds down when m.r. goes up with bull stocks.

Why should stocks follow bonds down? He implies i.r., rising, takes down bonds, then stocks. For a bond s.p. = $\frac{\text{income}}{\text{i.r.}}$. But stock — how does that work? Must be somewhat the same, as stock ownership is land ownership. This relationship is altered, tho, when income is not fixed. With stock, dividends will decrease about the same time the i.r. is getting too high - altho the duration of this is short, for i.r. must soon plummet. When it does, up goes s.p., only to subsequently drop again as i.r. steadies & dividends continue to fall. But bond prices, with fixed income, should vary exactly inverse to i.r. (which i.r.?)

Laws of ec. having been discovered, prediction would be possible, except 1) Accurate facts are hard to get 2) Humans are economically predictable, but not politically. At least, political prediction is more difficult. 1) Statisticians are apt to generalize their results too much, in the tithes. Watch this.

Chart on p. 6.

Short term i.r. rose to 22%, sank to 4%, averaged 11%.

"Bond yields" unmistakeably inverse to bond prices. But what does he mean by it? I thought bond yields were constant, only prices varied. These are interest rates, he says, long term. Bond yield is an i.r. if price is held constant.

Bond prices shifted from $110 to $38, 1833 – 43, rising to $80 in 1850

Do land booms cause business activity? Vice versa! Of course, the high frontier wages, & drain of labor, lowers EPs at home, bon distributing wealth, causing activity.

Great "Debt Repudiation Depression" of 1840-45 led right into Mex. War. Can we find a depression causing, or preceding, each great war?

When do "conditions become unfavorable for securing new business capital". When i.r. is high? When low? Neither, of itself. But when outlook for production is poor, or not as good as lenders think it is. In this event, they stop lending to productive business enterprises & start buying elastic parasitics. It is the diversion of lendable $ to buying EPs that runs the i.r. up so high — & gives so many economists their "parasitic interest" notions of cycle causation. So, possibly, by this means the interest rate helps choke business activity. Of course then, buying EPs further chokes production, running up EP prices so that land cannot be had for legitimate expansion. So new houses, new factories, cannot be built. Consumption & production are choked together. While demand lessens, production becomes more expensive. Investors continue to bid up EPs until they realize their folly, & boom - rather, crash.

As ~~bond prices~~ i.r. soars, stock & bond prices drop, making people think they are a bad investment. However, it will have the same effect on EPs, so this reason cannot amount to much. That short term i.r. continues to soar quite a time - several months, - after production is past its peak. I venture that with the general apprehension of the crash it immediately declines. It was so in '29

Bond prices fell greatly in the 40s because bankrupt states were repudiating them.

Perhaps the 40s depression was so severe because we had reached limits of frontier then available. So we fought Mexico to get more. Perhaps our present war will serve for us the same economic purpose. Why not kill all the Japs, & make Japan our new frontier? It could happen!

When boom is being choked by scarcity of credit for business, F.R. comes along and further constricts credit! They try to choke the land boom, but probably choke production more.

Decrease of stock & bond prices occurs with decline of production & flight of i.r. Which comes first? One needs accurate and properly weighted & discounted statistics.

In war, money is not available for EP spec., this prevents its choking the war effort.

In climatology we describe a region in terms of climatic elements, then label the type of climate. In economics we observe the elements of "conditions", then label a particular time (& place) in some phase of several "cycles" we know of.

Relations of stocks & bonds are interesting. Sometimes direct, sometimes inverse. Why?
Bill mkt vs yield mkt.

Breaks in stock prices seem to be rapid, declines in production slow. The break in stocks comes a little after production passes the max. - a few months - but longer before it reaches the bottom. F29

Much of the booms in short term interest rates he shows follow the crash more than they precede it, and are doubtless due to loss of confidence - insurance against risk - more than anything. The i.r. boom starts in era of prosperity, probly for reasons previously adduced, but the big boom is in the crash. ?

1846 - 58, short term i.r. played around 9%. In 1858 it dropped to 6%, & remained there, much steadier than before. Except for 1864 - 74, when it was near 9%, it played around 5% all the way until 1930, when it dropped to 1%, gradually, by 1935. 1831 - 48, it fluctuated madly, averaging 12%, ranging 4-22.

The 1837 i.r. boom preceded the crash. It was the greatest, yet it is atypical. It crashed with production. This must mean that confidence was not shot, & perhaps explains the boom shortly following.

It seems that depressions are longer when they are preceded by a high go of speculation in "real estate" - i.e., land people are going to use to build on, as producers & consumers. This is because this market is poorly informed & slow to act, unlike stock market. No one knows what values really are, & they hold on. Sounds like Hoyt

This chokes consumers and producers simultaneously. It wins his idea that the flow of funds into new enterprise is the control factor. When land is not available, no flow of funds will permit production. (well, it might, if it satisfied the land-stock. Then they would speculate some more & more funds are needed) The funds, in accordance with his point, are not available anyway. Loss of confidence has frozen them. Individuals are thus frozen, not society.

And in, of all things, land! People will try to buy land for security, probably, further slowing the drop of its value.

This then will make a depression long, as in 1840, & 1932. If the rise in EPs is in paper in exchange institutions: 1) It is less parasitic 2) Information is better disseminated, values will fall more quickly.

Regarding PT = MV: When land values rise, renter must pay more. He passes this on by charging more. Prices rise, without there being 1) $+\Delta M$ or $+\Delta V$ or 2) Scarcity or 3) Greater demand, purchasing power, etc. This then forces $+\Delta M$ & $+\Delta V$. Simultaneously, we have a $-\Delta T$, as production declines, so ΔM & ΔV may be smaller. The causative value of PT = MV seems very small indeed.

Each war has been preceded by a short "war depression": presumably because the early effects of war disrupt trade & destroy confidence — perhaps also because the popular psychology leading to war appears at that stage of the cycle. (sequence, ~~wave, flux, vacillation,~~ vicissitudes, flexion, fluctuation, undulation) Possibly our '37 depression was such.

Each war, even Sp. Am., followed by short depression (1914-18 had 2 such, esp. 1921)

Bond prices precede stocks by a few months, & seem a fairly reliable guide to the latter. The figures he has are obviously affected by some factor beyond our ken.

A production cycle is just the law of supply & demand working on something which is very viscous & very vital. Most economists try i.r., but it is too liquid, & takes years to adjust. Only land values fit the bill.

A rise in stock prices is considerably different from one in land values. 1) Stocks are titles to both land & capital, & may often be more productive than parasitic. Their values will reflect a company's immediate prospects as a producer more than anything else. But when a co. is raking it in & passing out big dividends, these are muchly ee. rent, with its effects on everything. Stocks should behave in general like land

values, but will be much more fluid, because they cannot hold out in a crash, since they represent so much perishable items. They can soar, just as high in a boom. (Ask old timers if in 1928, people anticipated inflation) They will drop faster. They cannot be used, like land tithes, to hold land out of use by hanging on. The stockholder who hangs on is not preventing production on the land he owns. If his company goes kaput, then he is paid off a bit & forgets it. Coming out of depression stock should gradually rise. This is land value rise. Also a rise in value of capital, as demand for the product revives, & capital becomes worth something. That is, cash somehow becomes again sufficiently circulated so people can buy.

Stock prices, all the way thru on the graphs, behave very sensibly & comprehensibly, falling in crashes, rising in booms, turning down before production does, perhaps turning up before production does. (This poses difficulties for my thesis that stock prices reflect changes in production)

→ Why did i.r. decline c. 1874? New supplies of credit?

Why the hell should stocks recover before production does?

Something you can always count on – if short term i.r. takes a sudden drop, long term i.r. will slowly follow, & bonds will soar. So bonds are the thing to own now. Will this apply to U.S. War bonds? No – they are not transferable. So how about buying some other bonds now?

But perhaps now it is too late. 5-10 years seems the limit of the rise. I would certainly need more current figures.

"Cycle" must go. It is definitely too smooth & simple a word to describe fluctuations of prices, i.r., demands, production, etc. & other ec. phenomena for which I know no label. All these are social events, in which the market is involved, so why not say "market waves"?

Each time they meddle with the tariff it will alter production, & affect the cycle considerably. War, new land, government policies (like Roosevelt's pump priming which so heightened most recent depression), items of mass psychology, etc, will also.

Stock movements will precede production on the upswing because restored confidence comes first; on downswing because loss of confidence comes first?

Perhaps i.r. reflects changing confidence, too.

If crash is mainly due to decreased purchasing power, then changes in production of long sighted goods will be the result of changes in shortsighted goods. figures show little such change. ∴ rising costs for producers must be the more critical aspect of this +Δ E.P.

$e.p. = \frac{\text{rent}}{\text{i.r.}}$. Is it possible that instead of e.p., i.r. might be sometimes dependent? If so, this would explain why $+\Delta$ i.r. seems to always precede the crash? NO - just opposite. But it might explain low i.r. in war time. But i.r. is high now, n'est-ce pas? Or is it just hard to borrow on rationing principles. Seems that all the extra $ people have around should lower i.r.? It is greater than in peace time because of increased production.

Perhaps production lessons learned in first world war caused great e.p. values of 20s. Perhaps this war will have same effect.

When possible I should construct a master graph, with all significant ec. phen. plotted against time. Having all together should reveal much.

Perhaps when production is taking its greatest strides, e.p.s do not catch up for a longer time, & finally take such gigantic lunges they create the biggest depressions.

War teaches factory production better than agricultural, so agr. land values can decline all thru boom period. Might there be a monetary explanation? Deflation? The inelastic demand for agric. products another most important part of explanation — suggesting also that demand for factory products came from those already sated with food, & those who needed more food did not get money. Perhaps also their ignorance made them buy gadgets when they needed food. Money busy in city speculation could not be used in country, lowering values. Land speculation must have a deflationary effect, as those who speculate are refraining from consumption to do so. However, the inflationary effects are greater, - this is mostly investment money, so i.r. is raised, & of course rent is added to prices. However, agric. land was in a position to be deflated by these events. — figure it out, it's easy.

Bonds, varying inversely with i.r., seem also to vary directly with general business conditions. - volume of production, that is.

In depression, replacement of capital is postponed. This is a cessation of surpluses, & of trade; the entitheses of ec. civilization.

Volume of sales: / number of xactions

Immediately after the 1918 war came a great stock boom, which collapsed in 1919, 1921, 1923 ~~1928~~ (but going up all the time) & finally soared madly in '29 before dropping to below all previous levels back to 1900. In 28-9, "bonds refunding" dropped steeply - just after a lot of refunding in 27. Bonds for new capital rose steeply in 1930, while stocks were plummeting. - no doubt many of them proving bad risks & justifying high i.r.s of that year. Refunding bonds soared in 1937

Ayres blames depression on a lack of sufficient money, thanx to reserve ratios. But I can't see where that would cause a downswing. It would just prevent further expansion. It might conceivably be, but I doubt it. Fundamentally, if i.r. rises it is because there is more need for surpluses, or less supply.

In a boom, there is no reason for decreased supply of surpluses. Increases in production of durables indicates rather an increase of surpluses. It is hardly conceivable that bank system is too rigid to expand, or that money could not be printed, would not be, were there a physical need for it. Only other cause for higher i.r. is the increased demand for surpluses outrunning the increased supply. Demand comes from those who are expanding vigorously — that is simple enough. Higher i.r. simply is the inevitable check on expansion when there is not enough surplus available. It should stabilize somewhere, were it not for those other factors which stop expansion.

Can land speculation use up surpluses & raise i.r.? Monetarily, they surely can cause a great drain of cash & credit facilitys, & perhaps the short term i.r. responds readily to that. As to surpluses, what is given for land simply changes hands & is most likely still loaned out - tho to some small degree it will be used for subsistence by receiver while it would not have been by the buyer. But, even tho the surplus is not destroyed, still at any given time lenders are diverted from producers by e.p.s, & this raises their price, decreases supply for producers.

For example, more surpluses go into stocks, fewer into bonds. Investors are going for those e.p.s. The money in stocks is then used by co.s for speculation as well as production. Perhaps more is used for current upkeep of people, in high splendor, than is wise. Then people borrow to buy pleasures. Plenty of solid reasons for raising i.r.

He is calling pump priming expenditures the same as inflow of capital into business. But obviously this time they go ~~thru~~ as consumer demand, quite different from his idea. He may have been influenced by wages fund theory.

Stewart, 3 feb.

Neutral Money - keep ratios constant

Classic view - unemployment was due to misallocation only. - rather, prices out of equilibrium. Wages too high.

20s, cost declined, prices did not. Called inflation.

With progress material, prices can be stable & savings ≠ investment.

Say's Law: production creates its own demand. Obvious in barter economy.

Neutral or stable money advocates want money to perform as in barter, to create no special problems. Hayek the most famous advocate. With capital saving improvements, ~~effected~~ their product ~~investment~~ should fall.

Labor saving devices espec. ass. with lengthening production. Then, more money should be made available (under neutral money policy)

Hayek embraced Graham commodity money approach.

'100%' money advocates want no change in amount of bank money, let govt control it utterly. - perhaps never change am't, depending on school.

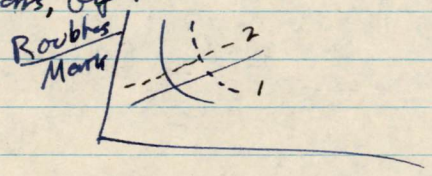
As productivity increases, should wage price rise, or commodity prices lower.

Neutral vs Keynesians: rate of interest is bone of contention. former think it is a price, which equates saving & investment. Keynesians thinks it is ineffective, that employment fluctuates before i.r.

Halm, pt. 2

5 Feb

Reparations, Gy to Russia



German view

Add perfectly inelastic demands shift curve to right?

1, if paid in roubles
2, if paid in marks.

Does it matter whose currency is used?

Better to have to buy foreign exchange, - you'll depreciate anyway, even if you do pay in marks. & if not, you can get your own exchange where most advantageous.

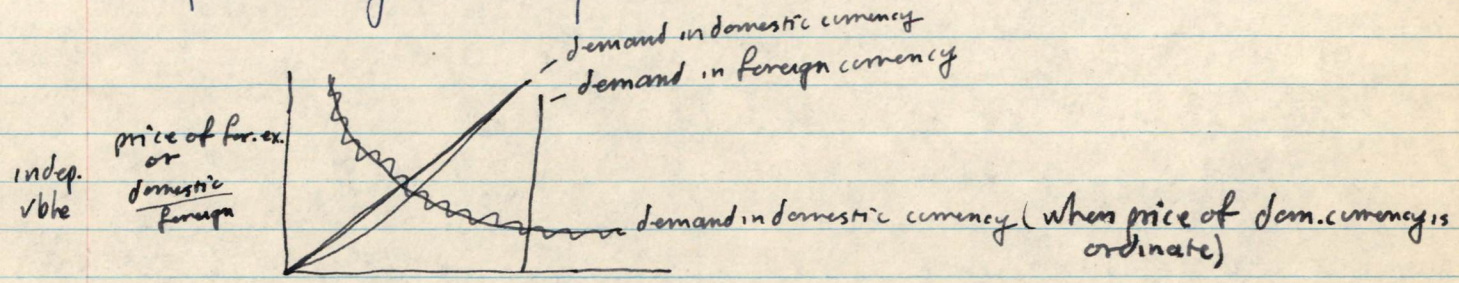
1900, big inflation many gold discoveries. c. 1890, early 90s, we lost gold & contracted. But mostly int. gold has little effect.

$$\frac{2}{5} = \frac{1}{x} \; ; \; x = \frac{5}{2} = 250$$

Stewart, 5 Feb, cont.

Demand for foreign exch. is unity if fixed payment expressed in payers currency. Draw proper graph.

Bretton Wood's rates recently announced 32 countries. They took prevailing rates. £ = $4.03. Many currencies now = $ & £. franc, .8 ¢ All depreciated in gold from prewar.



demand for for. ex. if we owe a debt fixed in for. money.

~~Demand~~ = Constant = am't for M = D ·

$rF = 1D$; $r = \frac{D}{F}$; $\frac{rF}{D} = 1$ r ≡ ratio of value of 2 Ms

$\frac{1}{4}F = 1D$

$4D = 1F$

$4 = \frac{F}{D}$

When price of for exch is ordinate, $k = \frac{\text{price } F}{\#\ D} = \frac{\frac{D}{F}}{D} = \frac{1}{F} \equiv k$

When " " D " " " $k = \text{Price } D \cdot \#\ D = \frac{F}{D} = F \equiv k$

Price F means no. of D exch. for 1 F. $P_F \equiv \frac{D}{F}$

$\frac{D}{F}$ means the number of D that exchange for 1 F

Stewart, 7 Feb.

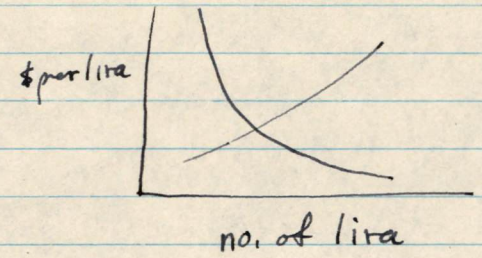
T, in eq. of exchange.

'T_0' is value in base year. Unit of T is $1.00 worth in base year.

? Then $P_0 = \$1.00$, & all changes are in T. $P_0 = 1$ in base year.

Next year: P_1 T_1, different prices & # of T. Units of T will be certain quantities which = $1.00 in base year.

This is the only idea of T that is 'conceptually possible'. So?



Depression in Italy. Its prices fall, demand for lira increases, supply decreases. So lira appreciates, damping our imports from Italy. This reduces Italy's exports so she pits up tariffs. - but even before that, Italy must stop buying from us on account of reduced exports.

Think this one over, and bring back the answer. Also #8, p. 241.

Next week, int. mon. fund. Do outside reading on it, find criticisms. Write a couple of pages on it, for next Fri.

I. R.

One who holds liquid obl. has loaned, but gets no int. In fact he may pay int. just to hold liquid obl. They are intermediary between holding desired items & lending.

Int. is paid for use of a surplus. Liquid assets are immediate claims on surpluses, so int. is paid for use of them. Is it possible that, despite their intermediary position, they independently affect i.r.? (aside from the fact that each is another real loan?) (or each is rather a request for a real loan)

To answer, we must find the market whose s&d determines i.r. But many different i.r.s exist, ~~some~~ being payments for varying degrees of liquidity or risk (which is involved in liquidity, too). Perhaps payment for use of surplus is indep. & for use of liquid assets also indep.

Then ΔM would lower rate for liquidity, but not for surpluses. This is provided ΔM were due to liquefying sound assets, not just govt taxpower or inflated values. If ΔM is 'unfounded', it raises prices, does not lower payment for liquidity, because no more real liquidity has been created. Also, if ~~the~~ demand for liquidity is stimulated by effects of ΔM, total effect may be to raise ~~i.r.~~ money rate. Distinguish money rate & surplus rate.

Where is surplus rate found? House renters pay it in part. - as do all who use surpluses.

It is quite possible, if liquid assets were very useful & very scarce, that one would pay a high premium for them, quite divorced from what he would pay for a surplus. But the 2 rates will vary together somewhat because the main determinant of M is surpluses. M is issued on them, or on land values or taxpower largely springing from them; & if they do not exist ΔM only raises P, ∴ is no Δ liquidity.

~~Are~~ Is the i.r. that rises sharply in boom m_r or s_r? Or both? Probably m_r, for the demand at that time is for liquidity? No - all anticipate inflation, demand is for surpluses.

