Ec. 202, Old notes

Ec. 7b Fri., Dec. 21, '62

1. The replacement decision.

Ec. life shorter than physical life. Why? Bec. costs become > revs. What are costs? All auxiliary ress., vble. Most are obvious ... fuel, labor. Overhead is not. Tempted to treat it as a sunk historical cost, but isn't. Has a future o.c.

Word "variable" is misleading - usually means "w. output"; re overhead & replacement, vblty. w. time is essen. Cost of overhead varies w. time. Based on future o.c.

For machines, o.c. is what best new machine cd. do.

Whole series of overheads. For a ~~plant~~ point, ov. includes distrib.; for distrib., ov. incls. motor; for motor, ~~engine~~ whole apparatus -- say a refrigerator; for refrig., bldg. for bldg. site -- repg social overhead in streets; for streets etc., land beneath. For local network, supernetworks.

Problem of excess capac. — overhead becomes cheap, no pressure to replace.

2. Interest (or taxes on capl.) vs. rent (or taxes on land) as spurs to replacement

Int. alone leads to migration, not replacement in site.

Migr. leads to more social overhead. Couple w. sprawl, get too much buried. Also too cheap land, slows pvt. turnover.

3. Thumb thru ch. 9

McKenna, Chaps. 9 ff.

Chap. 9, Invmt Factors affecting.

1. Overlooks collateral values. Revival of "mkt. value" theory of appraisal - blind leading the blind.
" bankruptcy laws & customs. Lender's risk vs. equity risk.

2. " ± Δ P.V.

3. " logrolling, empire-bldg, etc., in public invmt.

4. Expectations.
Overstates objectivity w. which 'studies' are made. Esply. re public projects - simple projection techniques
Overlooks cobweb theorem - a case of wrong expectations. But rightly stresses excessive influence of first years on expectations.
That can work both ways. E.g. r.e. buyers look at current taxes more than munic. bonds.

1-7-63 5. Overlooks developmental p.v.

6. Innovations. appeals to technological or gadget determinism, like Marx.
Cybernetics today
Speeds obsolescence, tensions. Action of terms reduces durability.

7. Overlooks subtg capl. for labor & land. - due to hi prices of latter.
Cumulation - & bunt. Explains anomaly of why big invmts. are made when labor is dear.

8. p. 129 on replacement policy, fuzzy. New invmt. always competes w. old capl., for customers. M.e.c. not low for that reason. Requires land & labor. Get land by expansion or clearance.

9. Passing of frontier. True? Important? ~~Kirtz~~
Territorial expansion not dead. ... & now there is NASA. But w/o expansion, there is replacement.
~~McKenna has all out corner, Keynes in doubt.~~

10. Overlooks interregional capl. flows, cause of instability. Developmental pd., inflow from sales of land; i.o.u.s; bank deposits.
Later, flow back home, recalled.

11. "Purchase price," p. 133.
Δ m.e.c. by - Δ wage rate & land price, & ~~pardo~~ new mtls. supplied by other indies.
Re last, expound golden triangle principle. ~~X~~

12. Gov. & Trust., pp. 134-37

p. 135, fault to find ideal tax. Can we help him?

Re expenditures, give e.g. of competition & comply.
If compn. is in mkts, often is still net benefit, if yields a new mtl., e.g. power.
Note compn. is for mtls. as well as mkts.

Discuss proposed deficit. Compete for funds. Δi. & serious error.

Wed.

p. 136, McK. errs re anti-trust action. It raises M.E.C. Distinguish MR from price.

13. Accn. price.

Is more imptnt. than McK. says. Accn. mult. depends on durability.

If ~~house~~ capl. lasts 20 yrs, replace 5% yrly to maintain stock, w/o growth.
Then if demand Δs 5%, doubles demand. If they last 100 yrs, it quintuples demand. (McK., p. 144, is exactly wrong, applies accn. to inventories above all else!)

14. p. 141 bull

15. p. 142

Note non-parallel treatment of inventories & other capl., then false addition.

Emphasize how much, how elemental, needs doing in ecs. Can Newton have it come along.

Ch. 10. Consumption.

