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Mac 04s Old Notes

Peterson, Wallace, 1994. Silent Depression.

Chap. 2, Diagnosing the Silent Depression

A. Measuring a depression

1. There is no consensual definition of a depression or recession, except in terms of recent changes. A depression is when key measures fall. Peterson (WP) mentions jobs, and output.

(Note how fixed these measures are on current growth, as opposed to the absolute level of well being. This is a weakness in WP's outlook.)

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b. Weaknesses of Hall's definition

- the rate of growth could fall a bit for 2 quarters, and still be high
- the rate of growth could be steady at a low level, and Hall would call is prosperity
- jobs can be falling, and Hall would call it prosperity, so long as output is steady or rising. See "c" below

4. A depression "ended" in 3/91, but jobs kept falling until 6/92, when unemployment reached 8%. They called it "jobless prosperity."

(Again, a more recent depression "ended," said Hall, in 11/01, but jobs kept falling for over 2 years, nearly to date. Hall seems not to consider jobs part of prosperity any longer - a radical shift from earlier ideas and social values.)

B. Alternative measures of depressions

WP suggests real wage: (Bcs, "jobs" include "McJobs")

1, per worker

2, per family

C. 1. Time series

- Real weekly earnings of individuals, non-farm, non-governmental

- Real weekly earnings of families, non-farm, non-governmental

Both the above peaked in 1973

- "Productivity" - he leans hard on this measure

2. Real weekly earnings of individuals are down 15%, 1973-92. These are "production workers" (non-supervisorial), private sector, non-farm. (These seemingly minor technical details actually make a big difference, as we will see. To some extent WP is comparing apples and oranges below, so watch him in the clinches. He does warn us, but actually he should have worked over the data more before publishing them. He is leaving too much work for you, the readers. I will help you as best I can.)

3. Family income is not down nearly so much (p.39). Reasons:

a. These data include wages and salaries of supervisorial workers, and professionals. These are 20% of the work force.

b. These data include property income

c. These data include wives and mothers (and, in some cases, house-husbands)

In passing, he mentions that these are medians, not means. Means > medians, and when distributions are skewed, means >> medians. He is too casual about this matter.

4. Productivity

He uses this 5-syllable word to mean the Average Product (AP) of labor, i.e. output/labor input. This is rather a naïve usage, which is sometimes misleading. We must watch that, too. I will use AP where he uses "productivity," to help us keep this straight.

(p.42) The growth of AP has fallen recently; this has caused wages to fall. (Note: it is Marginal Productivity (MP) that pulls wages up or down. MP may move in step with AP, but not always or necessarily.) E.g. farm machines raise AP but lower MP.

(p.43) AP in the U.S.A. is still highest "in the world" (meaning Germany and Japan); it is growth of our AP that is slower.

The U.S. work-week is shortening, so AP per year is not growing as fast as AP per hour. (In Chapter 4 he says we are working longer, so watch for that, and see if we can reconcile what appears to be a self-contradiction.)

5. "Disposable" (after-tax) income per capita

a. It has grown, 1947-91, but rate of growth slowed after peak of 1973

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Growth of

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Chap. 3, The Shrinking Middle Class

A. Tells of mergers, plant closures and layoffs. Narrates the case of Diamond Glass Co. plant in Spring City, PA.

[This parallels a more general study by Jon Udell, Social and Economic Effects of the Merger Movement in Wisconsin, documenting how acquisitions of small firms in Wisconsin by national conglomerates resulted in cutting jobs and output, turning some plants into branch plants used for standby only.]

1992 presidential campaign, both sides seriously discussed a "middle class" tax cut. It never happened. [This contrasts with the 2000 campaign when Bush campaigned for an upper class tax cut, which did happen. Indicates a deep change in attitudes.]

B. What is the middle class? Offers two definitions, will use both

1. The middle 3 "quintals" of the family income distribution.

a. What is a "quintal," as WP uses it?

First, rank all families by money income.

Then, divide the ranked families into 5 equal parts. Each 5th is a "quintal." Note the difference of a quintal from a "quintile." The latter is a point, or cusp, between quintals.