M_r is payment for bank service. - or is affected by it. It may be overcome by s_r, so banks pay int for deposits. Why does one pay a premium so that he may lend by holding cash instead of unliquid obligations? Because of the convenience of liquidity. Banks & govt (with its anti-counterfeiting police, e.g.) give this service. ↑ secured investment, etc. The 'convenience of liquidity' is connected with fact that one contemplates turning his cash into goods shortly, so when one 'borrows' money he is arranging to really borrow. One borrows money in order to get rid of it. It is just the liquefying step in borrowing. It is a flux, which joins the unfitting edges of real borrowing & lending, which do not fit because of the finite size & discrete nature of the units involved.

If banks turn increasing numbers of ordinary loans into liquid loans

1r, cont

This tends to decrease ~~size of~~ price of liquidity, or m.r. (– tho, being result of increased demand, it is probly ass. with higher m.r.) This will mean only that banks must pay more for deposits ~~or~~ and get less for their loans. This is one effect, quite distinct from the inflationary – which latter does not occur if only good assets are liquefied?

Banks could, instead of extending original loans, accept old loans in return for deposits. e.g., instead of giving a deposit in exchange for a man's originally created bond & mortgage, create deposits to buy outstanding bonds. Liquefaction is a function distinct from credit creation. Anyone who makes an original loan creates credit; ~~but only~~ banks liquefy old loans or new ones with equal ease. So does govt – many cash items being backed by previously existing private obligations. As ΔM usually is accomplished by the dual function, credit creation & liquefaction simultaneously, the 2 are often treated together, erroneously.

Different degrees of liquidity, of course, with different premiums.

Liquidity, if interpreted as ~~that~~ actual rather than potential speed of transfer, is just velocity. The liquidity premium is for potential, however.

Liquefaction, in exchange, may be just a ΔV, the credits having already been M.

Review: Is the bank really not creating credit when it creates deposits to buy old bonds? It is not. The deposits are issued against the bonds. The original bond owner is now lending in another way, & remains real lender until he passes on loan. Bank has merely enabled him to pass it on. It is neither borrower nor lender, but liquefier.

Liquidity is what turns credit into M. Where is the line? In any xaction, the more liquid item is M, the other not. So if a bond is sold for M, bond is not M; but if given directly for goods, it is M – tho ~~even~~ here it may be doubtful which is more liquid. The item of representative value is another criterion. So the more liquid item criterion is only to distinguish ~~between~~ when rep. value trades for rep value. (Cash is often too liquid, & deposits better.) Any doubt about which is which may be dispelled by observing who pays the m.r. If neither, then it is barter – a new sort – & M not involved.

If interest were only liquidity preference, then all implicit int. & most explicit would be mythical. Liq. pr. is one element among many.

When we liquefy obligations we are encouraging passing them on. This increases demand for real loans, i.e. for goods, & should increase a) Their prices b) s.r. ~~It would not occur if the loo~~

~~I.F. cont.~~ Halm notes

When 'market ~~rate~~ (i.r.)' > 'natural', it means liq. pr. has increased, so banks can profit by creating more liquidity. Market > nat. as long as supply has not caught up with liquidity demand.

Liquidity demand is great in active business, & in panic.

Halm lists sources of 'loanable funds': savings, of old money currently earned, ditto dishoarded, ΔM, sinking funds - (but these are monetarily the same as any saving) turnover of working cap. (also), & tax policies. 3 different criteria used for his categories! The first 3 items are ok. One must add surpluses offered for loan directly, as Dodge bros supplied H. Ford, & one rents a horse. So the desire to have now instead of later, the time advantage that is int, is expressed in many different markets in many ways. They are all connected - so if you can make more by lending a physical surplus than funds, you buy or build a surplus with your funds & lend it directly. If you can do better by buying land you do it, & anticipated appreciation will be part of return, etc. - which will tend to increase i.r. elsewhere, esp. as it feeds on itself speculatively. Every claim or surplus is supply; every one wanting time advantage is demand. Liquidity is one step in getting a real time advantage, ∴ involved. - but not exclusive.

Value of producer goods = $\frac{\text{yield}}{\text{i.r.}}$ How correlated with S&d? And with value of cons. goods? Same is true of cons. goods, difference being that yield is probly implicit, tho not always. I have previously considered value as a simple demand curve meeting supply. This int. consideration is a refinement of the demand side, in consideration of fact that what one buys is rarely consumed immediately, but in stages. We have simplified picture by saying demand is for the satisfaction rendered by the thing, but really it is a series of satisfactions over a time interval. One consumes the ~~entire~~ corpus, too. One is investing in it while it lasts, collecting implicit int. from ones self. The int. segment of the yield is subject to int. market considerations. If i.r. is very high elsewhere, value of all surpluses, land, ~~bonds~~ falls. Land esp, for yield is only consideration, it is never consumed. But why should surplus value fall? If one can get more int. elsewhere, why not consider int. from it to have increased? It may, if the same factors that increase yield of surpluses elsewhere affect it. If its yield rises with i.r., as the average surpluses will do, it should be unaffected. But when its yield does not change identically, its value changes. If i.r. rises because surpluses in a new form are high yielding, that will not increase yield of surpluses in other forms immediately, ∴ their value will fall. So of fixed int. bearing claims, & land.

Miss Fain ~~Fane~~. ~~11 AM Sat, tennis match~~ Sat. nite, ~~Heating Plant~~. ~~Next Sat. nite, Cohns for dinner~~ records

Ask what % of loans are unsecured?

Stewart, 14 March. Keynes; Book 1 entire; skip 4,5,6 of Bk 2; Bk 3; skip 13,-17 in Bk 4; skip ch. 20 Bk 5; Bk 6.

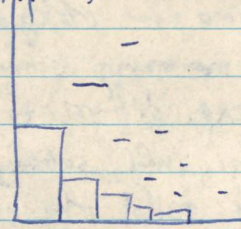
Wage unit is a quantity of money value. Pigou's invention. Lends itself to confusing money inc. & real inc.

Fisher's 'real rate' of int. - corrected for ΔP

Occasionally this may be a significant item. - perhaps in short term inventory cycle.

Multiplier can ~~is~~ say saving is sterilized because it assumes sav. > inv, i.e. it is sterilized. Or, if inv > sav., it won't affect inv. Assuming saving has no effect on inv. - that friction > driving force. ~~This~~ will just replace ΔM that would otherwise occur. True for very small Δ only.

Multiplier, new injections, etc.



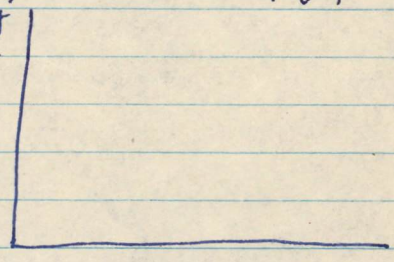
Combination of acc. & mult.

= nat inc. × multiplicand × multiplier 'relation' × $\frac{1}{2}$ × Δ cons.

Pd.	Initial exp	+ Current consumption	+ Current induced inv.	= Δ Nat. income
1	100		0	100
2	"	50	100	250
3	"	125	150	375
4	"	187½	125	412½
5	"	206	38	344
6	"	172	-34	236
7	"	118	-54	164

(cover)

$$y_t = 100 + m y_{t-1} + r[m y_{t-1} - m y_{t-2}]$$



$$y_t = 100 + m[y_{t-1} + r y_{t-1} - r y_{t-2}]$$

$$= 100 + m[(r+1) y_{t-1} - r y_{t-2}]$$

$$= 100 + m[r(y_{t-1} - y_{t-2}) + y_{t-1}]$$

X Marginal prop to cons. is the multiplier.

When Δ cons. becomes less than $\frac{\text{cons}}{r} + 100$, Δy falls.

(cover)

Write economic songs, poems.

The whole business is inadmissable, however, tho not without any value. Because of multiplier's ridiculosity & fact that it takes much more time for cons. to induce inv. than one circuit of M. Also that, ceteris paribus, A cons would not induce inv, because it would hinder it from cost side as much as it helped it from demand side. But ceteris non paribus, that is why it seems to have effect they say.

8	100	82	-36	146
9		73	- 9	164
10		82	+9	191
11				
.2				

The first time new money which is also a new obligation enters circulation it may not be infl., but all subsequent movements correspond to liquefaction of existing obl, are infl. So initial multip. exp. differ from subsequent ones. - Perhaps only the loan creation is infl., subsequent xfers not so. - no, That is not the difference. MV still tells the story, on P.

The difference between creating credit & xferring it is that when it is created an opposite obligation is created to back it, which nullifies it. (So credit creation is not inflationary? Liquefaction is That.)

If all creditors were given claims (mort.) on physical surpluses, they would not be lending, only liquefying? They would be buying the surpluses, with a repurchase option to borrower. But when lend on land or taxpower, or personal credit, future production is relied on solely.

Halm notes

When land or stock increments anticipated, surpluses seem more productive invested in them. i.r. ↑. ∴ rises, without yield of phys. surpl. rising, latter's value falls, insofar as it is due to int. component — hence under swings in value of durable goods - which has cyclical significance.

This clears the anomaly that increased prod. of surpluses might discourage their production by lowering their price as i.r. rises. It only lowers price of that whose yield does not rise with i.r., whose general rise is due to a still greater rise in yield of particular forms.

Here is another advantage of liquidity - to plunge your investment into most desirable form, or consume it - taking advantage of short term i.r. changes.

Hawtrey has emphasized effect of i.r. on inventory holding. This is where i.r. is most obviously a cost, because it is alone, but it is involved in all surplus holding. ↑Δ i.r. ~~must~~ causes inv. disposal - if Δ i.r. is not due to increased productive yield of surpluses anywhere, but anticipated ΔP & Δ land values, it will discourage production.

The distinction savings vs cons. is not valid as Stewart uses it. Nor inv. vs. exp. for cons. However saving vs inv., monetarily, is ok. - saving meaning doing anything with credits but spend them for products, inv. being spending anything for products. Again it should be noted that spending for land, & old products, & ~~stocks~~ unliquid claims, are by this def. saving & not inv. Add to this Their effect on i.r., & you have something.

~~Ac~~ Accepting new unliquid assets is infl. once, as you keep goods off the market which raises P by reducing T. If you receive liquid asset, it is doubly infl., for then you have a money claim on economy without having put anything into it. (if we consider you & borrower as outside the 'economy') If you destroy old liquid assets in unliquefying process, you ~~lose~~ put goods in & take none out; & when debt is repaid, you get goods for nothing. A purely reversible process.

Banks liquefy by keeping cash ratio to liquefied obligations. Exist customary ratios of private cash balances & bank cash bal. to deposits. Does this mean Δ cash would cause a Δ dep = $\frac{1}{\text{reserve ratio}}$?

Banks will want to expand loans as they receive cash. - can they? Probly. Δ cash will start infl. & banks will go to it. If infl. did not contain cumulative encouragers, could they?

Halm notes.

While Halm's loanable funds theory ignores direct surplus loans, Keynes' liq. pref. ignores not only them but ~~(unliquid loans~~ ? That's not the diff. What is?

Wicksell's 'natural rate' of int. reveals his belief that ~~liquefying~~ making new loans is 'unnatural'. It is a rate at which no new loans will be made, nor old ones repaid, net. - this being confused with liquefying, too. He says if real capital were loaned 'in natura' it would not be. He is wrong. - he is saying no new loans would ever be made without money, which is wrong. (i.e., that natural rate would always = market rate)

ΔM will increase prices slightly. Then, when it is spent again, it will keep them up there — but not raise them higher, as Keynes seems to think. His angle is that each respending will add to 'income', cumulatively. But income is current, not cumulative. He is ignoring time, just as he does when he says ~~$\Delta P = \infty$~~ if $Mv/t = 1$.

Is this 'circuit' or 'income' velocity a tenable concept? Money being fungible, we cannot say, of a xaction, which part is gross & which is net. But we can say period inc. was so much, ~~M~~ M was so, & $V_{circuit} = \frac{inc}{M}$

Loanable funds theory of int. ~~says~~ includes market rate vs equil. rate ideas.

Ch. 18, int. & employment

Keynes differs from loan. funds, by saying it is demand for M, not loanable funds. But latter Theory, ignores unliquid loans anyway. What difference?

Liquidity is an intermediate step, which Keynes has mistaken for the final ~~goods~~ desideratum for which int. is paid. We can test this assertion by asking if one who receives cash in return for surpluses must pay interest for it. If int. were reward of parting with liquidity, he would. But he doesn't. If int. flowed at all, it would be oppositely. Since surpluses & cash are interchangeable with little labor, the surplus rate has been referred to cash. This should not blind us that int. is paid for a surplus, & cash only gets int. because it is so close to surpluses. Now if Δcash without Δloans occurs, (this would not increase P if T increased correspondingly, & T would because the new liquefaction would cause T that otherwise would not

Halm cont.

occur. - but there maybe at expense of preventing T that otherwise would occur) it will not lower int. - because, ~~Note~~ either T increases so it is no easier to get M than before, or else P increases so total M has not increased in command over goods. If ΔM is assoc, as often, with Δ loans, it reveals both dem. & supply have increased for loans, or maybe just one, probly both. This ΔM will not in itself affect i.r., for same reasons.

~~Most~~ Unliquid loans may be regarded as M with V=1 - yet not even that, ~~for~~ if they were the less liquid item exchanged when they were formed. Anyway, liquefaction may be regarded as simply giving V to this M.

Novelty of Keynes is that inc. rather than i.r. insures equality of inv. & saving. The fact is that ΔM can only occur when people are willing to increase their saving by holding dep., or ΔT increases no. of people who must hold them for convenience, so saving & money incomes increase together, the money incomes being the saving, tho Keynes says they cause it. It is a simultaneous occurrence - neither can happen without the other. i.r. is one thing that makes people very anxious to increase savings, but increased supply may be due just to increased confidence which allows the ΔM - giving semblance of truth to Keynes. - but the nominal i.r. has not risen, real psychic one has, because of Δ confidence, & probly assoc. with - Δ risk. So what Keynes describes as inc. & prop to cons. is better described as s & d for loans, & i.r.

Loanable funds theory says saving may unequal inv., Keynes disagrees. says: income - consumption = saving. (note this is partly nonmonetary, for consumption or saving depends on disposition after purchase. Hoarded credits & loans are also saving. Many ~~expend~~ purchases are consumed, albeit not immediately, still in a short time so they consider them consumed immediately. They go from this to assume that purchasing to own is identical with consumption, that all saving is done by lending money to one who will buy a surplus.) Then that income results from expenditures, which are either for consumption or investment. Inc. of a period = cons + inv of that pd., which is cons + saving of old pd. Lerner, in trying to show that S>1, ~~also~~ confuses the periods. Actually the words as defined need not be = in succeeding periods. - even if defined as Keynes does - for he says they are = by assuming that inc. of one period = that of the next, which is false. - also he ignores direct saving by owner.

Halm cont.

On genetics: perhaps the greater natural selection among poor more than compensates for their lower original intelligence. Observe how people with 'foreign' names are in better physical shape (?), & do better thinking (?)

His view seems to be that if ΔM_1 then if saving does not increase further ΔM will increase inc. until saving does increase appropriately. a) This involves a time lag which is not compatible with sav = inv. def b) If ΔM is not saved, new ΔM impossible.

Swedes say ex ante sav. & inv. may differ, being plans based on present conditions. This is loanable funds side. Expost, sav = inv. because unconsumed output always = inv. This is really the crux, 'expost' being the obvious factual way of looking at anything. However, if Swedes do really use this, they shift discussion from money to real goods, which is not monetary analysis. Of course whatever goods are saved are 'invested' – tho again definitions might be otherwise, as hoards of goods might be discounted.

pregnant – work on it.

True to his propensity to ignore time, Keynes says hoarding cannot increase if M remains constant – ignoring fact that hoarding is ↓.

Hoarding will not reduce m.r. because either T decreases so M is as easy to get as ever, or M command more goods, ~~is not used~~ what remains liquid commands as much as ever. However M's value need not rise, due to differential price sensitivity, as fast as MV decreases – then mr will rise. It is this differential change which is most significant. Also when ΔM created, mr may lower because P&T do not adjust swiftly.

Halm with his loanable funds theory prefers to explain ~~returns~~ response of sav & inv. to $\Delta M_{\text{hoarding}}$ in terms of velocity & i.r. rather than cumbersomely in income terms as Keynes. The income approach is really one which concentrates on disposition of ΔM, which is connected with i.r. & vel. Halm does not say i.r. & savings have no effect on inv., as Keynes does. – Halm inclines to crude period analysis, an improvement on timeless Keynes.

As liquid items, Keynes includes all assets held under 3 mos. All over are ~~illiquid~~ the balances. This includes much working cap, for which high i.r. is paid. Ha.

Chap 19, The Credit Market.

Speculators buy most first security issues. Risk taking a special function.

If i.r. lowers, those items whose yield remains const. will increase value, thus encouraging their production. – also can be seen as their yield > average yield, latter measured by i.r. (i.r. cannot go below yield of best new surpluses, for all funds offered at that i.r. will be taken.) Considering the great differential

Halm cont

in value caused by a small change in i.r. gives more idea of rate's potency. Keynes chooses to ignore this, & say that only the yield is important, the cost is nothing. He makes his points by comparing the yield of all factors – price – to the reward of one – int. Actually only real surplus rewards should be compared.

Long term cap market smooth, short ~~is~~ rough.

Underconsumptionists would say savings even more harmful when invested than when just hoarded, because of increased production.

~~Does~~ Perhaps late boom failure of land values to continue rising is due to Δ i.r., which is due to stock market.

The real Δ rent must be far greater than Δ value shows, because of Δ i.r. On other hand, much is anticipated Δ rent, & anticipated + ΔM

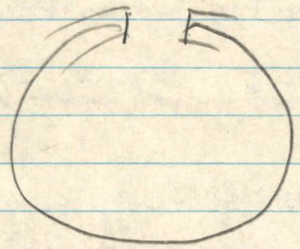
If Δ i.r. is due largely to anticipated ΔP, it is not nec. an Δ real i.r. – tho probly it is, the real i.r. having been low for some time than to steady ΔP.

What limits amount of loans banks can liquefy? Were confidence unbounded, only the am't of loans. As it is, cash is an important element of confidence, & ~~limits~~ some ratio to it is an effective limit. Cash itself must be limited or it will lose confidence, but it probably can be varied within considerable limits & not affect confidence. If it does ~~vary~~ increase, banks want to expand deposits, rather than lend out straight their Δ cash. They can give deposits for old loans – but this will raise their price, for why should one want to give up fertile credit now for deposits? They also try to expand new loans liquid. Both processes are inflationary. First the mr is lowered. Then P rises. Whenever ΔM does not correspond to Δ desire to hold M, ΔP results – i.e., ΔM → ΔP. The limit to liquefying loans is the profitability of doing it, which depends on how much the market will pay for liquidity. Probably the cost curve rises very little with ΔM, but demand is elastic, also changes with time more, is almost sole ~~determ~~ variable determinant. – still, bank costs ~~no~~ doubtless have marked cyclic changes, like all costs. In fact, this could be a very potent factor in cycle. If bank costs doubled, it would lead to drastic –ΔM.

Hayek says late in boom cash is withdrawn from banks to use in T, (he says consumer goods esp, which are now taking their 'revenge' on overexpanded investment. I say probly an incipient distrust of bank deposits) thus forcing credit contraction.

$y \geq s + c$

$c + i \rightarrow y$



Expost − income = outgo

Halm, cont.

'Ricardo effect' – ~~high~~ lower wages, less machinery used. Hayek figures this in late boom, when cons. industries stimulated, wages do not rise with cons. prices, this blocks inv., brings depression. Hayek says this will happen whenever an investment increment is from forced saving, when ~~or~~ increased consumption ensues. But the lowered real wages are due to wage lag, which is probly no greater than int. lag, so this would not ~~only~~ discourage investment.

We have considered Money & underconsumption theories, (Foster & Catchings) Monetary Cycle theory (Hayek). (monetary over-investment)

New, non-monetary Over-investment theory - Spiethoff.