1. p. 150. Durables held by consumers don't lessen spending — they must be replaced.

p. 151. $\Delta Y \rightarrow \Delta E$, a real snowball .. bcs $\Delta Y \rightarrow \Delta$ desire to hold assets.

2. Assets reduce saving ... at any Y. level. But not just liquid ones ... all assets.

3. p. 159 Obsolete ref. to low i.r.

i.r. affects saving via asset values. And low i.r. Δ consumer borrowing -- McK. wrongly differentiates that from effect of i.r. on cons.! p. 160-159.

4. 160-61, re propn. C cons., jejune.

Chap. 11. Aggreg. Demand. (Introduces ΔP) Define aggreg. s&d; explain Say's Law.

Keynes effect: $-\Delta P \equiv \Delta M$, but ΔM unavailing below 2%.

Pigou " : $-\Delta P \not\equiv \rightarrow \Delta\left(\frac{C}{Y}\right)$. Bcs. Δs real value of M assets. (But how about debtors?)

p. 172 Doesn't know about infln. w/o full-emplmt.

p. 174 Discusses effect of $-\Delta$ Wages, but departs from redistributive effect immedly, discusses qual $-\Delta P$.

As to below 2%, not so ... can get rid of M on cons. as well as altern. invmts.

Surely, McKenna writes in terms of wages having to fall to very low levels. I say, $-\Delta W \rightarrow \Delta$ spending, elast. demand for labor, no cum. decline at all.

Cons. (cont)

At lower prices, people will spend more; & given spending goes further.
So just remember list of factors affecting V.

Chap. 12: Aggreg. Supply

Is building up to p. 210, another S&D intersection. I'm going to have to figure out what he's talking about again.

76. Mon., 1-14-63

A. Review Exam

B. General review by quizzing, sending to board.

How to Δ emplmt. & output by public pol.

1. Anti-trust action.
   MR & AR

2. Fiscal policy
   Local

   Federal

3. Public invmts. Pro, con.

How to Δ m.e.c.

How to Δ Cons. Is it desirable?

Elasticity of m.e.c. to Δ C_o.

Regression fallacy

Relation of c.f. & renewal freq.

Take some earlier class notes, for other qus. Gill hand.

Exam, Ec. 76, Fri; 1-11-63

1. Postulate reduced foreign demand for U.S. exports. Trace the effects through the Fed. to the commercial banks, to readjustment of the balance of payments.

2. What is the acceleration principle?

3. What factors determines the velocity of turnover of money? Explain.

4. " " " " " (repl. freq.) of real goods?

5. To what does Keynes attribute infinite liquidity preference?

6. What are the Keynes & Pigou effects?

Ec. 7b

1. What is Ricardo effect?

2. What does McK. allege as upper limit on Keynes effect?

3. Good tchg. requires some zeal & dogmatism, as at Chicago. One can require more of students when one is certain of being right. I am too easygoing w. students.

4. Expound again, elast. of yields to $-\Delta C_o$.

5. I must get students to participate more. E.g. by grading each others' papers. 1) Say a 20 min. written, ff. by discussion.
   2) assign tasks, e.g. looking things up
   3) Coming to board. & explaining things
   I must feel secure w. the mtrls., first. myself.

6. "Time-costs" det. turnover of capital ... good way to summarize.

7. Keynes' "2%" is really 0% after risk factor.

8. Make each course more self-contained, not just teaching tools of little obvious use to student. Come to a package of policy conclusions.

9. Accn. princ. — relate to leverage, Δg. ... e.g. 5% Δ gross rents → 10% Δ net rents → 20% Δ ~~cap. value, a la~~ land value → 50% Δ raw l.v., a la H. Hoyt.

   Acc. princ. & postwar lots. Was idle capac., so no accn. at first.

   Accn. hits hardest at land, bec never replaced. Land devmt. most volatile activity.

ARA

Ec. 76, Mon., 12-11-62

1. Finish balance of payments

a. Data from F.R. Bulln.

b. Solution to balance of payments

Δ m.e.c. in U.S. Capl. flows in. Also good domestically
(Note cap. flows, land doesn't. So tax land)
Pessimists accentuate the negative — m.p. to import, leakage. But is offset by cap. imports. Accentuate ΔP ... but Δm.e.c. results from initial lower P.