Why say "quintal" instead of plain old "fifth"? Because quintals are from an array that is first ranked by size, and THEN divided into 5 equal parts.

WP numbers the quintals from top to bottom, so the 1st quintal is the top one, etc. (Most other writers start at the bottom, but we are following WP here.)

When we show the results graphically, the top quintal is on the right side, so going from top to bottom numerically will mean going from right to left on the graph. Sorry about that; deal with it.

b. So the middle 3 quintals are the middle 60%.

c. Their share of total income is shrinking. 1973-90. The top quintal is picking up what they are losing.

Definitions of Middle Class #2

2. The families between two fixed amounts of income.

C. Using definition #2, defines middle class as:

$25k < family income < $75k

$ means 1990 $

WP recognizes that it would be better to adjust for locations, but he is not refining the definition, which would be long and tedious. [Keep such warnings firmly in memory - they may turn out to bias the results, even without the writer's being aware of it. In this case, I think we are safe to play along with WP, up to a point.]

Using that definition, the % of families in the middle class were:

1973 %	1990 %	Percentage Change
59.7	54.5	-8.7

Be sure you understand why a drop of 5.2 percentage points, from 59.7 to 54.5, is a drop of 8.7%

[Note that WP's source, the U.S. Census, is measuring just "money income." That leaves out some big items of real income, notably these two: imputed income of owner-occupied homes and owner-used recreation grounds; and unrecognized capital gains. Each is a huge item, and more highly concentrated than money income, causing WP to understate the concentration of real income.]

D. Redefining middle class, using definition #1. Here middle class means Quintiles 2-4.

Table 1: Percentage of income received, U.S., by quintiles

Quintal	1973	1990	Percentage Change
#1	41.1	44.3	+7.8
#2	24.0	23.8	-0.8
#3	17.5	16.6	-5.1
#4	11.9	10.8	-9.2
#5	5.5	4.6	-16.4
#2-#4	53.4	51.2	-4.1

Again, be sure you understand why the percentage changes shown in the right column are

greater than the changes in percentage points between 1973 and 1990.

Some findings of Table 1:

- The middle did not "collapse," but shrank by 4.1% (bottom row).
- The top rose by nearly 8%. It was the only quintal to rise at all.
- The bottom two quintals, #4 and #5, dropped by 9% and 16%.
- The top 5% (not shown in Table 1) rose by 12.3%. This indicates that WITHIN the top quintal, the top quarter of the quintal rose faster than the rest of it.
- Going from top to bottom, the data show a consistent loss of equality