Idle money has its counterpart in idle goods because then goods cannot be sold high enough to warrant their cost of production. This is true of inventories, of which the whole is sold, & of surpluses which contribute to production but do not enter bodily into product, but of which the consumers may be said to buy.

F? Spiethoff says in end of boom savings decline, stopping inv., causing unempl. This is the reverse absurdity to ~~Keynes~~ under-cons. The fact is that total money demand for products, declines, while productivity increases. Hardly a distinct theory: everyone mentions over investment.

Under-investment theory – of downswings, complementary to over inv. in upswing. Keynes. Oversaving. Downswing continues until incomes fall so low that saving < inv. If we had to depend solely on sav. & inv. this would never occur, because the falling inc. would always decrease inv. ahead of sav. It is other adjustments which are critical, which make inv. finally become more profitable. ~~So~~ Keynes' idea is unique in suggesting we may never emerge from depression.

Lacking investment opportunities. (Hansen) The destruction of surpluses is good because it makes opportunities for further saving & inv. – & presumably for employment too. A variation of the 'broken window fallacy'. But it is not a fallacy. Destruction has the same effect as invention, that much new surpluses must be accumulated (because, in destruction, it is more efficient to produce with surpluses as before, because labor's demands do not decline) & ~~A~~ producer surpluses causes more claims on consumer goods to be created than consumer goods, ~~bringing~~ further encouraging production. It is when claims devoted to buying products become smaller than the products cost of production that depression comes.

Expanding pop is supposed to make inv. opp. Certainly it prevents some saving.

When invention gets to point that improvements do not cause large new investment because they are so very efficient, it means less demand for surpluses in production. This does not mean people cannot save – they will save consumer goods now.

Halm, cont.

Also, new efficiency need not stop inv. in producer goods. Product prices will lower, demand increase. The first effect is to increase demand for producer surpluses, as marg eff of cap is raised. For a particular product, demand at some pt. will fail to increase enough with lower price to increase use of surpluses thomx to invention; but for all products this will not be, each invention making it more profitable to use surpluses in general.

Chap. 21, Mult. & Acc. Principle.

In acquiring products, the rich man may actually get to where the trouble of acquisition is greater than any possible pleasure gained, even when he has the credits. Hence he will not use them.

Income velocity is $\frac{\text{nat. inc.}}{\text{M}}$; inc. vel. of ΔM is $\frac{\Delta \text{inc}}{\Delta M}$ These are in 1 yr. periods. Money-income multiplier is $\frac{\Delta \text{inc}}{\Delta M}$, but not within 1 yr. Most of effect is presumed to have occurred in 1 year. That is where I differ: I say effect is permanent Δ inc., & 'leakages' are not permanent.

Mult. period is shorter than inc. pd, because inc. vel. approach treats mult. leakages as $-\Delta v$. i.e., the first expenditure is the mult. pd., the ordinary velocity. But inc. vel. is longer, not counting intermediate xactions.

Hansen calls acc. + mult. 'leverage coeff'

ΔM is simple: it increases no. of immediate claims on all products + all factors. Product prices are most changeable, are affected first. The ΔP is not x'ferred to factors until production has occurred so that the shortage is in factors, not products — this is logical as well as empirical, for demand is ultimately for products. Then when products are produced by calling in more factors, latter raise their prices. However they would not rise further than product prices warranted were not land & producer goods ~~bought~~ ownable outright. Producer goods will be sharing the general abundance of products, so only land, the 'pure factor', will be a problem because it can be owned. As products become plentiful ΔM is used to buy land, ----etc.

ΔM increases claims even if not ass. with Δ loan. When a bond is liquefied it only makes possible passing on a loan, but the form in which it is done is to increase the claims on current items of intrinsic value. If ΔM is ass. with Δ loan, it is no more inflationary than if not. In either instance a bank extends liquidity to borrower; in first, in exchange for ~~debt~~ borrower's assets, in 2d in exch. for his personally owned assets. When bond owner originally made loan, he merely replaced spending by himself — hence lending is not infl. at all, even slightly defl because of lost velocity. This is true of lending of money, not outright lending of products — latter is infl., but less common. Liquefaction, not lending, is source of infl. The source of ΔM is when you can make a loan & still be in a position to pass it on at any time. This is the whole idea of liquidity. — When you are given for

Halm (cont)

your lending not just claims on specific assets at specific time but on anything in the market at any time.

When you extend a loan, not by giving M but by giving products for new claims, you have not nec. taken your product off markets but you may have — so this direct lending may or may not be infl. In past I have been confused by overemphasizing it. It occurs when merchants give book credit, which considerably economizes use of cash by letting factors wait until pay day to pay merchant — just as factors ~~econom~~ let employer wait a week or so before paying them. This increases effective M, is important, probly highly variable, varying sympathetically with M.

Hansen: 'leverage'. But why should ΔM increase cons. demand more than prod? If it is prod. loans, it will first increase prod. demand, (thus raising cons. prices by withdrawing factors before cons. dem. derived has a chance to be derived — but demand is so much more quickly vble than supply that is not so) Even if it raises prices of ~~cons~~ prod. goods as much as or more than prod. goods, it raises product prices in general, encourages production & acceleration. Now Hayek's point is valid that labor will be used more, by Ricardo effect — & Halm's point that ~~int~~ real int. will be lower too is wrong, because all product prices are high comp. to labor at this pt, probably. As production occurs, producer goods replace labor.

So acceleration is real — Δ demand for any product increases disproportionately demand for all contributory products. The farther the product from consumer, the fewer trib., the less acc. Unused cap. & anticipated decline slow acc. much — but acc. principle does show a real tendency.

Inflation might really increase employment by increasing production ~~factor~~ rewards — if it would only stop at the right situation!

$$\text{Multiplier} = \frac{1}{1-(\text{marg. prop. to consume})}.$$ Multis $\frac{\Delta \text{ inc}}{\Delta M}$, ~~said~~

Whun mult. disregards savings, combining with acc. principle remedies the fault, in small part. But it is expecting demand over-emphasis to compensate for supply under-emph, still is not whole picture.

With durable consumer goods, acceleration operates directly, no intermediarys. Revealing nature of acc. as more connected with durability than use-type. ~~A sim~~ The normal demand for horses is met mostly by old horses; a new demand is met by mostly new horses.

Halm, cont.

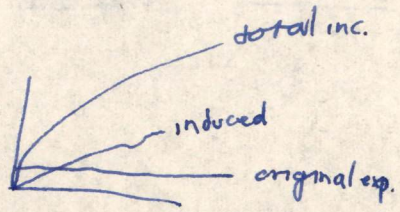
α = marg. prop to consume
β = mult.

$\Delta M \; \beta \equiv \Delta \text{inc.} = \Delta M(1 + \alpha + \alpha^2 + \alpha^3 \cdots \alpha^n)$

$\beta = \alpha + \alpha^2 + \alpha^3 \cdots \alpha^n + 1 = \frac{1}{1-\alpha}$?

?. $\int$

Study 'mult. + acc.' using graph



He says full-employment means inv. potential = 0. Bell.

'Thawing' of frozen credits means when one company, his recipient can then pay, etc. ~~but one must~~ Liquid assets thus oil the parts, allow movement.

Liquefying a physical asset is about always what bank does when it creates new M. This is even more comparable to liquefying an illiquid obligation than I had realized.

Mult. + acc. $= r(\alpha \Delta y_{t-1} - \alpha \Delta y_{t-2}) = r\alpha(\Delta y_{t-1} - \Delta y_{t-2})$

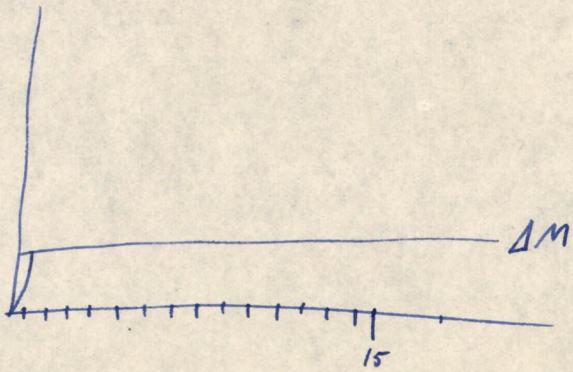
ΔM	$\alpha = \frac{1}{2}$ $\alpha \Delta y_{t-1}$	$\Delta i (r=1)$	Δy
1	0	0	1
1	$\frac{1}{2}$	$\frac{1}{2}$	2
1	1	$\frac{1}{2}$	$2\frac{1}{2}$
1	$1\frac{1}{4}$	$\frac{1}{4}$	$2\frac{1}{2}$
1	$1\frac{1}{4}$	0	$2\frac{1}{4}$
1	$1\frac{1}{8}$	$-\frac{1}{8}$	2
1	1	$-\frac{1}{8}$	$1\frac{7}{8}$
1	$\frac{15}{16}$	$-\frac{1}{16}$	$1\frac{7}{8}$
1	$\frac{15}{16}$	0	$1\frac{15}{16}$
1	$\frac{31}{32}$	$\frac{1}{32}$	2
1	1	$\frac{1}{32}$	$2\frac{1}{32}$

damped fluctuations

$\Delta y_t = \Delta M + \alpha \Delta y_{t-1}$ simplify notation

$y_t = \Delta M + \alpha y_{t-1} + r\alpha(y_{t-1} - y_{t-2})$

Set up $y = f(t)$, plot it.



$S = \frac{a - ar^n}{1 - r}$ large rate, large sum.

Halm, cont.

We have seen that Goerns are assoc. with durables production. I.r. particularly determines decisions to produce durables, hence has a special importance, beyond its simple factor price aspect.

Halm's upper turning point: limits of resources being reached, Appred. stops; this reduces demand, (despite fact demand is over taxing resources) starts 'downward spiral'. Miserable.

What really makes further credit exp. impossible is declining values of collateral? etc.

Under investment is at fault says H., not under cons.

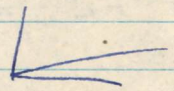
Hain, 17 March — See Mrs Hrong

Interaction of acc. & mult. gives damped fluctuations approaching asymptote established by multiplier.

Kreynes says that expansion will only come from Δ inv., not Δ cons, because latter is from past income, inv. on credit creation.

Ex post equality is due to unanticipated inventory changes. i.e., if M spent > M loaned in period, the extra M returned is counted as extra saving. Strained.

Kreynes psych. princ. is that marg prop cons, $\frac{d\ cons}{d\ inc.}$, is positive & less than 1. Important for stability of system. that it stay within those values, to prevent cumulative explosions or depressions – Bull.

Consumption function:  But as people become used to high incomes they gradually learn to spend more.

21 March

Haberler. $y = c + i$ ($k \equiv$ mult) $\frac{\Delta C}{\Delta y}$ = marg prop cons

$\Delta y = k \Delta i$

$k = \frac{\Delta y}{\Delta i} = \frac{\Delta y}{\Delta y - \Delta C}$ $\frac{\Delta C}{\Delta y} = \frac{\Delta y - \Delta i}{\Delta y} = 1 - \frac{\Delta i}{\Delta y} = 1 - \frac{1}{k}$

utterly fouled up!

Divide by Δy → ~~incorrect.~~

$\frac{\Delta C}{\Delta y} + \frac{\Delta S}{\Delta y} = 1$; $\frac{\Delta S}{\Delta y} = 1 - \frac{\Delta C}{\Delta y}$; $\frac{\Delta y}{\Delta S} = \frac{1}{1 - \frac{\Delta C}{\Delta y}}$; $\frac{\Delta y}{\Delta i} = \frac{1}{1 - \frac{\Delta C}{\Delta y}}$

↑ no, unless me change.

Kaldor — definitions in midstream.

$k = \frac{\Delta y}{\Delta i}$ assuming all ΔM is Δi, (which ignores dishoarding & consumption loans, but suppose they could be ironed out, still:) i.e. assuming $\Delta C = 0$ in the preceding period. Here the distinction between c+i which → y, & the c+s ← by current income is vital, & Hain misses it. Shaving time: $k_t = \frac{\Delta y_{t+\infty}}{\Delta i_{t-1}}$; the Δi_{t-1} is taken because it was assumed to be = Δy_{t-1}, which is the multiplicand. They would ~~not~~ deny that ΔC might have occurred in t-1; ~~but~~ by C they mean purchases ~~from~~ with old M by its owner, they ignore ΔV, & are all set. In this argument, i.e., they deny that ΔC is ever possible. A moment later they change – amazingly low intellectual level mistakes – how can they actually go unchallenged? over ~~Actually the mult, as they figure it, can never be > 2, (even~~

$\frac{4}{5} + \frac{16}{25} + \frac{64}{125} = > 1$

~~because the sum of consecutive powers of a fraction cannot be > 1.~~

The mult = sum consecutive powers of marg prop cons. Doubtless this will not jibe with K as misfigured contra.

The next step is to say $\Delta i_{t-1} = \Delta y_{t=\infty} + \Delta c_t$, which is wrong. Then that $\frac{\Delta c_t}{\Delta y_{t=\infty}}$ = marg prop cons, which is wrong. We then arrive at $K = \frac{1}{1-\alpha}$, which is probably wrong also. Find a math student.

Sum of geometric progression, $a + ar + ar^2 + ar^3 \cdots ar^n$, $S = \frac{a - r^n}{1 - r}$

Mult, (K), $= \frac{\Delta \text{inc}}{\Delta M}\, t=\infty = \frac{\sum \Delta \text{inc}_t}{\Delta M} = \frac{\Delta M + \Delta(\alpha \Delta M + \alpha^2 \Delta M \cdots)}{\Delta M}$

$K = 1 + \alpha + \alpha^2 \cdots + \alpha^n = \frac{1 - \alpha^\infty}{1 - \alpha} = \frac{1}{1-\alpha}$ ↳ $= 1 + \Sigma(\alpha + \alpha^2 \cdots \alpha^n)$ check.

If the formula I have for S is correct, then $K = \frac{1}{1-\alpha}$ is correct. Probly Keynes took this & got it in the other way just for prestige.

$\frac{\Delta c_t}{\Delta y_t}$ = marg prop = $\frac{\Delta y_{t+1} - \Delta i_t}{\Delta y_t}$

But: $S = \frac{a - ar^n}{1 - r} = \frac{a - rl}{1 - r}$ If $a = 1$, $r = \alpha < 1$, $S = \frac{1}{1-\alpha} = K$

If $a = \alpha$ we are summing up all terms
$r = \alpha$, after the first '1', $S = \frac{\alpha}{1-\alpha}$ to which add 1,

$S = \frac{\alpha}{1-\alpha} + \frac{1-\alpha}{1-\alpha} = \frac{1}{1-\alpha}$. So it is correct that $K = \frac{1}{1-\alpha}$, (tho in reality the ar^n must be subtracted, being not infinitely small)

$1 - \alpha$ = propensity to save, so the multiplier is the reciprocal of the propensity to save.

Now: how did they make this erroneous formula work out?

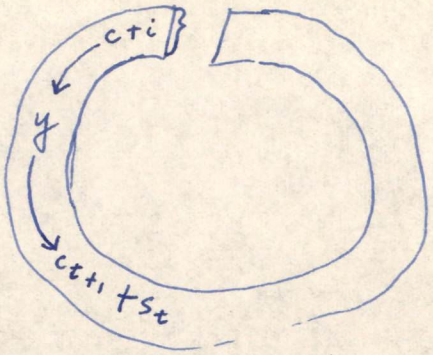
Fain, 21 March, cont.

I should be able, if my time relations are correct, to work it out properly.

$c_t + i_t \rightarrow y_t$

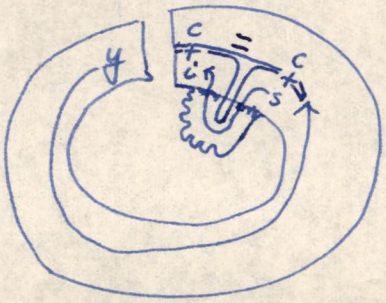
~~$y_t \rightarrow c_{t+1} + s_{t+1}$~~

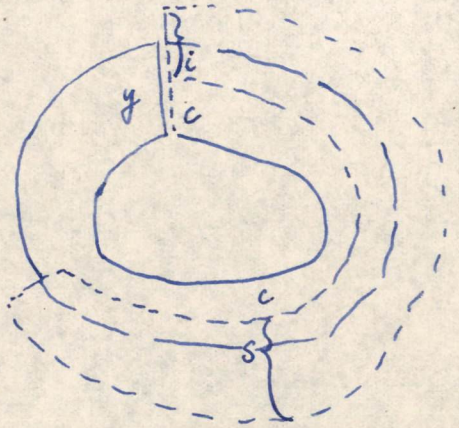
$y_t \rightarrow c_{t+1} + s_t$



Remembering that 'c' means money spent by owners of old M, i means money spent by borrowers of old or new M, s means old M loaned, hoarded, or repaid.

~~The cons. d~~ Where to draw the line between periods? Stewart chose just before ~~xxx~~ c+i, but this forces the Δc to come in middle of period. Choose just before y.





On the other hand, the definite quantitative break between c+s & c+i is best expressed by period change. In present figuring, I use above period notation.

Then $y_t \rightarrow c_t + s_t$

$\underline{c_t + i_t \rightarrow y_{t+1}}$

$$y_t - y_{t-1} = (c+i)_{t-1} - (c+s)_{t-1} = (i-s)_{t-1}$$

~~$y_t - y_{t+1} = k$~~

~~$y_{nt} - y_t = k$~~ $\left[(y_{nt} - y_t) + (y_{(nt-1)} - y_t) + \cdots (y_{t+1} - y_t)\right] = k(y_{t+1} - y_t)$

$(i-s)_t$

$z \equiv$ multiplicand $= i - s = y_t - y_{t-1}$

$$k = \frac{\text{series}}{y_{t+1} - y_t} = \frac{z + \alpha z + \alpha^2 z \cdots \alpha^n z}{z} = 1 + \alpha \text{ etc} = \frac{1}{1-\alpha}$$

Conclusion: the short cuts they use are impossible. One must consider time, this runs into geom. progression.

Fain, 21 March, cont.

But how do they get the right answer that way? If I understood that I'd be sure their method is wrong, if it is.

$k = \frac{\Delta y}{\Delta i}$ means $\frac{\Delta y_{t+1}}{\Delta i_{t-1}}$, which is ok, but Δi_{t-1} means $i_{t-1} - s_{t-1}$, which differs from Δi, which would be $i_t - i_{t-1}$, which we don't want here. Δi is a misnomer.

ΔM is closer – the quantity desired being increased liquid claims on value spent in this period not earned in previous period. $\Delta M'$ is closer yet, but ΔM is adequate, understanding dishoarded M to be included. But that is not 100% accurate, will bring confusion. Always say exactly what you mean. $i - s$ means that which is spent for buying which was not put away from the income of this period. Increased money demand. $\Delta M'$ is ok, with the restrictions which the fact we are considering only 1 period necessarily imply. $\Delta M'$ is what I would call it, but here let it continue $i - s$.

$(i-s)_{t-1} =$

$k = \frac{\Sigma \Delta y_{t+1}}{(i-s)_{t-1}}$ at this point we find nothing to cancel, we must go into the series procedure. We will never be able to do any plain cancelling that I see, for numerator is that infinite sum & denominator has no terms that appear in numerator. – s are one possibility:

$k = \frac{\Sigma (y_t - y_{t-1}) + (y_{t+1} - y_t) \cdots}{y_t - y_{t-1}} = \frac{\Sigma z + z\alpha \cdots}{z}$ etc – it just leads to this.

The only cancelling possible is that involved in operation already done.