Do cap. imports lead ultly. to reverse flows? Not if people come w. the capl. And they will, if qual. opps. good.
Also, lower land prices, encourage fn. purchase.

c. Does that create problems for other countries? Yes, but not insoluble.
Puts on pressure for adjustment. But that is perpetual.

d. Other adjustments.

Δ tariffs
lower quotas
tie loans, i.e. aid to buy American
have govt. buy am.
prohibit capl. export
block currency
deflate domestically
devalue

$$r = \frac{\sum \left(R_n (1+i)^{m-n} \right)}{\sum} \; ?$$

$$C_0 (1+r)^m = R_m$$

$$C_n (1+r)^{m-n} = R_m = R_n (1+r)^{m-n}$$

$$C_1 (1+r)^{m-1} = R_{m-1} (1+r)^{m-m+1}$$

No:

$$r = \frac{\sum \left(R_n (1+i)^{m-n} \right)}{\sum \left(C_n (1+i)^{m-n} \right)}$$

No!

Ec. 7b. 11-7-62

Moral of Keynes: ΔI. Method of ΔC to ΔI is dubious, circular, equivocal.
How to ΔI~~nec~~.?

a. -Δi. Problem, tho. No effect on short I. As to long invt., Δi helps, but gpt. fights it, damping effect.
Most serious, is it a long run detriment? Encourages invt. now, but slows replacement in future
b. Δ invt. opps., or mec. Lower shares of other inputs, labor & land.

Lower Co. Wage rates. Δ gap of $\frac{Rm}{Co}$

" overhead. Land prices, c.p., (but qualify.) Thus Δ $\frac{Rm+O}{Co+O}$

Cheapen Fund prices. Also auxiliary funds & flows gently.
cheapen labor & land in previous stages
Remove taxes from bldgs.

accelerate site clearance. Here we must accept some hi land price or qlty change

Bring in new land. Historical process, safety-valve.

Dual problem: sink cap., slow payout.
cheapen land, stop clearance & renewal

Some is good, but we go too far. Create more invmt. opps. than we have people or cap. to exploit. Cap. sunk in p.w. never recovered, land never used. Popn. & salvageable liquid cap. regroups, on smaller area of land, w. liquid cap. the limiting factor.

~~Break~~ mopy. ... ~~Accept~~ Δ MR to demand curve; lessen MC to Same

Use MC pricing

Ec. 7b, Planning, etc.

I agree w. Egerer, McK. embroiders too much on simple multiplier theme in ch. 4, "Fiscal Policy". It doesn't warrant it. We shd. spend more time on basic concept itself. its analogues, its limitations. In 7b, assign some works that question the mult., e.g. Haberler, get some perspective.

ΔI might be offset immedly. by ΔS, synchronized, e.g.

Emphasize that an excess of intended I over intended S is a purely monetary phenom., resolved by hot pto. effect: i.e. a net flight from cash. Has no counterpart in real terms. Macro-ec. shd. be at least ½ real.

Basic query: what do chaps. 6 & 7, Commod. Mkt. & Money Mkt., add to basic simul. eqn. solution of ch. 3? [2dry qu: is ch. 4 necy?]

Ch. 6 rests on ch. 5, and merely formalizes the implication of $-\Delta i \rightarrow \Delta I$. Needlessly so, i.e. w/o adding to our understanding, bcs. he begins, p. 83, by conceding ~~he cannot relate~~ we know nothing re relationship of i and I on a specific curve.

Ch. 6 & 7 together constitute a roundabout & formalized way of saying what cd. be said simpler: $\Delta I \rightarrow \Delta Y \rightarrow \Delta i \rightarrow -\Delta I$ which damps mult. from initial ΔI, so =m comes not just from ΔS, but $-\Delta I$.