E. Graphic

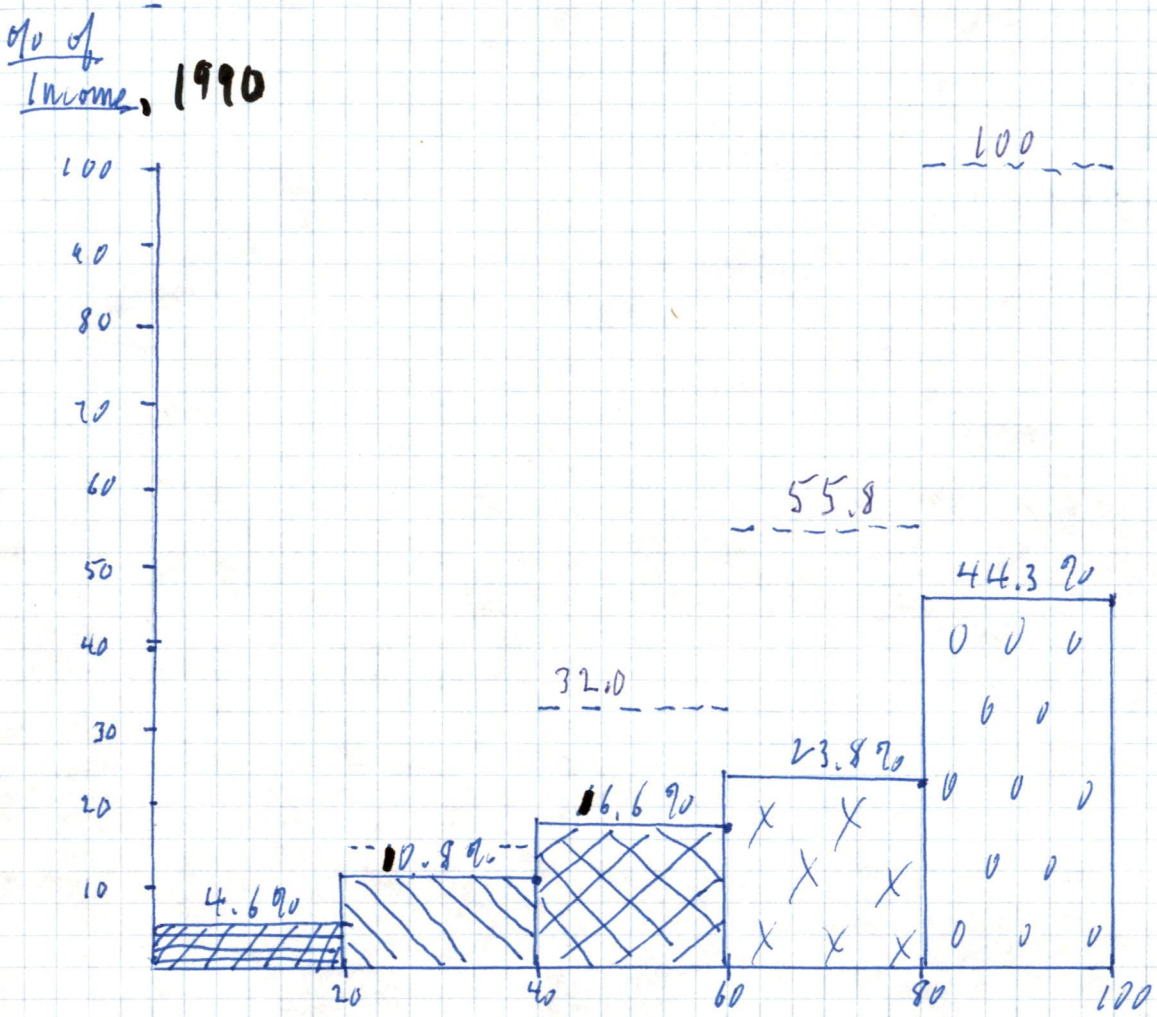
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F. A third measure of inequality: the ratio of average incomes in the top and bottom quintals (pp.58-59)

1973	7.5
1990	9.6

WP does not give basic data. We have to take this on faith, but it is consistent with other findings.

Chap. 3, Table 1



← Dash lines show Cum. % of Income, making a "Lorenz Curve"

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G. Mobility

p.65, increasingly, children follow in the same status as their parents. WP gives few details.

It is an ancient fallacy that inequality declines over time, because many fall out of the top ranks and many rise from the bottom ranks. The fallacy has a name: "Regression Fallacy." It is like saying, "The Steelers won the super bowl a few times, but haven't come close for a long time, therefore all teams are becoming more equal." Statisticians call that "regressing toward the mean."

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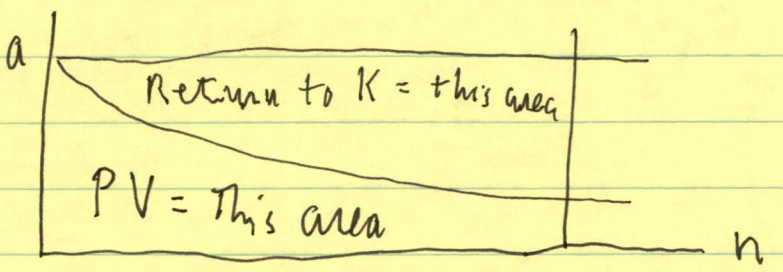
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Friday, May 7



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$PV = a\frac{1 - I^{-n}}{i}$ $\quad (I \equiv 1 + i)$