Her equation implies that Δi is what occurs concurrently with Δy. As I remember Keynes switches over to this altered idea, when he finds it convenient. Then you can divide by Δy, cancel Δys, & $\frac{\Delta c}{\Delta y}$ will be α, for the infinite period. But, if we do so, then Δi is no longer the multiplicand, & k no longer the multiplier, but $\frac{\Delta y}{\text{contemporary } \Delta i}$, a fraction of Δy, derived from it.

May the horizontal instead of diagonal summation permit this?

More possibilities in 2d method? No. $\left(\frac{1}{\alpha} = 1 - \frac{1}{k};\ \frac{1}{k} = 1 - \alpha;\ k = \frac{1}{1-\alpha}\right)$

$\frac{c_t - c_{t-1}}{y_t - y_{t-1}} = \alpha = \frac{(y_{t+1} - y_t) - (i_t - i_{t-1})}{y_t - y_{t-1}}$ $\left(= \text{N.V.} \frac{1}{\frac{y_t - y_{t-1}}{i_t - i_{t-1}}}\right)$

$= \frac{\Delta y_{t+1} - \Delta i_t}{\Delta y_t}$ notation improvement – short cut.

Fain 21 March cont.

Return to 1st method. If 'injections' are continued each period constantly, then Δy in any one period = Δy from first injection carried thru all its periods. So cumulative Δy = Δy in one period, if period Δy is ~~carried back to~~ all inc. over ~~pre-~~ level that existed before first injection. - which is hardly permissable terminology. Then if we say, as Stan suggests, that $k = \frac{\Delta y}{\Delta i}$ refer to that current Δy, that Δy will never = final cumulative Δy until infinite case. - & if any irregularity in injection has occured, current Δy will not = cumulative.

Re 2d method: it cannot give us ~~k~~ α - k ~~relat~~ function, because k cannot be found in it.

Probably the 3 methods were developed by pure opportunism: They have a set of alternate definitions which can be subbed for each other at will, lead to anything. Let me see if I can prove $k \neq \frac{1}{1-\alpha}$ by their methods. That would prove ~~it~~ my contention. But when you can equate anything to anything, how can you get in a jam you can't get out of?

$k = \frac{\Delta y}{\Delta i}$; $\alpha = \frac{\Delta c}{\Delta y}$

$$\frac{\Delta y}{\Delta i} = \frac{\Delta c + \Delta i}{\Delta i} = 1 + \frac{\Delta c}{\Delta i} =$$

$$\frac{\Delta y}{\Delta i} \stackrel{?}{=} \frac{1}{1 - \frac{\Delta c}{\Delta y}} = \frac{\Delta y}{\Delta y - \Delta c} = \frac{\Delta c + \Delta i}{\Delta y - \Delta c} =$$

$\Delta y = y_2 - y_1 = (c+s)_2 - (c+s)_1 = 0$ - this device makes any Δy item possible to disappear.

Refine it by using i for s sometimes. They use it in division more than subtraction, & use Δc etc for $()_1 - ()_2$

$$\frac{\Delta y}{\Delta y} = \frac{\Delta c + \Delta s}{\Delta i + \Delta c} = \text{~~sick~~}\ c - i + s - s = 0 \quad - \cdot - \text{ etc.}$$

Stewart, 31 March.

~~Link~~ Persson. Harrard A, B, & C curves. A - speculation. B - gen. bus. cond. C - i.r. curve. A led B led C, up to 1919. Worked til '29, when B led A led C. Carstens attacked series because they failed to consider rates of change, claimed C led A.

Yet land spec. had declined earlier. Perhaps this reveals land spec. is more cyclo-sigmficant than stock, for it must have been stock spec. that kept up A curve in '29.

Langa article recommended, summarizes Keynes. - see Gerry

Classical analysis is ok with perf. comp. But as wages will not fall etc, we must have the money analysis.

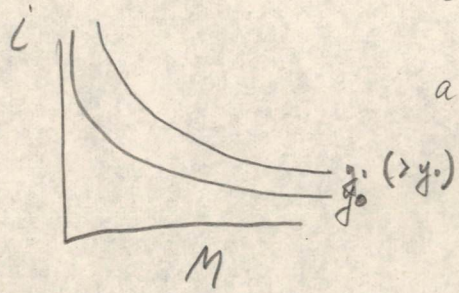
2 Apr.

High prop to save allows for mde fluctuation, because you can go a long way down before sav. = 0. This accords with observations. Parador reconciled. Mult greater in poor economy, true, but prop of inc which is inv. is greater in rich, so in rich ec. lower mult is mult by higher multiplicand, more than compensating. Keynes' view of average prop. cons. another way of seeing it. see Keynes p. 127

Real reason: ~~that~~ 'sav.' of Keynes monetary approach not identical with cap. formation. Also, assumption that ~~so~~ saved M is permanently gone is false. Point is probly sound that multiplicand is larger.

Langa approach: 4 equations summarizing Keynes.

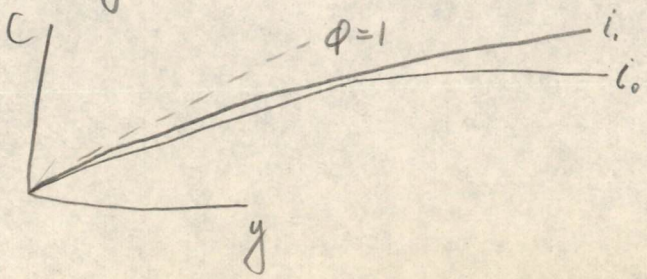
1) $M = L(i, y)$ $y \equiv$ inc, $M \equiv M$, $i \equiv$ i.r. L is liquidity pref. function. a curve of desire, not fact.



L_i, (for diff rates of int) ≤ 0 - a most inaccurate way of expressing an inverse relation. -- $M \propto \frac{1}{i}$. Perhaps it is accepted math. symbolism.

L_y " " inc. ≥ 0

2) $C = \phi(y, i)$ $C \equiv$ cons

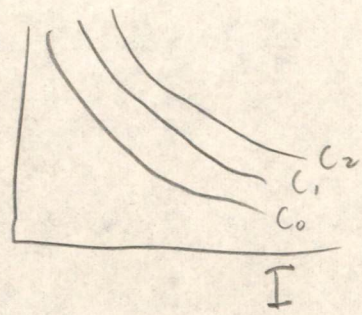


$0 < \phi_y < 1$

$\phi_i \gtreqless 0$ - we don't know relation of cons to int. Classical assumption $\phi_i > 0$.

Stewart 2 Apr cont

3) Marg eff of 'inv.' (capital)



$I = F(i, C)$

$F_i > 0$ — this is wrong? $F_i < 0$

$F_c > 0$

$C_0 < C_1 < C_2$

The thought in the 1) is: $M \propto \frac{1}{i}$. But which vble is ind. is undecided. - each is thought to react on the other thru other equations. When i increases, people want to hold less M, but that does not in itself affect M. (M might be decreased, I mean V, & deposits reduced, if people took cash for dep, put it then in savings banks. Or just put dep. in sav. banks. But this obviously causes sav. banks to lend or lower i.r. Only holding dep. idle is the enigma) It would even tend to increase M, as cash flowed to banks (— tho not nec. the command of M over goods). I don't see any reaction that would make $-\Delta M$ from Δi — only that value of M would fall, but not its nominal amount. / Δi would discourage borrowing, ∴ reduce M (— but also would discourage repaying old loans for a time, ~~M & y~~ but that is merely a lag feature) It would, however, encourage lending, & resultant volume of loans ~~might be there~~ needn't be less than before. Indeed, ~~as~~ Δi usually is associated with ΔM, tho in this case, as demand is leading the change, Δi is a drag on it. But if supply were leading the change, & $-\Delta i$ assoc. with $-\Delta M$, again it would be a drag on it. But this hardly justifies his equation, which at best tells an occasional tendency, not the whole story.

However, $M \propto \frac{1}{i}$ is representative of Keynes' thought, emphasizing effect of i on inv., not on saving.

The other thought: $M \propto y$. In this, ~~he~~, he implies wrongly that M is the dependent vble. (In $M \propto \frac{1}{i}$, he may have occasional justification in that ~~as~~ insofar as i is ind. it has this effect, tho in main relationship is probly other way.) Again, this reflects Keynes' view.

Stewart, 3 Apr, cont.

2) Classical assumption was that ~~cons~~ saving as ~~inc~~ dep $\propto i$, as ind $\propto \frac{1}{i}$
So cons. ~~dec~~ v.v.

3) Seems balled up. In saying $I \propto C$, they ~~contradict~~ revealed a fundamental contradiction of Keynes, that 2 things can vary together & have a constant sum. I & C $(=y)$ It is his time confusion that causes it.

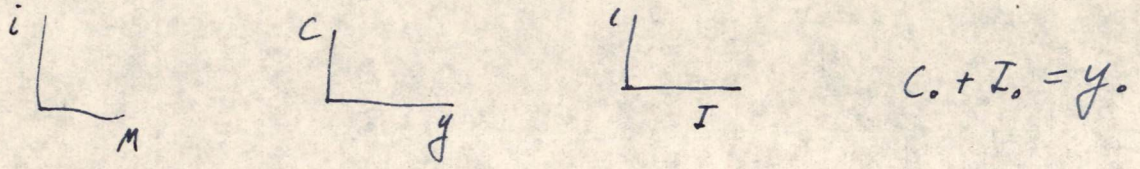
Stewart 4 April. Remainder of Estey & Halm for next 2 weeks.

4) $y = I + C$

When Lange gives his functions these values he refers to first derivative.

In (1) of course Keynes Thinks M determines i

Putting 4 =tions together, you start with y_0, work thru & get another, if it does not = 1st, not in =librium.



$C_0 + I_0 = y_0$

Criticized for making ~~not~~ i depend solely on M – but with y const. this has some validity.

~~Hicks~~

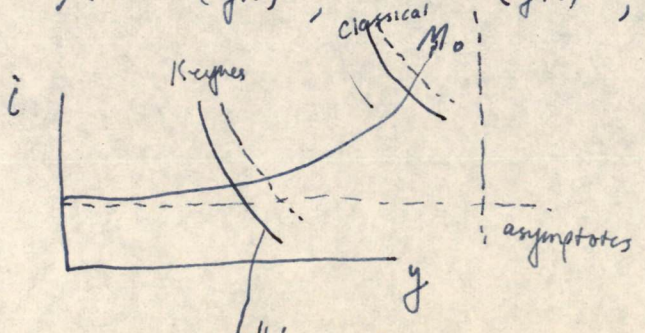
Lange on Keynes → $M = L(i,y)$; $C = \phi(y,i)$; $I = F(i,C)$; $y = I + C$

Hicks on — Classical 'Cambridge Quantity Theory': $M = ky$; $I = c(i)$; $I = S(i,y)$ 'savings'

Hicks on Keynes: $M = L(i)$; $I = c(i)$; $I = S(y)$

How like modern art it is – experimental, unsure.

Hicks on Hicks: $M = L(y,i)$; $I = c(y,i)$; $I = s(y,i)$



Keynes assumes unemployment is on flat part of curve.
Classics assume full empl., are on steep part.

Halm

Chap 23: Monetary Policy and Economic Stabilization

Low i.r. comes in depression with no help from govt; why, then, does govt try to lower it still more. I think if it were going to do any good, it would do so without further lowering.

Board of Governors of FRS, stem concluded that M was only one of many factors affecting prices, therefore their power was limited. Mainly, of course, this means that changes in velocity are not under their control. And even these could be brought under control, just as M has been.

Pump-priming: this difficulty, that the idea is to induce private investment, but the priming perhaps does nothing to induce it, only has multiplier effects of its own which will cease soon after the injections cease, at which time a deflation will occur which will undo all the good that was done. Within the limits of their purview, this is accurate. -(over)

He thinks if money is spent too sparingly, it will have no effect, if too generously it cannot be discontinued without making trouble. He seems to think some intermediate amount will not have these difficulties, but is wrong.

Compensatory spending a different idea from pump-priming. It doesn't pretend to be able to get things started, just fills in while they get themselves started.

He forgets that compensatory spending is not entirely in a different economic world from private; tho govt projects do not perhaps compete with public for markets, they do compete for factors, and since it is most important that factor prices be reduced, this is important.

On other hand, they may increase margin.

As to factor prices, we have two elements: their money price in relation to product prices, and their relation to each other.

Submerged cycles make difficult the idea of anti-cyclical spending, or compensatory. Because a top of cycle in which 6 million are unemployed, as in '36, would find few to say stop this boom.

So permanent deficit spending emerges. Ever increasing public debt, probably. not nec infl.

If the lower i.r. of new deal measures was a real one, it would have caused increased prices of surpluses, unless their yield was also reduced, which it wouldn't be by lower i.r.

So?

It is wrong to say that "The wages fund theory underlies all the modern approach to economics". The wages fund theory is a particular formulation, with many threads combined. What is true is that a confusion is common the wages fund and to modern analysis, namely that the proximate source of employment, money, is the ultimate source. That "money employs men".

Rasing revenue for spending by taxes is the most radical way, he says, because since most taxes come from consumption expenditures, it would have little effect in sum; whereas all borrowing comes from saving. A point. Depends on taxes much.

Reducing taxes, au contraire, cannot be depended on to increase spending.

But by making inv > sav, pump priming tends to increase inv., not just as a multiplier effect, but because price rise, once started, 'spirals'.

a) comp cannot be elim. without soc., because ~~cons~~ frees. (But monop – however it may be due to state –

b) some say corps allow monop.

c) Small # large units compete fiercely.

d) Nonprice comp.

e) Monop never absolute. competes with substitutes, & all products, for all are subst.

In general, an overstated case.

a) free cons limits monop, not breaks it. Monop depends on unfree producer, etc. True that monop is relative, abs. monop impose. in free ent. – perf. inelastic demand. State may prevent free prod.

b) Corp has eased monop

c) Comp. among large units often leads to below cost, then amalg. He ignores non comp. large units. right that size is not only criter. Some oligop. ~~many~~ neither combine nor win. – comp never stamped out 100%. But agreement easy. Price leadership. Depends on whim of ~~giant~~ largest, if fight or peace. He gets much surplus return anyway wants peace too.

Fact that wages are high % nat inc, that monop returns not usually colossally above line, etc, indicates effect. Large profits not rec monop, but int. of SS low return.

d) Even with market agreement, monop administrator cannot prevent nonprice comp.

e) True

further points out that monop entries often miss, & perhaps it is not as important as soc. say. On other hand, he weakens a defense of system he believes in, for if monop is not fault, all must be wrong.

$\text{nat inc} = 5 \times 600\text{m} \overset{?}{+} 10 \cdot (\text{dep}) = 3b + 20b = \underline{23b}$

600 m $ $ cash

Assume inc vel means incl. cash held in bank res.

Unknown: dep. $\equiv D$

$$D = 10(C - r) = 10\left(C - \frac{D}{5}\right)$$

$$r = \frac{1}{5} D \quad (= 400\text{ m}\$$$

$$D = 10C \overset{?}{=} 2D$$

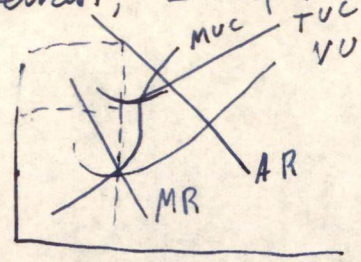
$$3D = 10C$$

$$D = \frac{10}{3} C = \frac{10}{3} 600{,}000{,}000 = \$2b$$

Signif — Bond market discr. when depn etc. — G.V.
curve — Increase inv. by loan i.r.
govt works
tax saving, exemptions
pmt mould or FR by bonds

mmop — output drops, prices not — the costs decline
durability — prices & output both drop
pred errors

Stewart, 27 April



Where MR = MC, monopoly produces.

Suggested for junior quals.

A decline in cost might conceivably not reduce, but raise a monopoly price, if curves are so.

Hayes implies depressions are necessary to keep compound int. from interesting earth, causing capital losses. His comp. int. is 'an aberration'

Lower prices are answer to ripening of inv. goods problem.

Hayes says that total income is inadequate to buy new goods, but ~~while~~ ~~common~~ view is that inc. is enough, but is too much saved.

Too many cons. goods coming on market he says, while demand is for inv. goods, says Hayes. Distorted structure of production.

But at other times he has view of inadequate total demand, which can be true ex ante but not expost.

Hayes moves over to under-inv. expl., of Hanson, that when cap. is finally produced constr. factors are no longer employed because p.p. is used for nothing.

If new money created on basis of ripened investment's self liq. product is not spent in the time the bus.s expect to sell, it won't do the trick. That is, its velocity ~~a-nett-as~~ counts. It will probly be average vel. If this is large enough, ΔMV will cover new products & maybe more. This is a question of fact. What is probable? Also, ΔM depends on size of inventories. & what are sizes?

Before '45 40% gold behind notes
35% " or lawful mon - dep

June 1 '45. 25% " , both dep & notes.

Reserves

Bring in pamphlet on fed debt. - Banks opened deposit accounts in favor of U.S. Treas. ('war loan' accts. Exempt from reserves. (probably until spent) Exempt from FDIC assessment. This encouraged banks to get customers to buy bonds.
- Nat Debt & Banks, Nat Debt Series, Committee on Pub Debt Policy.

Stewart, 12 May

Money creation.

Treasury coins & prints all money, save FR notes. Constit. only authorizes "to coin money", not print. 'Emit' 'Bills of credit' ~~frontiered~~ allowed - this is paper. Const. doesn't authorize making it legal tender. Constit. is silent on it.

Greenbacks first paper money issued by fed govt. Nat banks & private state banks had issued money paper.

Treas notes 1890

Gold & Ag cert.

Treas. deposits 'treas. currency' with FR banks in exch for dep. Gives gold certif & other treas currency. Its contribution to fed R reserves. Treas currency only gets out thru FRB.

'Reserve money' is created by treas. + FRB. for members. Members find treas cash & fed dep interchangeable

FR contrib. is its loans & inv., which are reserve money.

But loans of FR banks increase faster ~~slower~~ than its deposits, because of discount. This is Fed Res Equity.

F '33 - '41, gold certif. increased greatly, no effect on ~~for~~ FR loans, ? But same as creating M.

F Treas. sterilized a small portion of gold imports only, most of it ~~was~~ had gold certif. issued vs. it, which were given to FRB for deposits, which were spent for govt expenses.

How does govt. buy gold? With commercial bank dep or FRB dep. ??

R Increasing gold cert with FRB increases reserve money regardless of how treas pays, with FR dep or comm dep.

F Recently treas. has been issuing more silver certif. But normally treas. is passive.

Stewart 12 May cont.

He said it makes no diff if govt buys gold with FR dep or with comm. deposits. I thought if ~~govt~~ treas. bought with FR dep it meant it did not increase 'reserve money' in sum when later it exchanged a gold cert. for a deposit. Actually that would mean a double increase: govt would have been holding dep. idle, now it starts it on way to comm. banks – but if comm banks dep were used, no effect at this stage. Then when treas. sells gold cert to FR banks, latter give it new deposits (?) for them, & when govt spends them they increase comm. reserves too.

It certainly makes a difference, then, how govt buys gold, & what it does with FR dep it gets for gold certif. If it buys with comm. bank dep, no effect. If with FR dep, Δ res M. If it then sterilizes, no effect. If it sells to FR for dep, & holds dep idle, no effect but FR now in position to expand further. If it uses dep, same + Δ res M.

Larsen, 24 Apr

Francis A. Walker was a pres of MIT. Newcomb, Simon, another. Older ec-ists were scientists, thought econ was a science, exact.

Modern ec-ists say they cannot be exact.

Engineers learn principles, they are scientific, but application is so complicated it cannot be precise.

Larsen proposes bifurcating a body of accepted indisputable knowledge from application, which is controversial.

His economists predicted postwar unempl., as did most, firm planned on it, was unprepared. As most large outfits doubtless have econ. advisers, that must affect them, affect cycle.