Note, this involves letting i change & have an effect. Dogma prevents $\Delta i \rightarrow \Delta S$, but lets it $-\Delta I$. This lets Keynesian anal. incorporate observed Δi before crash. Reconciles Hayek & Keynes? Puts Keynes on new side of the old issue re oversaving. We used to think it meant oversaving caused crash, too much funds pile up; now, Keynes' anal. emphasizes ΔL, demand for money is what stops invmt.

So now K. has shortage of loanable funds, not of invmt. opps., as crux ... quite a reversal of old underconsumption position.

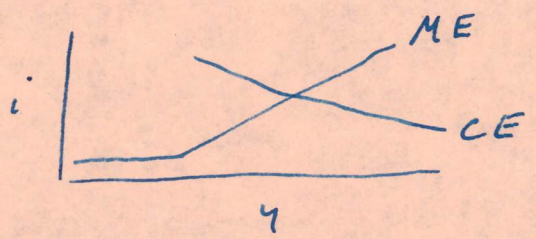
Pt should be hard for me now to take one step further, & relate shortage of loanable funds to $-\Delta$ t.f. ΔL_1 is due to reduced antic. of lign. (Pt sure wd. sense trouble if I cd. make my point right inside Keynes' model.)

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chs. 6 & 7 are like S & D thy., where i.r. is price & y is Q. anal. to Demand curve, or neg. relation, is CE or Commod. Eqm. curve, where $-\Delta i \to \Delta y$. (There is one intermed. step, $-\Delta i \to \Delta I$. McK. has 2 intermed. steps, the other being where $\Delta I \to \Delta S$, but that is tautological & redundant)

anal. to Supply curve, or + relation, is ME or Money Eqm.

where $\Delta y \to \Delta i$ .... just as ΔS requires ΔP



But CE is more anal. to D-curve than ME is to S-curve.

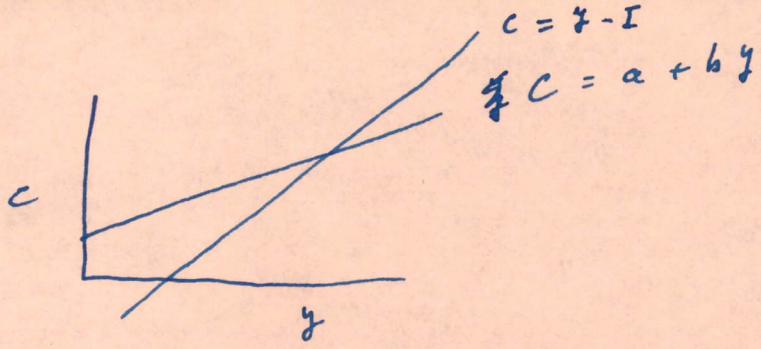
$y = C + I$

$C = a + by$

$y = a + by + I$

$y(1-b) = a + I$

$y = \frac{a+I}{1-b}$ $\qquad \frac{dy}{dI} = \frac{1}{1-b}$



The CE curve is derived by solving above for several different I; those, in turn, coming from several different i.

Probly you ed. put CE & ME solution all in one go, too:

$Y = C + I_a$

$C = a + bY$

$I = c - di$ $\quad = \quad c - d(e + fY)$

$i = e + fY$, so

Thus:

$Y = C + I = a + bY + c - de - dfY$

$Y(1 - b + df) = a + c - de$

Isn't that simpler than going thru all of Metz's graphs?

Metz's CE as neg. curve reps. $Y = C + I = C + c - di$

Metz's ME as + " " $i = e + fY$

That sums up chaps. 6 & 7. That is all the analysis in Metz. The rest is pretty easy going, based on above analytical framework.

"Aggr. Demand" & "Aggr. Supply." Dubious concepts, bcs. not independent. Say's Law may not be 100% true, but 90% is enough so 2 curves crossing determine little or nothing.

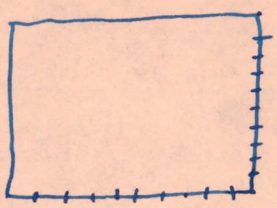
K. reverses Say. & has demand create its own supply.