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As $n \to \infty$,

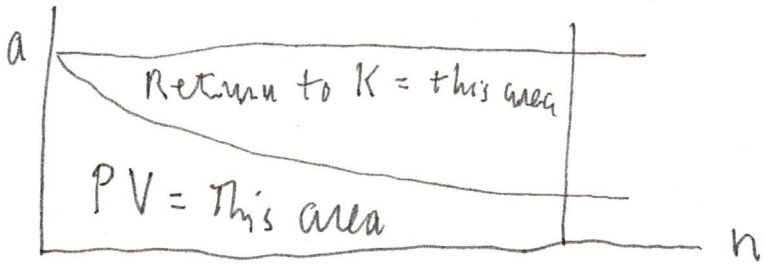
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But PV = cost of producing the farm machine. Assume this is all Labor. Even so, the fraction of the revenue going to Labor falls, as machines get more durable.

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Econ 002, May 10, 2004

Evolution of Macro ideas, 1960-93

From Michael Mandel, Business Week, 25 O 93 p.48

1. In the 1960s, Heller and his admirers declare final victory over the business cycle. Economists riding high; triumphalism and *hubris*.

2. In the 1970s, stagflation discredits total reliance on Fiscal and Monetary Policy (FMP). Discredits Keynes, after recession of 1974-75. New buzzword is ▒ Rational Expectations,▒ claiming the previous effectiveness of Keynesian spending depended on the public's not seeing it coming, but now they were wise to it and raised prices ahead of time.

3. In the 1980s, with Reagan, Lafferism (supply-side economics), and George H.W. Bush, there was a splitup among the advisers

``Monetarists'' press for tight money to combat inflation. Wm. Volcker in command of Fed. Very high interest rates. (Mandel says these) cause depression, 1980-.)

``Supply-siders▒ (following Laffer) push for tax cuts. These, cum big military spending, beget deficits.

Deficit hawks cannot rationalize them in the traditional Keynesian way, so they come up with The Ricardian Equivalance Theorem

4. 1990s, confusion reigns, says Mandel

Keynesians want more ``stimulus'' (deficits)

Monetarists want tight money

(N/94, ~~It looks as though~~ monetarists ~~are~~ won out: FRB policy was elevated to power.)

5. Clinton ran on, and implemented policy of ``Negative Crowding Out.'' It worked pretty well, pumping investor money into the private sector.

6. 2001- the present, massive deficits. Back to Ricardian Equivalence.

I. What is Macro?

Electronic Reading: "Characteristics of Macro as a Field of Study"

a. Macro vs. micro:

- relations of sequence vs. relations of co-existence;
- micro is "glitchless", macro not;
- aggregate vs. partial analysis;
- in macro, full use of resources is a goal; in micro, it is just an assumption;
- macro deals with the creation and turnover of capital

- macro entails some positive feedbacks, some benign and some destructive
- macro deals with instability, from little ripples to major booms and busts
- macro deals with historical trends, looking back, and forecasting, looking forward

b. Macro addresses unresolved economic problems (see II, below).

c. Macro identifies various chokes in the economic system, and ways to widen them (see III, below)

d. Macro's primary concern is with achieving stable full employment with

high wage rates - including yours, when you hit the job market. (If you don't care, your future will be determined by others who care less about you and your welfare.) Unemployment is the tip of the iceberg of the general problem of inadequate demand for human services at all levels.

e. There has been a gradual change of focus in macro-economic thinking from the original (1936-81) goal of full employment to the goal of maximizing GDP and the DJA. Need to get macro back on track.

f. Some history of macro before 1950, hitting the high spots

Evolution of macro thought, Ricardo to Keynes.

Diminishing returns and the "dismal science" of unavoidable misery for people without property.

The misnamed "wages-fund" theory (actually a wages-flow theory)

The Equation of Exchange, and the pre-Keynesian fixation on controlling the stock of money ("M").

Flexible prices and a self-regulating economy (one with

working "thermostats").

Crisis in theory accompanying economic collapse, 1929-33, with endogenous collapse of Money.

Keynes' acceptance of "structural" faults, and narrow emphasis on managing aggregate demand.