Process of abstraction used in nat. sci., not enough in ec.

Science doesn't tell you what to do, ~~but~~ in particular situation, but what to do in general situation, & you must decide what the situation is.

Production is continuous, but with reservoirs. But inventories are very small cf. ~~them~~ with changes in pp. & in times of low prices merchants cannot store inventories, because then they haven't enough $. So hoards of money are responsible for price fluctuations. & when prices go too low, goods must be sold for less than cost.

Stewart, 9 May

~~Write Gurley~~

Govt bond requirements?
FR note & dep res req.?
What 'inv.' declines before 'cons' in ~~Lapse~~ upper turning pt?

inv. vs cap. formation def?

Increased production, says Larsen, cannot lower prices, because it only creates more income.

So if we increase M, or 'draw it from reservoirs', prices rise & no amount of production will keep them down. Errata.

$\frac{B}{V}$ (B - purch. power; V - volume) $= P$ — Larsen's equation.

$\frac{\text{n. inc}}{\text{real goods}} = P$ — Thomas.

Larson says they are different, the difference is vital to his theory.

n. inc differs from n. inc by reservoirs.

Write a criticism of Larson.

135, repealed law that govt dep. were exempt from res req.

Govt sec. must be kept as collateral, 100% of existing govt dep.

Nothing ~~X~~ in war.

FR ~~res~~ behind dep. must be 'lawful money', i.e. gold. - not FR notes

Stewart, 2 May

In Eng, banks honor overdrafts, to a point.

P. owing back profits means ~~factors are~~ the stream continues without going thru the goods market, makes no price differential between goods market & production market. But if M is taken out from factor rewards to rent buy factors direct, with what will goods be bought? What goods? etc.

Kalder, Journal of PE, 36 ~~xxxx~~, Wage Subsidies. Larsen recommends wage subsidy. Makes Pigou's assumptions. - not based on flow concepts, but equilibrium of price & wage concept. Is Larsen making some assumptions that involve equilibrium concept? When he proposes to make labor available at mp by subsidizing it, what is he doing to his flow chart? pre-Keynesian approach.

How does wage subsidy lower cons. reservoirs?
If producer is making losses, sells land to get money to pay them?

Larson says reservoirs resp for cycles, but wage subsidy is to get full employment.

Never a depression without falling prices, says Larsen. So?

Inventory changes may be large, but usually they are not in opposition to money changes.

Stewart, 5 May

Fawr. address

Larson's major remedy - wage subsidy.

Says no such thing as over saving - vague.

Larson proposes employment tax to take funds from reservoir, — "tax additional value produced" gross sales tax?

Tax employers generally & tax payroll tax, subsidize those who hire more workers, so subsidy is just a remission of tax on additional employees.

Need question Larson.

Price equation - cf with income approach to value of money. - Thomas

Reverse Monday's conclusion — it does make a difference whether money comes from FRB or member.

G — [− Δ r.e. value as cause of −ΔM]

Stewart 14 May

"Common money" ≡ currency held by public + bank deposits of comm. banks.

Explicandum: explain fluctuations in common money.

"Reserve money" ≡ Treas cash outside FRB + FR dep.

Sources of res M: 1) Treas. currency outside treas:
Gold cert &
Other treas currency

2) Net res. bank credit
i.e., dep. & cash of FRB
loans & inv of FRB, minus res bank equities.

---

solve problem

Common M:

1) Currency outside banks
   a) Treas currency (c) counterfeit
   b) fed res notes

2) Bank dep. (incl. those held by govt) minus float & recip. balances.

def. of bank dep difficult.

Sources of common M

1) Treas. contributions (makes contrib. with FR banks) (only when Treas. pays out dep ("drains down") is common money affected. But these FR dep. do not always circulate as M, they are held by banks as reserves often.
Contrib = treas. currency outside treas minus Δ treas FR Dep.

2) FRB contrib: (this is a priori; data haven't proved it, wrong categories)
Net res bank credit − (from gross deposits subtract those covered by obligations of banks, i.e. borrowings from FRB by members)

a problem → see next page

3) Net loans & inv of banks, i.e. loans & inv. minus equities.
i.e., ~~deposits~~ that which is created when dep are balancing them.

He has evidently encountered definitional problems. Not knowing his approach to defs, I cannot solve his problem. But I can work out my own def.: which do.

Stewart 4th May cont

Banks

Due from FRB +10	Dep +10

R B

	Dep +10
Loans +10	

Open market buying increases common money & res. money simul. Not all res bank credit increases common M. If member borrows to maintain res, it does not increase common money. This increases res. M only.

Def. of dep.

Float a problem: shall it be deducted? yes he says. Uncollected checks? Credited & not yet debited?

Recip. balances: Interbank dep.

A

~~Due to B~~ Due from B	Due to B

B

Due from A	Due to A

Done for convenience. Reciprocal balances. Can be created from thin air.

Only in 1918-19 can he get figures on interbank recip dep!

	common M	Sources	Discrep
June '18	+5395 m$	+5015	+380
June '19	+4321	+4981	-660
June '20			

figure out how to eliminate discrep. Counterfeit?

No class Fri.

Stewart 14 May cont. ≡ by me as M used for 'non banking' xactions

Common M is: Treas. currency held by public, comm. bank dep held by public.

'Source' of treas. currency, i.e. opposite obligation, is lacking. Except that treas. acquires metal assets as part backing, but no very precise relationship I guess. Then some treas. currency held by FR banks, mostly gold cert. For this treas gets dep, or FR notes? No matter — it spends them, banks hold them maybe, or if they don't want that much cash they will keep them in public circulation. by investing them. Many possible sources of error in figures here, duplicating reserves & deposits. I don't know what he's done.

FR dep. held by public are common currency then, if any exist. ~~Rectu~~ I'm sure they do, for when FR bank makes open market opera. it buys from public with its deposits. Probly when treas spends its, it spends direct to public. No reason why this should go to banks in a hurry, nor why they should keep it, if it does. He probly considers this, has not made it clear.

Comm. bank dep.. But when bank receives check on other bank it ~~many reduces its~~ gives dep. to one who puts it in before check is returned to issuing bank & there deducted from writer's deposit. This delay means that there exist at any time more bank deposits than should, for uncollected checks have not been deducted from writer's account. This is true if check is paid in cash, or by a deposit.

Money held by bank as reserve is not common money for that time. When one cashes a check he is 'creating' the cash he draws out as common money — turning it from res. into common M.

etc. Sterile inquiry. Why does Stewart piddle with it?

~~Tennis Courts 3 p.m.~~

'Realization' then, is always a 'wasted' V# of M.

Stewart, 18 May

When bondholders are paid they do not look on it as income, will continue to save it, try to invest it. If it is cons. taxes, it reduces inv. outlets. So paying debt must almost necessarily reduce V, be defl.

Cons taxes infl etc, paying debt?

When production lessens St. says it's defl. because incomes cease. But so does production. Only ~~the~~ special circumstances that increase money hoarding will be defl. – & they are indeed likely. But in general the significance of decreased production is it increases imp. But cf. Spurgeon Bell on this. This will be intro. to my thesis, ~~it~~ comparable to George's Wages fund back.

On acc. princ.: The surplus, produced, becomes a factor, receives income. Also an amortization inc. So when cons. demand stops increasing & surplus factors are no longer demanded, if they are not demanded elsewhere it is only because of hoarding, not because no money exists to ~~employ~~ demand them at previous ~~price~~ prices. It is the monetary & cost-price problem, not a separate acceleration problem. When cons. demand is increasing in first place, that means ΔM or ΔV. If there were no acceleration principle, & an increasing demand ceased increasing, 'stability' would ensue – but with principle, ~~it~~ a situation is conceived in which increasing money demand has come to be regarded as normal, & not to raise factor prices but result in producing more durable 'factors'. Perhaps acc. is involved in money analysis. Certainly acc. depends on faulty money analysis.

Stewart,

Cons. taxes reduce velocity. Repayments to bondholders replace part of former industrial income, they do not look on them as income. Deflation result, tho prices rise!

If demand in general is elastic, cons. tax is deflationary esp, because people increase their saving.

Also deflationary because payments to factors decrease. (But also production decreases)

When govt buys back bonds from FR banks, ~~Rx~~ reserves & deposits of member banks decrease by same amount. FR banks do not hold deposits of members, but call them in.

This increases reserve ratios of Feds.

What do 'a country's own official reserves' mean to int'find?

What is Stewart's idea on why a.a. principle alone explains much. What is ~~th~~ orthodox idea that it does not?

Find Estey notes.

F ?

Probably demand is inelastic for products in general, meaning people will dig into their savings if prices rise. Cons. exp.s increase. But, if tax is what raises price, factor rewards decrease. If M goes to pay off bonds & may be counted out, then inc. is less. Also less inv. in this industry, or all ind. if general tax. (Of course reduced production accounts for reduced incomes in part) ~~When~~ Next pd., less M dem, unless further dig into sav. Will M prices then return down? Certainly tend to, & factor rewards will resist. So we have deflation in the sense of reduced M demand, & reduced factor rewards. Infl. in sense of higher prices.

If dem is elastic, even more defl.

Ferr. address

Stewart 23 May

Durable goods for consumers will be affected by acceleration early in depr. because cons. inv. are exhausted.

F? High i.r. did not precede '37 crisis. Nor in general does it precede those recessions not associated with crisis.

F29 In '29, i.r. went up after downturn.

Savings not only source of loanable funds, ∴ i.r. might be high with oversaving.

World's gold is all held by govts now anyway. Probly $ held by banks can be accounted for, are 'official' – but not sure.

Interbank cash deposits increase deposits of banking system without increasing loans. Therefore ~~they~~ net interbank deposits that result from this operation are not counted as money. They only represented a xfer of reserve cash, & that has already been nullified as M when it entered bank the first time, & a dep. was created on it.

However, if this deposit gets to gen public, it can only do so by an increase of loans, by being loaned out.

His acc. view not one with – Stewart.

—

Another factor cost-price spiral: Reducing costs will not reduce p.p. much because the costs reduced are those of oversavers anyway. Their high rewards allow them to hold other funds idle, low costs would force them to spend.

Part of my plan is to break unions & monop. What has always plagued cost-price theory is lack of way to ~~do it~~ lower costs. LVT is the way, coupled with other monop breaking. What has always (even) stopped monop breaking is fear of competition due to low survival

level. LVT, killing all birds at once, prevents one difficulty from being a further difficulty for other problems.

Larson

Production and consumption count.

Production of goods and of purchasing power are simultaneous. He says that production is the only means of creating purchasing power, which is false. Govts can borrow, as can many others. Capital gains are not production, but one can sell the increment and thus have purchasing power. But this argument, as many others, assumes that the production creates purchasing power. But as the products are merely sold for money, the money must have existed previously. Production only transfers p.p. from one to another, from buyer to seller.

Goods are p.p., says Larson---Say's law. So by p.p. he does not mean money, but anything of exchange value. And exchange value can arise without production. This does not mean that capital increments increase prices, for instead of being used as money, they require the use of money to trade in them. An important leakage of p.p.

He assumes that whenever cap. prices rise, they will fall later. which ain't nec so.

Principle 1 is therefore wrong.

Principle 2: p.p and goods are produced simul. Also wrong, for 2 reasons. P.P existed before the goods were produced, and p.p. may be produced by credit creation and cap incrementswithout production.

Barter was a one-step process. When money introduced, exchange became two step. When "the cobbler first employed a helper" the producing organization was formed, it became a 4 step process: wages, buyingproduct???? Two steps are getting money, and then buying goods. 4 steps would be getting money from employer, buying goods from him, his selling goods, and his paying wages? Isolation is first ec stage, barter second, money third, employment 4th--tho 3 and 4 are probly inverted, and even barter may have succeeded employment, if slavery is employment.

He has of course taken the same transaction, from two different views, and called it two.

Individual employer is still in 3d stage, for he consumes; corporation does not consume, is in 4th. Corp is pure"producer", or organizer.

Principle 3: "producer" contributes nothing, gets nothing. (is nothing!)

Profits are the price of junior capital, interest of senior.

Modern analysis arrives at the same point as Rustgard did in his Theory of 2dary distribution, only not quite so absurdly: that what matters is what recipients do with income, not how they get it. Larson follows this. over

Another deflationary item is lengthening process of production, and/or speculating in surpluses. However it is not deflation that should be prevented, but the rigid costs that make it tragic.

When earnings are plowed back, it is the same as tho the equity holders had received them and then spent them for investment. So corps can not abstract money. over

The "production market", or labor market, emerges in the 4th stage. Mirror image of goods market. There are two price levels, one in each market. Economists do not recognize this. What is important is the relative price levels in the two markets, not either alone.

Net variation in inventories, is less than 1% annual product value. This I doubt.

Production market transactions occur before production he says, but not always. Wages are paid after production. Most payments are

But if we must pay more to passive factor, less remains for active factors, he is inclined to stop producing. Passive factor, since it can be bought, will at a certain point not reduce its demands just because rent is lower.

But money can skip a step, if it is used by a factor who got it to reward another factor without buying his product. Does that mean anything? Only that Larsen's differentiation of prod market & factor market is tenuous. – Still, it can be worked into his scheme ok. Buying circulating producer goods is mostly xaction in same ec position. Only when used to buy cons. goods, or cause prod of new cap goods, is it moving to next position. However these xactions in same ec. position mean no necessity for money flowing to buy goods should = factor rewards – don't say money, as that brings physical entity to mind. Think of pp., meaning the credits derived from the particular xaction. Actually, after producer is rewarded, pp must xact backwards many times, in decreasing surplus xfers, before finally the last factors are rewarded. This is only an elaboration. Principle is good. But at any time far more pp is in hands of producers waiting to reward factors than is in hands of consumers.

periodic during production. It is true that payments in goods market are longer after production than payments in production market, & obligations to pay are made before production, which is the important thing.

He concludes that if more p.p. enters production market, volume or price may change, because payments are made before production occurs. I don't see why that makes it so. He contrasts this with goods market, in which changes in volume of p.p. can only affect price. He does not consider that they are immediately transferred thru to production market, to increase supply of factors. etc. Perhaps I miss his thought here.

Volume of production has "already been determined" in the goods market, because payment is after production; but in production market, new p.p. can employ idle factors, sz Now the only reason why the production market would be more responsive to increased demand by increasing supply is that it is the purchase of ultimate supply, while goods market is something that must be gone thru before one reaches production market, hence supply there must wait a while longer. But this has little to do with fact that factors are paid before they produce---which isn't so anyway. But if it were, it wouldn't make them more likely to come forth to meet more demand.

Fundamental distintion between p.p. available for use in goods market, and in production market. i.e., some is in hands of producers, ready to pay wages, while other is in hands of consumers, ready to buy products. Actually this is only true where labor is hired, is not its own entrepreneur--not only labor, but all factors.

Intermittency is typical of 3d stage he says, but I see no reason why a farmer, whose production's maturity is intermittent, cannot hire help; or why construction cannot hire help. His point is, however, that the labor which is not entrepreneurial is paid steadily, no matter how intermittent therealization by the entrepreneur. So in this sense intermittency is characteristic of the 3d stage.

P is analogous to temperature, and M to amount of heat. Can analogy be profitably carried further? Is V --no, MV is comparable to heat, for heat is number of molecules times their velocity. And T would be volume the heat must fill.

Undiscovered coal mines have a "value", but "it is not an economic value, because it exchanges for nothing". Good point, crudely stated. Also, he ignores land value, saying coal mine's value is entirely result of labor of discovery, etc.

We have a closed system of flow, in which the two markets are the pumps, their motive power being desire for the exchanges in them. The pumps may work at different speeds, but if producers for example take in more than they pay out it means they are selling well, they will tend to pay out more; and v.v., etc. Still, room for some considerable temporary disturbances here. If producers start to accumulate cash, that reduces p.p., prevents further their distributing cash, tho they may give it slowly to equity holders, who will hoard it further, etc.

However, the amount of p.p. cannot vary as am't of money can; here he distinguishes the two. More money at higher prices is not more p.p. And if more money impinges on same goods, prices will be higher

Chap 4: overproduction and oversaving

Statically, increased V cannot increase purch.p. But it increases liquidity of goods, speed with which theycan be sold, hence speed

Larson, cont
of production, hence total production. Of course it doesn't increase p.p., but only prices, and it does that by increasing money demand for goods at any given time. It is hardly correct to say that it amounts to a more intensive use of money, because if prices were lower due to increased v, the money would be used more intensively in that sense instead of this. In any event the money will cover transactions. (cover)

There is so much idle plant in country that it could not all be used if all labor were at work at once, and this was true pre-war, 20% would be idle. So?

Productivity is increasing c. 2%/annum, not as fast as usually thought. So?

He takes it back. No excess factories. Not nearly enough, in fact. He objects to overproduction theory, now oversaving. He accurately analyzes saving as hoarding money (presumably to invest), and investment as spending it for durables. Saving 7investment means idle money he points out, and it would be thought of and treated in these terms, for they are the exact category to be treated, and worrying about sav and inv may often make us do the wrong thing, for other factors affect money hoarding.

Stewart's acceptance of Lasson indicates Stewart is on the ball, for Larson writes as one should write, and sees things clearly, etc. Larson's weakness is to not consider monopolies, etc. His one comment on monopoly was that if the community allowed it it was the communitie's fault; and on land values he is likewise mixed up.

The class in general feels great contempt for Larson. Partly because he criticizes New Deal, partly because they want to study things they can bull on in grad school etc, partly because he himself is longwinded and made a bad impression when he spoke to us,. But is there perhaps a further reason, the reason why straightforwad writers have not been successful in econ, that they prefer vague styles that leave an element of mystery to explain what they really fail to explain?????? I hope not. Time will tell.

His general control measures will be to affect reservoirs properly when various factors create unbalance.

Principle 4: Exchanges of p.p. at the same economic location, i.e. exchanging old products and land around, have no effect on production as a whole. except as they slow v. in production of course.

Chap 5: Price levels.

Reducing prices usually will not increase sales unless accompanied by vigorous sales promotion. So? Certainly a justification for advertising, if so.

Principle 5: p.p. reaching any point in ec stream equals that leaving last point plus and minus reservoir increments. This is false, for the value of money may have changed meantime, thus increasing the amount of purchasing power. As he has just been to some pains to point this out, it is odd he slips up so soon.

He consistently asserts that prices are not affected by volume of production: a reductio ad absurdum, -- suppose today's M = that of 1789.

Volume of production is affected by price change.

Expansing and contracting credit he regards as the ame as putting money in and out of reservoirs. They probly have same effect, in his little world, but they are quite different. He in general ignores the problem of how money is created.

His differentiation of markets is sharper than found in reality. Frequently a "producer" is the consumer for another producer. This he says-is just transactions in the same economic

Larson, cont

position, (but it is more than that) His differentiation of markets is useful as a simplification, but it must be remembered that money usually does not go directly from the retail merchant back into production demand for consumption, but instead travels a circuit back to the final producerof raw materials, and along the way various factor rewards are taken out.

The above is quite the same in monetary effet as speculating in products; latter may be more appropriately called transactions at the same economic position, while former only involves transactions of products with further ends foremost, is different therefore.

Distinguishes "producer goods" as raw materials used in producing and maintaining, while from "capital goods" which are used to expand plant. Says producer goods are bought with proceeds of sales and would otherwise be used to buy other current expenses; ad capital goods are fianced from permanent savings which otherwise would be used to buy goods. This is important in his system, for then capital goods are bought instead of goods, while producer goods are bought instead of labor. I doubt if it has much real importance; it is true that each comes in at a different point in the money cycle, but the points on the money cycle don't make too much difference. Except when costs are too high, then capital expenditures reduce demand for goods thus accentuating trouble, while producer good exps are taken from other cost exps, thus reducing the costs neglected, and righting situation. But the new costs would be just as significant. But if we could show that money is skips a step, and is spent for product factors and then for factors right over again, at some stage, we would have something, for this would upset the balance, make costs more than prices. When money is spent for land, this happens.