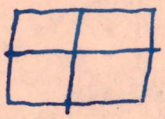
ΔM effects, likewise -ΔP effects, are dubious bcs. they regard M on one side only, as an asset. But one man's asset is another's liability, so where is the net gain of liquidity from ΔM?

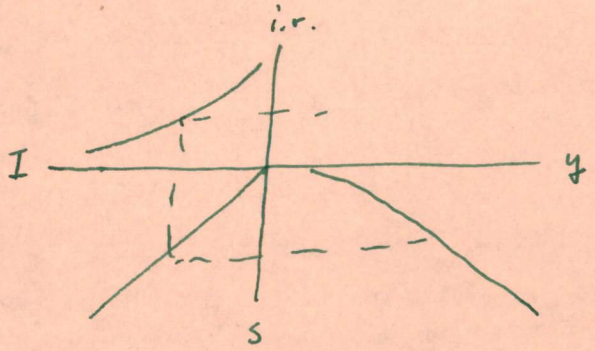
$10^{10^{21}}$

$10^2 = 100$

10^3







Bronfenbrenner's 4-D diagram, showing extended interactions.

Useful technique

From Koo, 2-25-65

SUGGESTED TOPICS OF ECONOMICS 202

Introduction

1. Nature of Macro-economics
2. Goals of American Economy
3. Review of Elementary Mathematical Tools
4. Basic Concepts of National Income and Social Accounting

PART I Classical Theory of Employment

PART II Modern Income and Employment Theory

Chapter I Theory of Consumption, Saving, and Multiplier
1. General Determinants of Consumption
2. Consumption and Saving Functions
3. A Simple Equilibrium Income Determination
4. Multiplier (Formal Multiplier Process and Derivation of Multiplier)

Chapter II Theory of Public Sector
1. Fiscal Policy
2. Government Expenditure, Tax, Transfer Payment, and Balanced Budget Multiplier
3. Built-in Flexibility

Chapter III Theory of Investment
1. General Determinants of Investment
2. Marginal Efficiency of Capital
3. Autonomus Investment and Induced Investment (Accelerator)

Chapter IV Overall View of Commodity Market in a Closed Economy
---Derivation of Commodity Equilibrium Curve

Chapter V Theory of Money and Interest
1. Functions of Money
2. Supply of Money and Monetary Policy
3. Demand for Money
4. Liquidity Preference Theory of Interest
5. Derivation of Money Equilibrium Curve

Chapter VI Aggregate Demand
1. Keynes Effect
2. Pigou Effect

Chapter VII Theory of Employment and Output
1. Review of Classical Employment Theory
2. Modern Employment Theory
   A) Demand for Labor
   B) Supply of Labor (Keynes v.s. Classical assumptions)

Chapter VIII Theory of Price Level
1. Deflation and Inflation
2. Effects of Change in the Price Level

Chapter IX Interaction of Interest, Money, Price, Employment, and Output

PART III Further Topics

1. Introduction to International Economics
2. Introduction to Economic Growth Theory

9-21-62

Sam, ch. 3. Points for Ec 7b discussion

What, How, For Whom.

(When, Where)

Why the '48 Gm. miracle? p. 39

(= mgnl prine.)

Consumer sovereignty answers "what"

Compn " "how"

Ownership & imputation " "for whom"

(2 fns. of price – call forth output; ration it. Land price only rations)

Imperfections:

Ignorance

Myopy

Cap., div. of labor, money.

Cap. necy to div. of labor, & exchange. Rationed by i.r. I.r. is what prevents our going into more indirect, longer processes.

Specialzn: ↑s productivity, but reduces independence. Need for control over breakdowns

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Changes in price level

Circular flow

Sam. Ch. 11

Why is money inc. ≡ value of output? Explain double-entry bookkeeping.

How does one deflate. How many indices could use? Weaknesses.
CPI; wholesale; Baeck index; parity. Etc.
Explain parity.

Who gains & loses by inflm?

Avoiding double-counting
a. From output side, just count final goods. + net new capl. + govt.
b. " input " , " " value-added. (but here, output is viewed as spending on input!
(But also beware the ghosts of ~~departed~~ murdered quantities ....)

Gross & net invmt. -- arbitrary figures, overlook short invmt.