Principle 6: p.p. in goods market equals that in production market. Wrong. he should have said money. also he does not realize that some money can skip. Also, what of time element? He is assuming he can spot a section of money in one stage and follow it as a body around the circuit. But each piece moves at different velocity. To all purposes, his reservoirs take care of this, but he evidently doesn't see it.

7: Changes in cons p.p. reservoirs cause changes in goods prices.

8: market price levels independent of volume of production. Wrong.

Chap 6: Production

Market price refers to the goods market, production price to the production market, it is the cost of the factors, i.e. the cost of production, including entrepreneur profits as a cost, hence equal to market price. He is defining factor rewards in terms of prices of goods they produce, assuming a practically fixed relationship of output to factors applied, i.e. no increased efficiency.

Producers produce when today's goods market price is as great as the production price. They usually make little attempt to judge the future, he says. Also he seems to think they can spend no more on factors today than they took in from producing yesterday, but this ignores that they can borrow from banks if prospects are good. It points up an important fact, that if prices decline today producers have less to spend for factors today. This could be overcome by borrowing if prospects were good, but if they are not it won't be, and of course their factor payments will be less. This commences what is sometimes called a spiral, but which is only cumulative hoarding money. The original hoarding once well under way, it appears that the value of money is on the way up and further hoarding occurs. Again, this is not probable as an

Larson, cont
independ ent phenom, because compensatory action would exceed cumulative. Certainly when prices start to fall before his costs, he tends to produce nothing, certainly not to borrow to produce if current income is not enough, and if current costs exceed current prices.

As to hoarding money: is it not possible that the result of hoarding money should be not lower prices so much as decreased production, and of dishoarding not higher prices but increased production. But why the alternative? The two occur together, and if price did not change, production wouldn't either. If hoarding is to decrease production, it must do so by decreasing price, and v.v. But a point in production is reached where the main effect of extra money is to raise price rather than increase production.--not a point, but a gradual change in emphasis.

Since increasing prices lowers real rewards of these marginal factors at the same time it increases their money rewards, why does it make them produce? It must increase their money rewards more than it decreases real rewards. Real interest will be less, if the rise is continuous, also the increased prices will perhaps justify a rent from the marginal land which will not be collected for some time. Probably also marginal land is held by those who need income when they can get it, and they will not hold it idle, consider our Dorset farm, which Edgerton rents for next to nothing, yet in war probably made good money for him, we did not raise rent, it was not customary.

He should say that changed money demand is taken up wholely in prices?--no, but he does allow for price changes with his differentiation of p.p. from money more than most.

Consumer reservoirs larger than producer. Producer used for stabilizing, consciously, consumer blindly. Bull.

Rent, interest and wages come down hard. Profits more easily---they, being junior, have to. Probably the factors which are passively hired by entrepreneurs come down with difficulty, those that are owned by entrepreneurs have junior characteristics, come down fast, because entrepreneur sees necessity, and has risked them in the business more. Or do entreprenurs feel toward their fixed inv. that they should earn some previously expected return or hold it idle? No, they have no reasonfor feeling so, for they do not have to make long term contracts in order to use it, they can use it at will, they want to use it as much as possible. It is only those factors that have to be hired onlong terms that will be hard to bring down quickly. Thus it is not just a rent problem, but a problem of senior liens, fixed claims, which rent may or may not be. Taxing rent will solve problem, however, by destroying incentive to avoid producing.???

He says arbitrary increased wage rates would increase money paid for goods, have no net effect. But it would increase prices without increasing returns to other factors, hence alter distribution. Monetarily, where is the money coming from? that is what he never faces. He assumes it is somehow "produced" along with the shoes. It won't come, probly, so result would be not higher prices but lower other returns.

Princ 9: changed p.p. means changed volume or price
10: arbitrary changed wage rates do not affect volume of production or /real/ total returns to consumers
11: voluntary market price changes by producers ditto.

Chap 8: Business Cycles.

Optimism, credit expansion. Mathematical certainty regarding optimism, bull.

Says that increased capital values mean nothing, for the money

Larson, cont
will later still be spent for cons. Lost velocity he forgets is crux here.

Princ 12: all cons p.p. must go for cons goods.

Nourse and Moulton, Income and Economic Progres, chap 8, evidently discuss how p.p. goes for spec in securities, etc, reducing p.p.

More esp. in "Formation of Capital",chap 10

S. Chase, Primer of Economics, p. 41, same statement.

We have the opposite effect, too, that increased security values will serve as basis for more credit. But increased value and increased turnover are different, tho perhaps they go together.

Optimism alone causes the rising prices: further red ad abs of his idea of origin of money.

Boom is when withdrawals from consumer reservoirs are great.

A boom proceeds independent of speculation, finally it mayor may not be capped by a speculative orgy; it it is, it is a bad crash. The spiralling, i.e., does not beginuntil the trend is well under way.

First indication that recession is coming is when acquisition of capital for new expansion delcines. This happens when it is foreseen that at current costs, capital produced cannot earn its keep. Therefore demand for this sort of investment ceases or slacks; this reduces v, and thus is cumulative for a time. Increasing umemployment appears until finally costs adjust, and/or consumer reservoirs are drawn upon again, which in part means that the funds that should have been spent for consumption when they stopped being spent for investment are at last spent for consumption, because they have to be when current incomes fail to provide means, and people must dig into their hoards. The fundamental above is the failure of costs to adjust, and the diversion of money from investing to hoarding.

Ayres emphasizes the latter point, when he speaks of the decline of new capital isues preceding recessions.

Superimpose on this speculative cumulative actions.

Boom prosperity is founded on an unbalance, the spending in the goods market more rapidly than in the production market, at least at lower prices. This suggests perhaps business builds up money hoards, which keep prices ahead of costs while they last, then are expended only to find costs ahead of prices, so they cannot all be expended. Thus the transfer from consumer reservoirs to producer reservoirs is easy, a boom; but the transfer from producer to consumer reservoirs requires recession. But do producers build up such reservoirs? If so, it is just a part of the explanation.

Prices go up easier than they come down---all prices. So on way up, that is when demand increases for volume, volume not alone increases but also price; but when deand declines, volume takes more of the brunt, at least at first.

Combination in depression: people hang onto their own money, but they won't accept other people's dubious money---i.e., unsure credits. This, and many other factors encourage hoarding and contraction in depression. Once declining prices are established, and confidence is broken, hoarding is cumulative for a time. Without external factors, rising price of money would encourage people to part with their money. This last sentence probly covers most of the arguments that speculative cumulation can occur independently. I believe it never does, but only on the back of more powerful independent factors. Speculative changes alone must be quickly compensated.

Larson, cont

He suggests that the cash reserves of producers may be an element---i.e., he says they are spent in recession. This, I say, would keep costs up, prolong trouble. If we have many fixed cap. industries that go ahead and produce despite losses, this might be significant.

He lists the accentuating and the balancing items. Presumably the turning point is when the balancing ones finally catch up to the accentuators.

Chap 8: Money and credit

Banks regarded not as creating credit, but storing it and what is commonly thought of as creation called merely release. This is perhaps ok for his purposes, but not for money theory.

Credit creation he views as changing the rate of flow of the assets represented by the credit---liquefying them. He sees much of truth.

"Token goods" defined as warehouse receipts, etc.

Chap 9: Employment

It is independent of both money wage rate and real wage rate he says. Now so far I should have said he would say it was independent of money wages, but he'd sg it depended on how the reservoirs were behaving, and if cons reservoirs were emptying then money wages would be higher, causing full employment---no, he says full employment is when reservoirs are neutral, less than full when cons res are filling. Then he'd say you cannot help by decreasing wages because this would decrease cons p.p. never considering that the decrease could be for gain of int, and not decrease cons. p.p. Etc.

We should expect that when fewer are employed, productivity per man would be greater. Studies by Spurgeon Bell of Brookings say this is not so, that productivity in depression was no greater than in '29. Does this mean per hours or per wage? Of course it is quite possible that what is true for most industry is not true for economy as a whole; that increased efficiency in each unit was compensated, in depression, by disruption of normal trade channels, etc. It would depdn on how Bell's figures were gathered. I'd like to see.

In normal enterprise, only sales promotional efforts are carried to pt. of diminishing returns. Increasing returns in other aspects of business, he says. So? Hardly seems to fit the facts, for if so then the diminishing returns in selling must be colossal to compensate the increasing returns in producing, and actually the country's advertising bill is about 2b$/ann only.

He concludes that when it becomes easier to sell, therefore, costs decrease.

Employment is a function of the survival limit. If it is low, all can be employed. The survival limit is the efficiency limit of a firm below which it will make no profits, due to frozen rents, wages, interest. If these are low, then production is possible; if not, then not. This survival limit is what I am trying to show is, in long run ec rent, in short run perhaps includes other fixed costs.

Frozen costs are a modern development, come with the 4th stage of production. Self-employed do not freeze wages---except in guidds, etc---so I say freezing is freezing, wherever it comes.

Socialism cannot give full employment at high factor rewards, either, because its marginals cannot survive. Modern fallacy is to think that all enterprise can pay what supermarginal ones can.

Work which produces 10 times the labor cost is limited, very.

Larson, cont

But when we come down the line, we find much work that produces 2-3 times labor cost, and, he has calculated somehow, at 1.25 times labor cost is enough work to employ everyone.--the 25% labor cost going to management being just enough for its overhead. He does not give the source except as "business records"

An asymptotic curve of average productivity vs workers employed. Like my dim ret reasoning last fall.

He proposes to eliminate depressions by controlling p.p. reservoirs, and handle small normal unemployment by an auxiliary employment mechanism, which will provide supplementary employment free from overhead and taxes somehow.

Differential unemployment: that due to too high survival limit. Frictional, technological, etc, too.

Unemployment is not independent of size of labor force, as he says, because size of labor force affects survival limit.

Principles 13-18, the employment principles, come in here.

Chap 10: Economic Value

Value is that portion of the utility of goods due to productive effort. The portion that is a free gift of nature is not valuable, in his sense. Odd. He ignores demand, thus, and considers only one aspect of supply.

"Esteem theory" of value, sort of a demand theory. I'd better check into it before adopting "esteem" to my uses completely.

Where competition duplicates, it is because duplication is more efficient, else it would have been a monopoly long since. Such is milk delivery. Utilities became monopolies long since because monopoly was more efficient. It is probably a good principle that, given lvt, any industry that establishes itself as a monopoly should be taken over by govt.

Wastes in free competition, true, but fewer than in other systems. Most efficient Diesel motors are only 1/3 efficient, but we do not junk them for that.

Chap 11: Foreign Trade

I should think Larson could find a pretty big market for his book, among the Lester Rogerses.

Bewails neo-mercantilist stupidity, desire to export.

Chap 12: Who reaps the Harvest?

Wages cannot be increased at expense of interest, because the return to each is determined in different markets. Bull.

Profits cannot get too far out of line with i.r. because investor has option of buying equities or bonds.

Increased productivity has not increased i.r., has even lowered it, while wages have risen greatly. So, he concludes, labor and not capital has benefited mainly from increased production.

Returns to equity capital, I guess all things considered, are no greater than for bonds, some study shows. So proprietors tend to work for nothing he concludes, which is doubtful to ridiculous. Of course they do accept less because they enjoy their work more, probly.

Intensive capital use raises wages. He minimizes its importance as labor substitute.

Wages vary with productivity; they are the residue, while other costs are fixed or independent. I say that profits are more residual according to his previous statements. And rent, most residual of all, he neglects utterly.

He emphasizes competition by capital owners, neglects it by labor--reverse of usual fault.

Larson, cont

Lower limit of price is cost of production; upper limit is value. Hardly consistent with his value added by labor theory of value.

Wages are residual because not freely reproducible like capital, he says. This is sort of true of labor, more true of land. But what is unique about land is that increasing demand for it tends to decrease supply, because it can be speculated in, while labor cannot. Thus land is different from surpluses because surpluses can be reproduced; and different from labor because it is subject to ownership and therefore speculation. The solution is to either make it like surpluses, reproducible, which is impossible; or to make it like labor, not subjec to ownership but hired periodically. It is because land is subject to ownership and speculation while labor is not that causes rising prices to reduce supply of land, increase supply of labor.

True? Does land supply decrease in boom?????

Principle 19: Cost of capital is fixed by comp ind of prod, is almost const.

20:real wages equal value ob products less payments to other factors.

Chap 13: Summary

The general economic equation: b/v equals p. I think v means volume of goods, and b means money spent for things.

Larsen paper

1. Confined to theory
2. Price equation interests Stewart. $\frac{B}{V} = P$
   (Is inc. stream a 'closed system'? Cap. Δ, etc.)
3. What is original?
4. Inventory changes always agree with reservoirs?

p.p. & goods produced simul. (meaning value)

2) His price theory: income approach that ΔT can never change P.
   $\frac{B}{V} = P$; $\frac{\text{purch power}}{\text{volume of products}}$ = price, his = tion.

$\frac{\text{n. inc}}{\text{real goods}} = P$ is Thomas's — wrong, because some n.inc is saved. But Larsen also wrong? No, $\frac{B}{V} = P$ ok, but only when so defined as to be useless.

5) Dangers of his differentiating science & application: ~~precision~~ & value of his approach. An ec. scientific law true for all men at all time must be based on unvarying human characteristics. Not only that, but all but very primitive individual concepts ~~unvarying laws.~~ rules. depend on rule systems. Laws of govt, insofar as enforced, are laws of econ. Further customs, etc, affect human reaction. Most econ 'laws' are limited to particular politics. etc. Maybe skip this. He implies ec. science is only that which is universal. Cannot be.

~~Many~~ related to (2). Probly should precede it.

6) p.p. not created only by prod, as he says. Not even is value all created by production. Even if it were, ~~it~~ value = p.p. is not adequate description of modern system. We have developed value items of varying degrees of convenience & immediate acceptability. We have developed it to the point where we can draw a line between items of value & say more liquid are M, less are goods. Larsen has started the investigation with a basic truth, but jumped from it to erroneous conclusions without considering money's nature. Items of value are p.p. only if used as demand for non money. If so, they truly act as money, which I express by saying they lower T ~~that~~ for

which M is required.

It is when we start to talk of price level in terms of M we must observe what affects it, & we see products are not p.p. in this sense, for they lower prices, not raise them.

precedes 6

7) Important principle that all factor rewards become p.p., true, refutes 'surplus value abstraction' view. (But important error, likewise ~~'Say's law'~~ expression that it

8) doesn't matter what factors get it.)

structure of market

9) ~~X~~ Length of prod. process means M spends more time getting to ultimate factor than factor requires to spend it for cons. I.e., it takes a long time to go from Larsen's 'goods market' to his 'production market', or factor rewards. (Yet factors have actually been rewarded by the surplus factor long before, that is its function, & when income from good's sale comes around surplus lenders take back their principle, & int. Besides He does not note this important body of surplus M) This the 'producer' fiction, who gets no factor reward, still holds money back from factors a long time, & that quite legitimately, in trade. Yet actually the only factor he holds it back from is those who have loaned to pay other factors. & when goods are sold to consumers, probly seller was owner, had already paid off factors. So factor rewards in the main come immediately from selling products to intermediaries, who have cash. The only reward that awaits final sale is interest to intermediary, & of course return of his principle.

I think he had in mind that factors are contracted for before they produce

Larsen may have this in mind when he says factors are paid before they produce, which is false. Later front factors often are paid before product is sold to final consumer, however. & much int., to those who held surpluses primarily

Larsen's diagram implies that M goes from cons. to 'producer',

thence to factors, for the goods bought, & thence again is spent for goods, cons. or prod. Actually M goes from cons to interm'd, who then probably spends it for next batch of products. – & he probly buys them from intermediaries way back, (each interm. adding some ~~value~~ value to product, subtracting some reward from M flow back).

Now what assurance have we of equal flows of factor-to-producer & producer-to-factor?

(It is only a closed system if ignore many xactions in which no "product" exists, cons. purchase is factor reward. But we can call this 2 things at once.)

Suppose a factor decides to spend his money to buy goods as an interm'd. He has no one to sell them to! So he, & all intermediaries, must lower their int. cut to sell ~~more~~ what they have bought. So while buying prod. goods ~~he~~ takes care of factors as well as before, it hurts interm'd. Wait – he bought them from factors, ∴ by raised factor rewards, & ∴ what other factors can pay. Yet cf with what would happen had he spent it for cons goods as usual: Then it goes thru proper channels, now it rewards a factor twice in a row, without being spent for cons. goods in between. & this is not just a movement in same econ position, but a genuine double factor reward, for factors are usually always rewarded by investors. If he says they are just buying goods already produced, he destroys distinction of mkt at all.

Equal flow not nec. thru 2 mkts. All you can say is all factor rewards are spent (ever) eff.

The equal flow is nec. because whenever a factor receives a reward & doesn't put it in a reservoir, he spends it for cons. or prod. good, ∴ every factor reward must, aside from reservoirs, become p.p. ~~But it is not clear whence the p.p. to re buy~~ inventories & attributable product of prod good. ?

As to the many producer xactions, that only means money spends longer in the producer part of system than

It ~~may be~~ is important in crash, that too much M is devoted to rewarding factors instead of buying cons goods. Also that too much is spent for prod goods & inv., tho that is less serious as their prices are not sticky & if they were it would just encourage production.

p.4 Larson

the cons, does not prevent = flow. — except when it first got started.

10) He points out ~~relative~~ price levels difference important, not absolute levels, prod mkt & goods mkt. But abs. levels affect money savings.

2) error that Δpp in goods market does not increase supply. But it may be probly omit significant if rightly stated, for Δpp in goods market increases supply only slowly, by first increasing demand for durables. A complex money-price relation here, enters vitally into bus. cycle theory. Cf Mitchell notes.

9) (over) The assumption that the same am't of M must flow thru both markets is ~~stopped~~ wrong: 1) With time, more & more is used in ~~production~~ ~~or maybe opposite.~~ xactions at same econ. position, which means it has flowed thru ~~prod. goods~~ market, not thru ~~prod. goods~~ market. 2) Money creation occurs mostly before 9) (over) 6) prod. mkt, ∴ at any time prod. mkt has had more M flow thru it than goods mkt, = am't ~~new~~ M ~~used only once.~~ Actually this is not just reservoir withdrawal, but a brand new liquefaction.

In his terms, both these would be expressed as permanent changes in reservoir levels. He doesn't mention them however. & it is poor to treat ΔM & also xactions at same econ. position in reservoir terms, for res. ~~suggests~~ saving only. All V of M, to him, is meaningless unless it is inc V or exp. of inc.

He assumes M ~~M~~ that is spent is either spent for cons or for cap good to be held permanently. Actually when one buys prod good he sells it slowly — all may be analyzed in same terms as inventories. Those with buying land? factor surpluses buy goods for resale. — & as prod. becomes more capist, ~~socd~~ M so used increases constantly — 3) While it is increasing we have excess of factor rewards over cons dem. He would say they bought them as cons, at least in cons. position, & subsequent xfers of goods are in same ec position, ∴ he must say that most retail sales are xfers in same ec. position, that only the sale from the 'producer' who is to reward factor is in

ΔM can be used to buy goods or reward factors. Ultimately, it will go thru factor mkt. But it has never been a factor reward previously, so it must have gone thru factor mkt & not the ~~past~~ goods. It is a loan from factors to whoever stands behind M – bank ~~debt~~ debtors & govt esp. M that has been thru factor mkt & not goods is = almost all M outstanding. – & of course more.

The (a) ~~vs~~ contra is 'money & mkt structure', first (a) is just mkt structure. Lastly. Both are M & mkt str.

the 'goods market'. Most ee xactions are partly in the goods market & mostly out, with a small bit in the production market.