C + I + G. Note, products sold by firms to govt. are not included with C, but G. Theory is, this is all collective consm, & worth what we pay for it.
Xfrs not included -- & int. on nat. debt counted as a xfr. Shd. not be.
a xfr. - is a current service.

Note govt arbitrariness.

Ec 76, 10-3-62 Fisher see Pan

Chap. 9

p. 178 graph – does it show Δ govt. spending = 90% n.i.?

Periodic bus. crises -- p. 179 -- now extinct?

State govt. spends least. p. 181

Great tax shift, p. 181.

Relation to Lorenz curves.

p. 183-84. Hoover Dam not New Deal. reveals Sam's weaknesses. Also p. 196, land is "intangible."
Δ govt. spend'g not accompanied by comparable Δ ownership. Hydrel & assoc. byproducts is big field

p. 185, Xfr expends., not part of n.i.

ask to define fiscal pol. Taxes & outlays. Must they be same?
(Blough & Heller both call for tax cut)

Chap. 10

Regression fallacy. Sam. uses income alone as base, p. 198

p. 196. Land is tangible

Benefit v. sacrifice principles. False issue?

Direct & indirect taxes. An easy distinction? Regn. of apportionment. How, then, can U. S. tax estates?
Corp. & pers. inc. taxes. Flat & progs. But a progs. corp. inc. tax wd. make more sense, to foster compn.

Progressive taxes & risky invmts.
" " deferred income professions

Underconsumption arguments

p. 205, errors re prop. tax

Ch. 10, p. 2.

p. 208. Is it "perverse" for state & local to invest when there is heavy new bldg?

Tax incidence.

Ch. 11. N.I. & Product

E. 764, 10-17-62

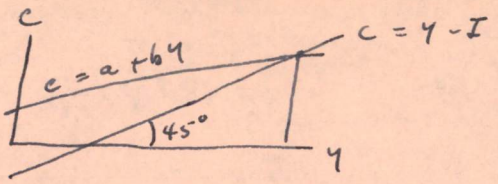
$MV = PT$

Ohm's Law analogy.

Factors affecting V.

- Invest. opps.
- P
- antic. ΔP
- M

Ec. 7b, 10-27-62



$Y = C + I$

$C = a + bY$

$Y = I + a + bY$ N.B. Cumulation

$Y - bY = I + a$

$Y = \frac{I + a}{1 - b}$

Remember, when solve simul. =n, are shorthanding an inf. no. of steps. But if we think in terms of instantaneous rates of flow, probly ok.

$\text{Mult., } k_i = \frac{dY}{dI} = \frac{1}{1-b} = \frac{1}{\text{Prop. to save}}$

Some weaknesses

1. Assume ΔC is "free", i.e. doesn't reduce I. Likewise, ΔI doesn't come from $-\Delta C$. Is just an arbitrary convention, to treat them as unrelated. Are reasons to believe ΔC does go w. $-\Delta I$.

a) People decide to consume instead of invest. C.b. not infinitely elastic. In genl., the 2 are clear alternatives.

b) ΔC may be fully offset by disinv., e.g. if individs disinvest in order to Δ cons.

c) ΔC may be dissipated in ΔP. Not due to full employt, but structure of cap. stock, of which only so much can be melted per day, etc. Implies great elast. in c.f. of given cap. stock

2. Centers attn. solely on spendg as determinant of c.f. How about reserve? Decision to invest detd. by replacement needs. They, in turn, detd. by cap. structure. Not all wareholders are panting to sell. Consumer doesn't determine all. Willingness & readiness to sell is also a determinant.

3. $C = f$[assets, fears, etc. etc.]

Policy - see white pp.

4. Includes no term for P.

Actually, that is a variable. Is the thermostat, or part of it.

We must develop for export an ec. philosophy that offers more to uncommitted peoples than Communism. Of a "do as we do not as we say" variety.

Time to think big, about our most basic institutions.

(Include possibility of reopening immigration)

Ec. 76

10-30-62

M E C. Keynes' 'Inducement to Invest.'

$$\epsilon \equiv \frac{\eta_0 \Delta mec}{\eta_0 \Delta C_0}$$

$I = f(r)$

What invmts? Develop idea of elast. of r to C_0.: the cost-elasticity of the rate of return on invmts. (or m.e.c.)

Thus can lower C_0 small η_0 & ΔI large η_0. Key to keeping up spending. A/. r. easily overborne

Gives e.g. of machine. Deducts out of pocket costs, but not overhead.

An oversight. (The overhead oversight.)

$$i \stackrel{?}{=} \left(\frac{R_n}{C_0}\right)^{\frac{1}{n}} - 1$$

better, $$i = \left(\frac{R_n + 0}{C_0 + 0}\right)^{\frac{1}{n}} - 1$$

apply also to social overhead, reflected in land costs.

Mec depends on gap between C_0 & R_n, as % of C_0: $\frac{R_n}{C_0} - 1$ = rate of return w/o regard to time. For time, simple int., ÷ by n. E.g. $\frac{125}{100} - 1 = .25$

$\frac{.25}{5} = .05$. For compound int., ~~[illegible]~~ $(1.25)^{\frac{1}{5}} - 1 < .05$

$4\frac{1}{2}\%$

Mec also depends on adequate overhead. If it is crowded & costly, consumes gain.

Ec. 76, 10-19-62

0. 1 more influence on V: no. of T.

1. Defs. Flow, not fund.

$S \equiv Y - C$

Net, not gross.

Begin

2. Why $S = I$

For individ. they don't have to

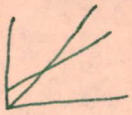
For society, $C + I \rightarrow Y \rightarrow C + S$, all inside one period.

If one party saves, he or someone must have invested. If he $S > I$, it was someone else, investing more than he saved, by + invest'g, or dissaving.

Define disinverting (liqg); & dissaving ($C > Y$)

$S = I$ just means no. of $'s is correct., or at least unaffected by spending.

3. Divergence of planned S & I nullified by interactions. The multiplier.

Derive $\Sigma = \frac{1}{1-b}$; $\Delta Y = \Delta I \frac{1}{1-b}$  See attached page

4. I & mpc the determinants.

I regarded as indep. of liq. pref. But concession made by making I Δ w. Y also, so as Y & S Δ, I Δs too.

But not really a concession, bec uses to show "paradox of thrift."

5. Surely desirable to Δ I. But conflict of 2 schools of K-ns, underinvmt. & undercons.

The multiplier

1. ΔI. Remember I is a flow. means rate of investing.

2. Y rises by ΔI. Briefly, may be absorbed as ΔS, but soon rate of C rises. Thus further ΔY.

3. at first, conceived as occurring over long time. Then as a ~~vertical~~ rapid adjustment, in action. Horizontal & vertical.

b^2 b^3 b^4
b b^2 b^3
1 b b^2 b^3

But transition never well worked out, plagues forecasting. A sort of mutual interaction.

4. $k = \frac{1}{1-r}$

Practical implications of K's thy.

Is modern version of overproduction thy. We produce more than we want to consume. So Y > C. OK, so long as we want to invest = nt of what we save. But when not, spending tapers off, Y does, empl. does.

Solutions.

C. b. approach:

Δ Inv. opp.

-Δ P (jibes with Δ inv. opp., if the P are costs of production)

Anticipate Δ P (but this holds up raw mat. & sites, spec., chokes off)

Reduce risk

Reduce no. of xactions

(Δ M)

Keynes' approach

Δ inv. opp.

Δ ~~cons. mpc~~ prop. to cons. — i.e. reduce prop. to save
Mis-leading. ~~Too high~~ K-ns assume ΔC will be net Δ spending

-Δ i.r. (Δ M) Get people to invest more w/o Δ inv. opp. as [other]
they won't, this means: a; Δ M: b

Have gov't invest (modern overproductionists — believe ec. lacks thermostat)

Fine, as generalities. Practical policy, encounter conflict.

Make as questions. Evaluate New Deal program: some pro, some con

1. Strengthen labor unions.

Δ p.c. ?

-Δ inv. opp.?