The fact that ~~surpl~~ factors are rewarded first by cap-ists means he underestimates fundamental unavoidable nature of reservoirs. They are not just hoarding, but working funds.

Also means he mislocates 'goods market' – it should be at ~~end~~ beginning end of prod, not retail end. This is so xactions of surpluses will be done with money held by cons, for producers cannot hold M by def, whenever they use it it is in interest of owners, who have been rewarded. – probly what the 'producers' use is repres. mostly of owners orginal investment, + some int.

There are no producer reservoirs, then, for producer is just a fiction which can own nothing. The apparent prod. res. are equities of owners. They are cons. res. which ~~may~~ will be used to directly reward factors, but this is saved from being an anomaly by saying they have not yet reached the goods market, because they have just been used for xactions among consumers. The goods market is the sale to the intermediary who has previously rewarded factors directly.

The concept of 'producer' is not persons, but a function. It creates a symmetry that is useful, but dangerous.

The most significant omission of Larsen is that factors are paid before the M gets back to them from final sale. So intermediaries must be defined as consumers. Some of most significant price maladjustments occur between different xactions among consumers, which are not differentiated in Larsen's categories, while xactions

to next p.

the forces us to lump all owners of cash as 'consumers', ~~whether~~ whatever their function

He looks on producers as being agents who collect payments for factors' products, & then forward them to factors. Actually they borrow from cap. to reward factors, then sell products. Here: he speaks of 'producers' reservoirs', but his own def. shows such cannot exist. They are rather cons. reservoirs. By missing this he misses main point that immediate factor rewards are made with cons surpl. that have been loaned to 'prod', not with prod. reservoirs. ~~At any time~~ So purchase of good's for prod. purposes is not differentiated by him from other cons. purchase — he must move his prod. mkt up to just before factor rewards.

X A diversion of p.p. from cons to cap. goods means nothing in his system as I have revised it, & only as this revised is it consistent. We have only one reservoir, now, which may be tapped either to buy cons goods retail or to buy them wholesale (or as prod goods). We lack tools to analyze the important relations in here of retail to prod goods prices, of maladjustments arising when too much used to buy wh., not enough retail.

The prod mkt means proximate source of all money net incomes. Larsen declares these inc.s must = am'ts spent for cons. goods & cap goods & reservoir accretions. True. But troubles can come when too much goes for inv, too little for cons, ~~goods~~ outside scope of his analysis, in area he lumps as x fers at same econ. position. So his mirror image markets finally amount only to the truism that whatever income is received from selling products is the reward of the producing factors. & even this he fails to modify properly with observation that all factors but risk are rewarded before the product is sold. The problem of badly distributed demand ~~is~~ is not adequately described by his reservoirs, since all res. ≡ cons. res now.

(Incidentally, fact that surpluses of M exist to buy products from factors refutes Hayes' assertion that new products cannot be sold.)

A 'prod res' must now be described as reward of a factor who

has been using surplus M to 'carry' goods. But at any time M in such a reservoir can be used either for owner's cons, or to buy cap. goods — & any factor reward may be so used — which is what forces us to move the 'production market' behind such xactions, so we can say of factor rewards so used that they were not used again to directly reward factors, but bought cap. goods. Otherwise, if we called them prod. res & said they bought factors, we would have 'short circuits', for then a factor reward could be used for same purpose. The only consistent way is to say they are all factor rewards, & the goods market is the sale following the factor reward — or, if the 2 are simul, the markets are the same.

By implication Larsen errs that the identical p.p. follows goods backwards thru xactions, obviously false.

Most factors are rewarded by money saved by other factors. Only in the rare case where the 'prod.' is just a collection agency for factors is Larsen analysis valid. I have been thinking we could say factor rewards were only used in good's mkt because if they rewarded factors directly we could say they were buying factors' product, 2 xactions simul. But if we are to differentiate rewarding factors & buying their goods, this cannot be. So most factor rewards (proximate money) are other factor rewards habitually devoted to that purpose for interest. The 'closed circuit' is shorted every time this fund grows - a factor reward becomes a factor reward again. Hence it need not be true that, even ~~disreg-~~ ~~arding~~ over infinite time, The same M must pass thru each market.

(over)

But even without that, Larsen's closed system is for practical use no good because xactions at same ec. position are not required to follow a closed circuit. Retail sales rewards need

unless we say of all ~~xactions~~ factor rewards that they are 2 simul xactions, in goods & factor mkt. But why bother with these fictions? the important thing is that factor rewards eventually become factor rewards again. That is the truth in what he tries to point out. That they may do so without going to this semi-fictional producer is irrelevant, except to show the fiction is useless.

not be used to buy wholesale, but may again go retail. P.P is controlled by agents outside the logical flow, & may be switched arbitrarily around, creating price differentials. But Larsen's implication is that a smooth flow of money opposite to goods occurs throut productive process.

(Price differentials are mostly self destroying, for demand for item decreases & supply increases if price too high. But one bottleneck exists, thru which all goods flow: land. If its price too high, some is not used — result is to restrict, not increase, supply, for a time, further justifying holding it idle. as rents gotten rise.) (for accuracy, note that not only ~~goods~~ products, but land too, may be bought)

6) ~~XXX~~ As to regarding ΔM as drawing from reservoir: M is a (liquid) obligation to pay. Larsen's description implies that such an obligation exists already, & the bank is lending to the borrower something previously existing. Actually a new obligation, that of the borrower to the bank, is created to back the money which the real lenders accept. If we say the borrower's potential credit is the reservoir from which the ΔM is drawn, ~~HOW~~ how was it put in at first? & ~~how~~ from what reservoir was the first money drawn? All M is produced by ~~one~~ liquefaction of new obligations. (Since all M has been created this way, his analysis leads to assertion that all existing M was drawn from a res.)

This is a corollary of error that M is created when goods are produced. Actually it is created when loans are made by accepting new M.

← (Non Larsonian) (concerns how inflation theory of prosperity necessitates restrictive approach)

13) If, when some M is hoarded, that lowered prices & discouraged hoarding, we would have no money problem. As far as purely monetary considerations go, that is what would happen. Why doesn't it? We say because lower prices prevent production. (The holders of the money surpluses who are proximate factor rewarders will not buy factors because they must pay them more than they are worth

(14) Larsen, like all, overemphasizes wages as sole factor reward)

which can mean only one thing: that factor rewards have not declined as fast as prices. Nor can we blame this on long term contracts for they, being fixed costs, encourage production. ence made. But they will not be newly made in upper turning It is short term factors who are too expensive. - also all monopolized prices. Anyway, these holdings of working cash must be considerable. They are very important, for it is their hoarding which is key to cumulative downswing. Their function has previously been to reward factors before products are sold - the economy builds on that basis - so when they stop rewarding factors, factors cannot exchange without them, because they have supplied the apparent demand for factors. Exchange has developed this: money goes to factors from intermediaries, who then sell the products to the factors & get the money back. This effects an economy of money - without the arrangement each factor would have to have money to buy products before he could supply a money demand for his products - i.e., think of 2 factor groups. For production to be continuous, they must all hold surplus cash to pay the other group for current work. Perhaps this is the same - intermediaries reward factors each period with surplus cash, then sell them the surpluses for the cash they have given them (+int.) With 2 factor groups, each rewards other with surplus cash - but that ends it. & neither group can be without surplus cash at any time. If they had intermediaries, - no improvement. Interm. must hold the same cash as sum of 2 grps, etc. Not the intermediary as such, but the custom of selling for cash is the crux. Without a named intermediary, the factors do the function themselves. The important thing is having the cash to do it. It means that society must & use hold cash enough to cover the value of the products of each period. Whenever people hoard cash they are doing it in the intermediary

function — no, but in the cash-carrying function.) But why do lower prices do so? Because only some prices have lowered. Why does not production go to prices that have not lowered? Monop. Why do not factor prices lower? Land situation, mostly. Anyway, the fear of deflation has only one possible explanation: it is not a uniform deflation. Therapy should be aimed at preventing defl. or preventing disparities. If defl. is prevented, the disparities will develop anyway. So the only effective therapy is to treat the disparities. (Supported by fact that inflation brings in new producers, which it wouldn't do if all costs increased prop.

15) Good pt — money hoarding, not sav > inv, is best way to look at it. Sav > inv. gives impression it is more than a money phenom. — Hansen regards it so. Yet only when sav & inv get strict money def. do they apply — if one saves by buying cons goods he has invested. Sav = inv. implies propensity of same is cause. Larson approach reveals perversity is in factors who stay high.

skip it) factor holdings he implies are used for xactions in cons. sidedef ec. location! But land & prod goods are factors, so such xactions need not be at same ec. location.

a) Every xaction is at same ec. location, i.e. cons, for prod owns nothing. So it means nothing.

6) His approach lays way open for spiral theory, if some M is hoarded then factor rewards decline so prices decline, etc ad inf. But result of lower prices is to make people buy goods, ultimately — for someone has that hoarded p.p. Worst problem is in deflating, which is not the basic problem pp that is customarily employed to carry factors. Tendency is to hoard it rather than spend it for cons goods, when factor prices too high.

6 Over Visc) irrelevant - Why should sav = inv. assure full employment? Because all factor rewards are then spent for products. But 'investment' ordinarily just means spending it for 'something', & if it is for land & old products factors have not been rewarded. Hence 'investment' may be misleading.

15)

b) ~~marginal.~~ They say sav = inv. assures full-empl? No. I say this is because sav may = inv., ~~also~~ i.e. producers can take all they produce & still not encourage employing unempl. Keynes says sav may = inv at low level. I say this presses factors & lower demands, get together — which both entices dishoarding & also increases total current inc., & only by this do we emerge. He says govt must invest.

11 Larsen

16) Check on Spurgeon Bell, Brookings, on productivity in cycle.

17) If survival limit is to be lowered, it should be done by reducing some fixed costs. But he has wrong view, of firm's survival, this playing senior vs senior costs. Actually it is a question of survival of production, i.e. wages & int. vs. rent. Raising marg prod of labor & cap. is answer to that. Wage subsidies won't do it, because ~~whatever pushed wages down to their total before subs. will do it after subs. Wages = mp of labor, & comp. amon will force~~ in collection they may lower rewards as much as they raise them. But possibilities for slight improvement.

18) His ridic. 'Value added by labor' ≡ value theory.

6 ~~19~~) He concludes reducing costs will not stop depr. I say he forgets that reducing costs will entice idle money out.

19 ~~20~~) Good point that money will not be hoarded long when people are not rolling in wealth as now. / add: neither will factors hold out long.

OUTLINE OF THE "RESERVOIR" THEORY OF PRICE FLUCTUATIONS

1. Organized economic activity is the result of specialization of effort which makes it necessary for each person to exchange all or part of the products of his own effort for goods produced by others.

2. In the modern economic organization this exchange takes place in two steps. The individual worker-consumer first exchanges his labor and the services of his capital for a medium of exchange. In the second step he exchanges this medium for goods. For convenience we may call this exchange marketing. The first transaction takes place in the production market; the second in the goods market.

3. In the modern organization the transactions in both markets are between the individual worker-consumer and the producer. The latter, typified by the corporation, has no other economic function but to convert labor and the services of capital into goods. The producer puts nothing into the economic streams and takes nothing out. The entire net output of goods, after deducting those used or wasted in production, goes to the consumer through the goods market. The entire income of the producer from the goods market goes back to the individual worker-consumer through the production market.

4. Present-day production is a continuous, not an intermittent, process. Hence there is a continuous flow of labor and capital services to the producer and a continuous flow of goods from the producer to the consumer. This flow of labor-goods is the main stream of economic activity.

5. Paralleling this main stream but in the reverse direction and in a closed circuit is a flow of the medium of exchange: a flow of purchasing power.

6. In both the goods stream and the purchasing power stream there are reservoirs: means by which part of the flow can be diverted to storage and released at a later date. The reservoirs in the goods stream are relatively small compared to the stream flow; those in the purchasing power stream are relatively large.

7. If there were no such reservoirs the flow of purchasing power into the goods market would necessarily be equal to the flow of purchasing power out of the production market, and since the volume of goods marketed would also necessarily equal the volume of goods produced, the price level or ratio of purchasing power to volume would also be the same in both markets (when we express production price in terms of price of labor and capital services per unit of goods produced.)

8. The producer has practically full control of volume in the production market; he can buy as much or as little labor as he sees fit. Hence by virtue of this control of volume the worker and producer can determine price in the production market regardless of their inability to control the volume of purchasing power coming in to the producer.

9. Because of the relatively small size of the goods reservoirs there is practically no control over volume in the goods market. Goods produced must be marketed. Consequently there is no control over goods market price, which is determined by the relative volumes of purchasing power and goods flowing into the market.

10. If there were no reservoirs the amount of purchasing power in both markets would be the same and the goods market price would therefore be identical with the price established in the production market by joint action of producer and worker. In this case there would be no fluctuations in the general price level except those due to changes in wage rates and there would always be just the right amount of purchasing power entering the markets to buy the full volume of goods produced at the full production price.

11. But since there <u>are</u> reservoirs in which purchasing power can be stored the flow of purchasing power into the goods market will at times be greater or less than that issuing from the production market. When it is greater goods market prices <u>must</u> go up; when it is less prices <u>must</u> come down.

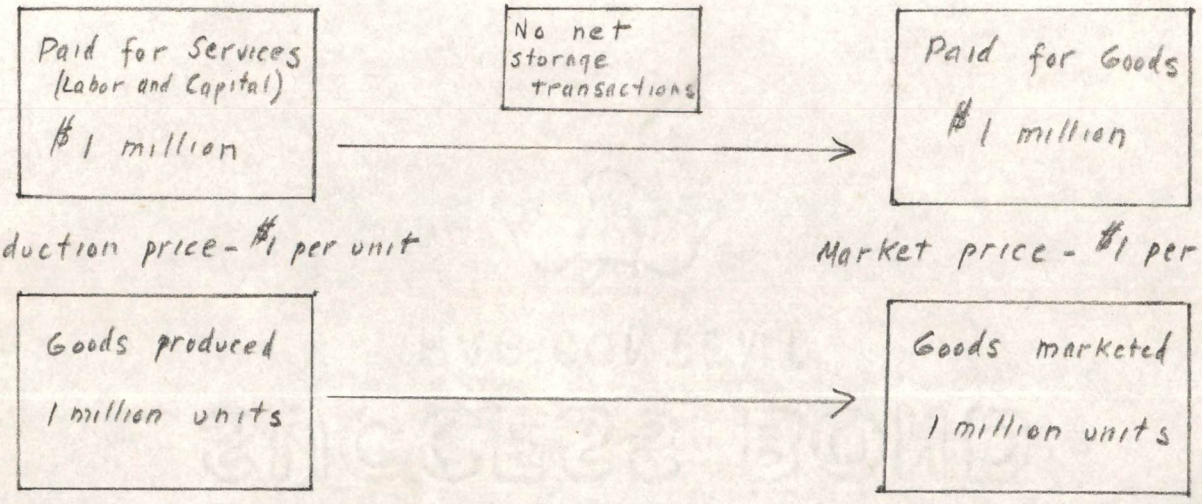
D. B. Larson

In 7 he assumes that one gets p.p. only by producing. True in general, for no one pays rent for the land. & it does no harm to say that land produces, or that capital gains result from production either. But borrowing cannot be reconciled.

He ignores ΔM.

Idea in 8 seems to be that wages are set by bargaining of producers & labor are set independent of prices, s&d being not thereby affected; then prices are set by money vs goods.

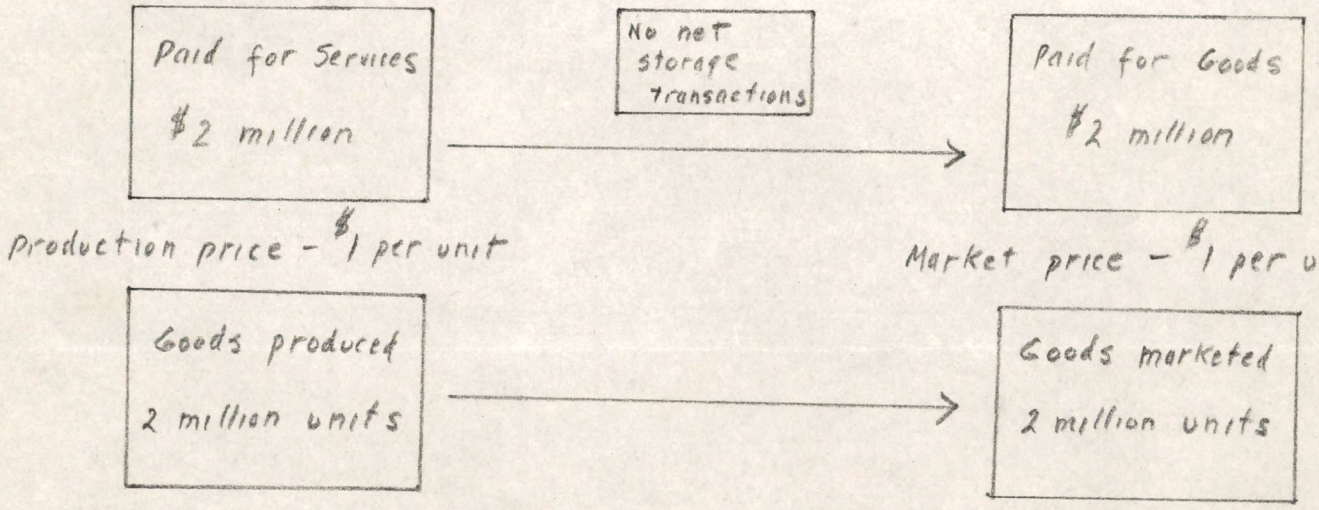
Situation I



A good healthy condition

Situation II

Production doubled with no change in price of labor and capital services per unit of product, as for instance by working more hours.

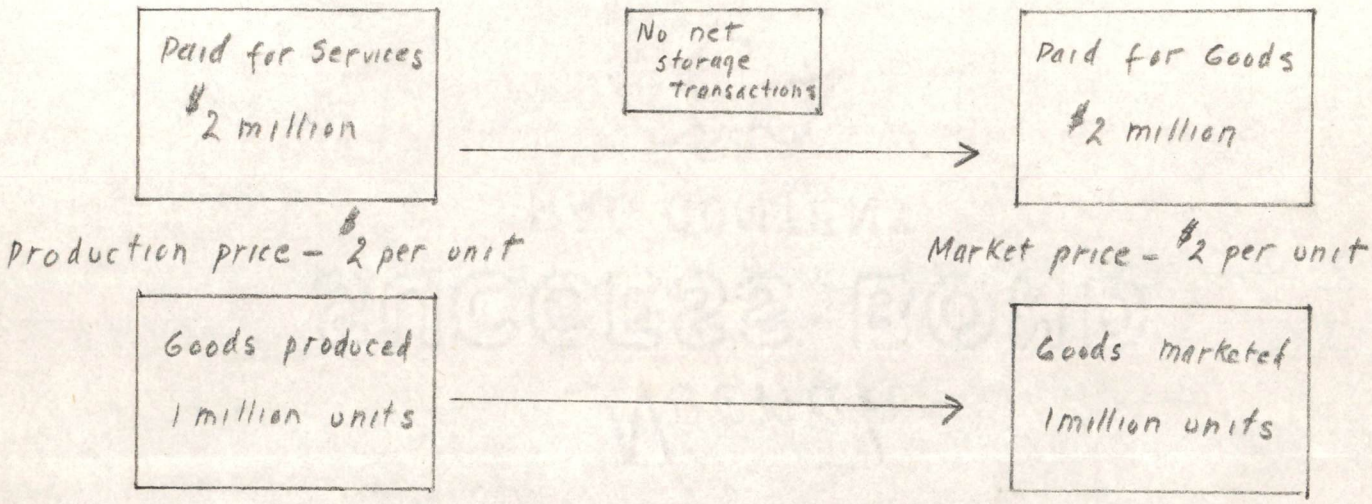


No change in price and the system still in equilibrium.