Δ risk



But it might, instead, be instead of investing. Depends on how they go about ~~it~~ Δ p.c.

a. By −Δ?. OK, that will indeed make people want to reduce c.b., Δ C w/o −Δ?

b. Redistrib. income. Not certain. Give income to someone who's had little, & before long he'll want to build up a little cash reserve. Those who already have cash more likely to spend.

Methods used to redistr. inc. likely to −Δ?, too.

1. Strengthen labor unions: Δ risk, Δ cost
2. Δ progressive inc., & corp inc. Taxes

So to redistrib. inc., by itself, won't work.

Besides, why waste the cap. Let people save. Find outlets.

2. Lower inc. & corp inc. taxes?

Δ inv. opp

-Δ p.c.

3. Property tax?

4. Lower rwy, ~~&~~ &c p.u. rates?

5. Increase comp, lower mnpy P. Sulfur, ~~&~~ moly, steel, cement

6. ~~7.~~ Public inv.?

Is it a net Δ? Or just replace pvt.?

Can be net Δ. ~~&~~ & more, can complement pvt. can do things pvt. wasn't about to do. Lower power rates.

7. Farm ρ supports?

Δ P, & of raw materials.

-Δ inv. opp. — land removed from use

~~Advantages of gold, of paper, of bank deposits.~~

Sum up: Depression avoidable. Due to ignorance. We in this room can do our part to prevent next one.

Best approach, Δ inv. opp.

a. Lower inc. tax, shift prop tax onto land, lower excise taxes.

b. Lower costs of production

Site costs

Rents

Raw mat.

Utilities rates

c. Break mnpies

d. Develop nat. resources by govt inv. - there is a place for it.

Power sites

Roads

Power dist. network — better to bear fixed cost by govt, charge public only vble. cost.

e. Develop all nat. res.s.

Land tax helps.

Don't remove land from use, a la AAA.

Finally, AM.

But how do that?

Take that up next.

Ec. 7b, 11-5-62 Ass. Go right thru McKenna.

More on m.e.c.

1. Small advance in ~~time~~ short time better than big advance in long time. Use Tables. Add risk. Intermediate costs.

2. Gen. formula: $\sum C_n(1+i)^{t-n} = \sum R_n(1+i)^{t-n}$, solve for i.
Include overhead as C_0 & R_t

3. Adjustability of economy, where prices are flexible -- thermostats
   a. If abundant capl., endless Δ inv. opps. by $-\Delta i$. Enormous impact on p.v. of durables. Land fill
   also on l.v., leads to land devmt. projects, exploration, conservation, etc.
   No need to worry about big impact on output. Slow c.f. checks that. Prodn. becomes more cap.-using.
   Cap. = $C_0(1+i)^t - C_0$
   b. Unempl. labor -- absorbed by Δi, higher c.f.
   Combine each pulse of labor w. less cap. & land-yrs. Lower wages cause it. Produce same things w. diff. factor propns.
   Unemplmt. bad when: cap. tied up (not a hostage to labor, but escape from it.); land tied up; wages stuck.

4. Check book chap. if need more.

Hi land price: bad for new investor, ~~good~~ reduces m.e.c.
good in prying land away from former uses.
Solution: penalize old uses, make it easier on new ones. Reverse of present bias.

Ec. 76, 11-15-62

Ltr. to N. Mason, comment

1. 1½ m. homes yrly, '50 - '60. Fewer now. Enough fewer to explain unempl.
   Cost-price squeeze on bldr.
   Demand: higher i.r. & taxes depress. Early lo i helped create capl. shortage, so now hi-i.
   Supply: " land & matls.
   Dream-world land pricing.

2. Avoid long period of attrition.
   It corresponds to Keynes' inf. liq. pref., ... expect i yields to rise, same as expect i costs to fall. Excess capacity; buyers wait for prices to fall.

3. Resolve contradiction: fewer hi or low land price?
   Now, must favor low, to ~~stop~~ recognize oversupply.
   Surely, change policies, e.g. Govt. to take from old, deliver to new.
   Make pressure felt as tax, rather than price.

4. What were NRA etc. follies?