Note that this increase in volume is independent of the amount of money in the system. If no new money is added the velocity of circulation in Situation II is twice that in Situation I. If more money is added this velocity is merely slowed down.

Situation III

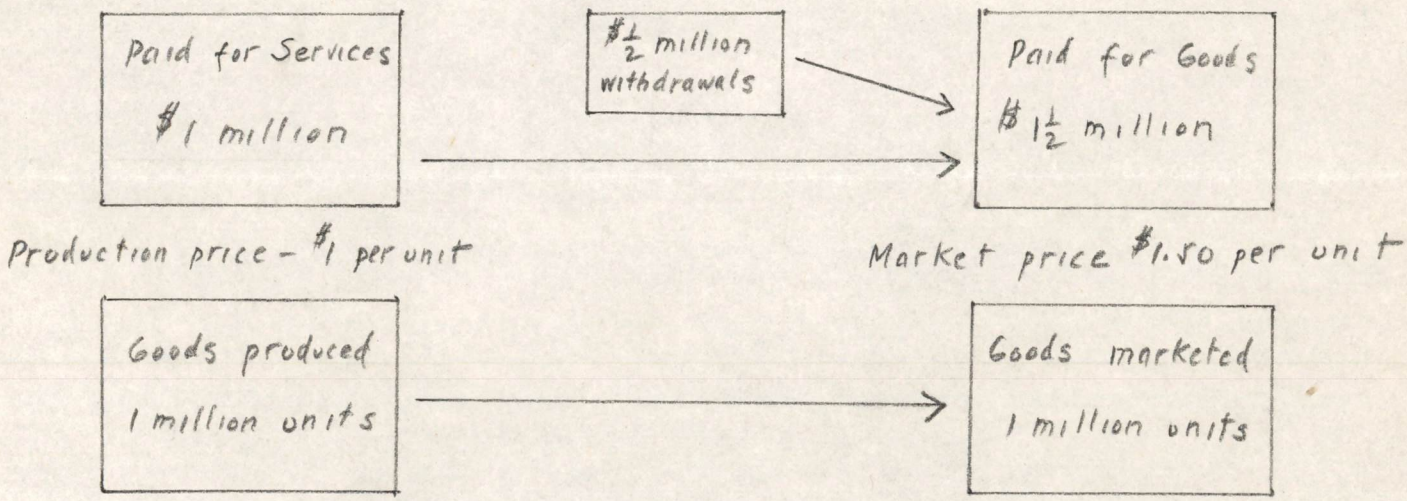
Production price doubled (wage increases, etc.) without change in volume.



The system is still in equilibrium. Prices will stabilize at the new level and business as a whole will be no better or worse off than before. The same is true of the consuming public as a whole but if the wage increases were not uniform some groups will gain at the expense of others.

Situation IV

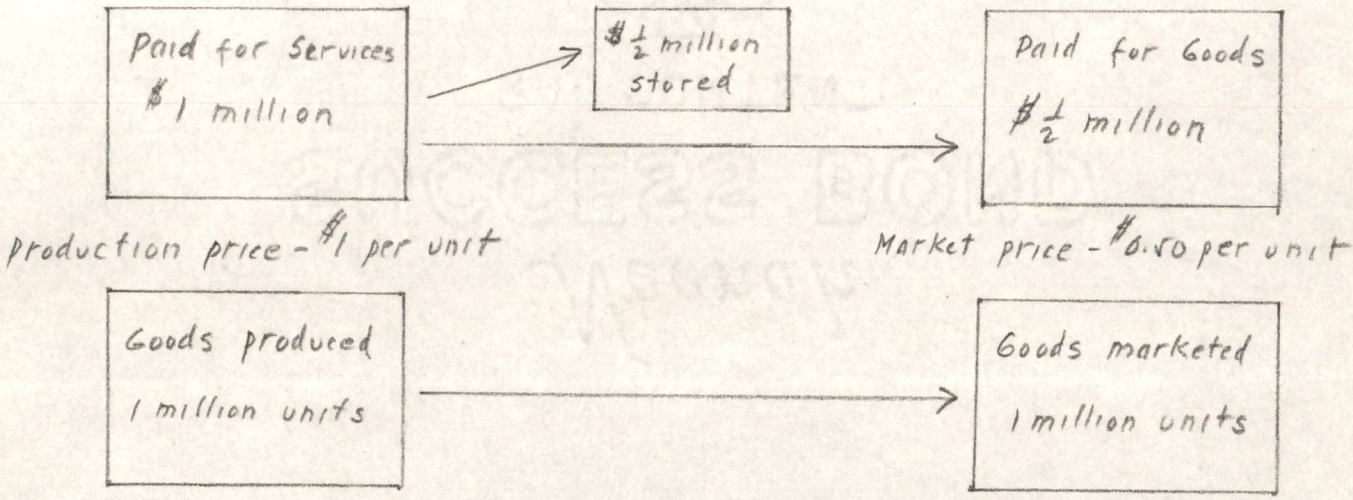
Purchasing power being withdrawn from storage (money reserves, credit, etc.)



This is an inflationary boom. No matter how much wages are increased, prices are still higher by the amount of the reservoir withdrawals. This makes it easy to earn profits and business booms.

Situation V

Purchasing power being diverted to storage



This is a depression. No matter how much producers may cut wages they cannot restore the equilibrium between income and outgo, as they cut purchasing power when they cut wages. Hence it is difficult to earn profits and even reasonably efficient businesses will go into bankruptcy.

At present we are in a combination of Situations III and IV. Purchasing power is being withdrawn from the huge reservoirs created by war financing. This is forcing prices up. Organized labor and other favorably situated groups are attempting to maintain their real purchasing power by obtaining wage and salary increases. This can succeed only to the extent that gains can be made at the expense of less favored groups, such as teachers and other governmental employees and recipients of fixed incomes. The public as a whole cannot gain by this means.

When the reservoirs reach lower levels and the outward flow subsides, prices will start down and we will have a recession, probably a short one like that of 1922 rather than one of the 1930 variety. Our tangible wealth was too badly depleted by the war to sustain a major depression. We must be able to live off our fat for a while if we are to divert our purchasing power to storage.

Thoughts on mkt structure, p. 1

9) ✓ a) factors usually rewarded before final cons. gets goods, by M surpluses.

✓ b) More M in one mkt than the other

✓ c) Def. of producer so narrow he is collection agency, has no reservoirs.

✓ a) This breaks his circuit, for they are cons. reservoirs.

✓ d) Long series of xactions ~~of~~ of a surplus before reaching final cons, each being factor reward, prod. reward, & xaction at same expression.

✓ ~~a~~ Only if factor is also int. factor does its reward await money coming back thru process. ~~Most~~ The factor that carries is surpluses, it rewards others before final sale.

The object of this is to show how money really flows. His flow ignores intermediaries, is wrong. Bad results of his error: to speak of 'producer reservoirs'; to think money must flow thru goods mkt before it hits factor mkt, hence misconstrue cause of price differential.

✓ a) Intermed gets M back, may spend it for factors, maybe for cons goods, etc. Also factors may spend M for anything. Closed circuit is unjustifiable construction from Say's law. Anyone may spend for anything. So if one asks 'What has become of missing pp;' answer is not just that it has been hoarded. It may be too much spent for factors, etc.

✓ a) If he says direct factor rewards are 2 xactions simul, he to keep closed circuit must say same for all, no prod mkt remains. Prod. mkt then becomes ≡ goods mkt, yet his idea is to distinguish the 2. Another thing leading to same conclusion is his def. of producer.

e) The proper distinction: the factor rewards going for cons, & those going for resale ~~products~~. items. Forget the 'producer', think of the 'carrier'

f) But another alternative, after hoarding, carrying, consuming, is buying land. For this discussion, same as carrying old products - not directly rewarding factors. 5 alterns in all.

Larson article subjects

1 1) Not a systematic treatment of Larson, but attempt to take off to develop important thoughts.

4 - 2) $\frac{\beta}{V} = P$ cf with Thomas. ΔT is same as Δ reserv., lowers p.

1 3)(i) Larson not original - specify

8 4) Questions of fact: a) Are inventories always filling up when M is dishoarded & v.v.?

b) is productivity increase only 2%/annm?

c) Does prod. decrease in depression? (16)

1 5) Science vs application

3 - 6) P.p. not created by factor rewards. (Creation of M.) His theory, its bad use & its errors. (The truth.)

2 7) Say's law important to refute money abstraction views.

5 8) It matters what factors get it

2 - 9) Market structure. - he has a wrong explanation of why price differentials occur. Factors paid by savers.

2 10) Differential, not absolute, price levels most significant. But not just the differential sources.

5 14) Considers wages sole factor

1 15) Reserv. approach better than sav-inv, for it reveals it is just monetary

6 17) Survival limit, valid concept. But should be for labor & surplus, not land.

7 19) Money won't be hoarded after destruction of surpluses

9 ✓ g) So there is only one fundamental market, the factor reward mkt. Attempt to distinguish 2 mirror mkts fails. – they are identical. Or, if he tries to distinguish them in view of above, not mirrors.

✓ h) 3 reasons why more M is used as factor rwds than to buy goods. 1) ΔT 2) ΔM 3) fact. rew. used as fact rewds again. 4) ΔP in old goods mkt. – in his concept of prod. mkt.

Significance of this: ΔT reduces money demand for factors in next pd. ΔM (all M outst. has done this) increases demand for factors before dem. for other items as a rule.

~~Mor~~ Short circuit money ditto.

i) We have no closed circuit assurance that M in one market is destined for another. Only free mkt assurance that M spent where prices low.

k) Malajustments between ~~prices~~ product prices ~~&~~ are easily reconciled. But factor prices do not adjust. Cap. gain & loss easier than other inc. changes.

✓ g k) He could define ~~prods~~ goods mkt as ≡ fact rew.s in the one case, & the first sale of product where possible. Then he has closed circuit, tho still not nec. with = flows, ΔM & ΔT. But he can explain these as reservoirs. If he had explained about factor rewards used direct, he would have had a consistent logical structure. One which serves useful purpose of highliting necessary use of factor rewards to buy things. (Refutes PP abstraction view with Say's Law.) But which lumps many significant xactions in 'res' & 'xactions in same ---'.

– This involves seeing prod res ≡ 0, that the equal flow does not arise because 'producer' income must be spent for factors. (P.P. is controlled by agents outside goods flow logic, may jump.) But the only value of straining to maintain this 'goods mkt' is to show that factor rewards tend to become factor rewds again, which is obvious anyway. & the interesting analysis is: what keeps it from doing so, which involves analyzing res & same ec positions.

✓ l) every xaction is at same ec. location, save fact. rew. & ~~prod~~ penultimate. i.e., no 'producer' location exists.

Money creation

Created when spent for factors, destroyed when given to intermed. (As a working view this approximates truth, hence is very dangerous.) Gives false impression that p.p. is only created when paid to factors. Actually the M held by intermed. can be diverted to buy goods; also M really creatable; & rem. divertable to rem. again.

Approximates truth if intermed. customarily hold M idle if they don't spend it on factors. But the ~~very~~ exceptions to it are the very things that require investigation.

Leads to error: that P indep of T. Tho it alone doesn't completely justify this, for ΔT also from other causes.

That factor costs are irrelevant. Which cannot be true because it implies prices will always ∝ costs, not true.

That absol. level of prices is irrelevant. ignoring effects on savers of M fixed claims.

Further wrong because it could apply as well to any Δ value, he misses that.

Actually, M not created by factor rewards. Curiously, the actual creation of M he describes as reservoir depletion, while actual reservoir depletion he calls creating M.

M is obligation, liquefied by bank or govt. When new obligation created & liquefied, new M. Reservoir expl. not a satis altern here, for then all M would have to be explained thus.

His =tion $\frac{B}{V} = P$; make it $\frac{M}{T} = P$, for comparison.

Regarded as the truism that the prices of a number of items times the number of items = the total money paid for them, it is true enough. But of what advantage? It is only a particularly restricted use of $MV = PT$ when $V = 1$. It also has $T = 1$ for each item, so it tells us little more than that the prices of products = the money paid for them. It doesn't tell us what determines price.

Roughly it tries to by purporting to be a supply-demand picture. As such it is good for an isolated situation in which some money is to be spent regardless, & some products sold regardless. This is no true picture of the bargaining position, which is better described by S&D curves. So his =tion is useful only to describe what has happened after it has happened.

an error found in his AM theory, too.

Thomas's equation is different. It tells us that factor rewards = prices factors get × volume. It is viewing payments from intermediaries to factors, Larsen views payments factors to intermed. Perhaps his ~~ob~~ statement that the difference in the 2 =tions was the distinctive idea of his approach was because he thought Thomas ~~meant~~ was thinking of factor to intermediary payments, as Larsen was. Then the difference would be the reservoirs.

Market structure

1. Larson's view, 2. Its errors 3) Better view.

2) Every xaction at same ec location, same 2. No prod. location.
Fact rewds, they distort cost-price. He forces us to ignore it.
2) Having modified his picture of goods mkt, we are glossing over impt that when fact rew spent directly for
2) His wrong picture of money flows misses fact that 'prod res' are intermk with cons., imperfect in cycle.
2) 4 reasons why fact rewds > goods mkt exp. 3 reasons if he achieves closed cct.

2. He misses that ~~prod~~ res ≡ 0 because then he would have to say fact. rew come from cons. res., encounter difficulties of defing goods mkt

2) Intermed. nec. even conceptually because M in retail mkt cannot draw goods that far. This then introduces a new factor reward picture?

2) Must modify his descr. before closed circuit achieved, & then it is useless. ~~Fact~~ Prod res = 0 derived 2 ways.

1) A production mkt & a goods mkt, with a closed circuit of money flow. Capital exp. being just another way of entering goods mkt. Reservoirs & xactions same, presumably connected.

One goods mkt conceptual difficulty we can grant him – that it is only a part of each xaction, etc.

~~2) Hence~~

2) a) Misses describing how factors are paid by intermediaries.
Interm. nec. even conceptually, because goods payments follow factor payments.

b) Forces change in def; to keep closed circuit. Clumsy. Alternatives worse. When fact. rwds repeat, 2 simul. But when factor rewds. come from previous sale of goods (They never do, except int. Surpluses carry other factors, explicitly or impl.) In that instance, must define goods mkt as one preceding factor mkt. Attempt to establish mirror image markets is only an extension of an identical market.

resale

c) So prod. res. ≡ 0. He already defined them away anyway. No xactions at prod. position. So, tho we managed to keep closed circuit conceptually, it is of ~~no~~ less practical importance because "prod. res." may be spent for factor or good, ~~same~~ i.e. may be that mens subtracted from. Also may be added to. this description, with no mod. f., new glosses over factor vs goods money disposition alternative, which is very important.

i.e., he says 'when the M gets to this market it will be spent here', but doesn't say how or if it gets here. Res. cover significant analysis.

d) 3 reasons why, even so, flows not =. He ~~would~~ might describe them as secular reservoir accretions, of goods as well as M but he seems to think res.s will always fluctuate around a norm.

~~2 (cont)~~ 3) The correct picture.

Other xactions are of surpluses. Carrier & buyer xactions.

One market, the factor rewd. mkt. All factor rewds. probly spent for something, (If not, no catastrophe, because real rewds of all other factors raised – except for cost-price trouble, & this is only argument vs. def'n.) & ultimately probly for factors again, tho with certain secular losses.

5 ways of spending.

But no closed circuit forces it to be not spent for factor rewds again, or for goods ever. ~~Distinguish the different & the "buyer"~~ Hence, as far as money goes, great price maladjustments possible.

or factors

But goods flow ~~is more logical, so if prices at one stage get out of line~~ tends to keep M flowing back to factors. Seeking correct price tends to prevent price maladjustment.

~~production so changes, etc~~ Maladjustments correct selves. But sticky prices make trouble, sometimes it takes a depr. to bring them around.

~~5 ways to spend money.~~ Sell to intermediaries, who resell.

a) ~~One mkt~~ His 2 mkts are best considered just one, factor rewd.

No closed circuit.

b) ~~It is~~ Rewards may become net inc. again by being spent for cons, resale (inc cap gains. Also may be hoarded & spent for old products w/out cap gain.

c) Resale buying involves selling again. Trouble when too many buy for resale. They depend on the factors whom they pay coming around again & buying the products. (Root of trouble probly is that) when it becomes unprof. to buy for resale, instead of diverting inc. to cons, they divert it to hoarding & spec. Then demand for cons is met from goods bought for resale rather than factors, because the goods must be disposed of, & factors won't come down. ~~are unemployed.~~

d) ~~B~~ secular losses of pf. for goods, as with factors: ΔT, ΔP, $-\Delta V$, ΔM (already treated)

Grand Outline p. 1

1) a) This is not a systematic critique of Larsen but a follow up of some stimulating ideas of his.

b) Larsen not a rebel. as he seems to think Original expression, ~~no~~ few new thoughts.
But res. also suggests saving when ΔT may be trouble. His ΔM fool.

i) His reservoirs are the sav-inv approach. Superior description in part.

ii) Say's law emphasis permeates modern income approach,

iii) Differential prices, old cost price approach.

iv) Raising survival limit often proposed - wage subsidies ancient. increase MP an old cry.

c) Good to distinguish science from application. But unique character of s.s. he misses: most laws must be observed in a framework of application. The 'universal' econ is limited. Useful econ is 'laws' good within framework. Rules of gut are laws of behavior.

2) Market structure - see 2 pages on it.

3) His view of money: it is virtually created when spent for factor rewards, virtually destroyed when given to intermediaries for goods. ~~This~~ See page on Money creation.

4) See p. on $\frac{S}{V} = P$

5) Larsen writes almost as tho labor were the only factor of production, a fault he shares with most economists. They allow themselves to slip into this partly because they believe it does not matter what factor gets income except as that affects whether he spends it. Of course they mean 'doesn't matter' in the sense of effect on future production

Some carry this so far as to say that distribution among factors doesn't ~~matter because it~~ affect labor's rewards because what property gets it responds. This forgets that in the responding it gets the same cut. Reductio ad absurdum. - wages = 0.

A large area for investigation is here: effect on production of

distrib. of income among factors. Different nature of factors means different effects of rewards.

6) His idea of survival limit ~~max~~ is good, but should be modified in terms that distinguish factors. He is thinking of a firm's survival midst fixed ~~capital~~ ~~variable~~ ~~external~~ factor costs.

But it is the active factors whose survival is in question. A firm is a complex of all factors, ~~in relation to all~~ In judging its survival ability we are asking if its use of factors is as good as the opportunity costs, its survival is a very individualized concept, has nothing to do with whether the factors can survive. As to the factors: we know land can survive; labor & capital must have rewards enough to keep them alive, to at least equal the bother of working & supplying capital. Unemployment is when their rewards are reduced below psychological survival level. After being starved out in a depression their level is lower. So is land's bargaining level, but it is not a survival level. The land owner doesn't have to survive, & the land will anyway. surplus owner doesn't have to either for current surplus, but does for future ones.

A very rich firm might not survive, ∴, but the factors would then survive in alternative employment.

His wage subsidy would indeed allow employers to hire labor for ~~less~~ more than its mp. Raising mp a better solution, for subsidy comes from taxes, may reduce efficiency.

Subsidy will partly be reflected in lower wages as mp lowers. But not completely.

7) In his prediction of short post war depr. because people won't hoard M when surpluses destroyed, he is correct, (because his approximations to truth coincide with truth for particular analysis.) demand has to be for factors when goods destroyed. factor's more reasonably inclined.

?

8) Questions of fact.

Softening criticism - anyone would get it.