The "bogey of economic maturity" - a fad that passed.

g. Some history of Macro, 1960-date, hitting the high spots

Electronic Reading: Evolution of doctrines from 1960

CHARACTERISTICS OF MACRO-ECONOMICS AS A FIELD OF STUDY: A SURVEY

Notes by M. Gaffney, orig. 5/85, rev. 1/91

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1. Aggregation.

Macro is a study of what determines and limits aggregate employment and output in all industries, stages and sectors of an economy taken together, when no market is limited by an assumed fixity of demand generated in other industries, stages or sectors. Macro is a search for chokes that limit aggregate employment and output after removing fallacies of composition.

Macro is not the only comprehensive systemwide analysis: "general equilibrium" (GE) micro is that, too. Macro differs from GE by focusing on aggregates rather than allocation. Thus in GE a condition of universal monopoly is not considered very harmful so long as it be reasonably uniform. All monopolies reduce output and employment, labor gets lower wages and pays higher prices, but all remain fully employed and ideally allocated at a lower real wage rate. Who cares if they're being ripped off?[1]

In macro, reduced demand for labor may result in unemployment, not just lower wage rates. In the hands of its early advocates, macro was also suffused with a presumption that a higher share of the product for workers was more just. That distributive presumption was accepted without much argument during and just after The Long Slump, 1930-41.

"Distribution theory" also deals with the whole economy. It asks how the pie is divided: a, among different factors of production (functional distribution); b, among persons (personal distribution)[2]. 19th Century classical economics centered on distribution; 20th Century neo-classical economics neglects the topic. Indeed, neo-classical economics was developed in large part for the express purpose of turning attention away from the distribution of wealth and income, focusing rather on "the allocation of given resources among competing ends."

---

[1]See the works of Earl Rolph, I.M.D. Little, and Ragnar Frisch for some of those who seem not to care, or even to prefer this condition.

[2]There are also people studying distribution among regions, races, religions, age cohorts, the sexes, occupations, and you name it.

This did not happen by chance. Classical distribution theory had put the finger on unearned wealth and income as needless drains on the incomes of productive people. Beneficiaries of unearned wealth and income supported the neo-classical innovations in self-defense. In their view it is "politically correct" to increase aggregate income, because "a rising tide lifts all boats." It is politically incorrect to redistribute unearned income[3] because that involves interpersonal comparisons, which are allegedly impossible to make. Only "win-win" ("Pareto-superior") redistributions are acceptable.

That philosophy should be double-edged, of course, and rule out redistributions in favor of unearned income when the ruling powers, fashions and passions turn that way. However, here the argument is that most unearned income is saved, not consumed; saving creates capital; capital raises productivity for everyone. The argument is leaky, but it is believed, and that suffices.

Macro, developed in the Long Slump of the 1930s, rehabilitated distribution, but only in limited ways. It never challenged the neo-classical motif that the main goal of life is to produce more, regardless of who gets it and what happens to the environment. Keynes did allege that higher wage rates cause more consumption which, through the multiplier process, raises aggregate output and income. Thus he justified wage-earners as consumers, rather than as producers: a weak moral and functional justification, except in extraordinary circumstances, for paying them much at all! However, for many years it was the liberally correct belief, and sufficed to carry the day.

In a more subtle, nearly subliminal way, Keynes also distinguished between land rent and the return on capital. In Keynes, the inducement to invest is the sparkplug of the economic motor, and this inducement is the "marginal efficiency of capital," -- today, the "Marginal Rate of Return after Taxes" (MRORAT).

Using neoclassical theory, this <u>marginal</u> rate of return to capital is the pure return to capital, <u>ex</u>cluding land rents. Thus, Keynes was used in the 1960s by JFK and his chief economist, Walter Heller, to justify the Investment Tax Credit, and accelerated depreciation, both of which raised MRORAT while allowing full taxation of land rents.

2. Unemployment.

Macro does not assume full employment, but asks what determines if resources are involuntarily unemployed, either chronically or episodically. How can there be a shortage of work when human wants go unsatisfied? This elementary riddle is at the heart of macro-economic inquiry.

3. Fixed land; variable labor and capital.

---

[3]With some, it is vulgar even to mention it.

Land in the aggregate is constant,[4] while population normally grows and capital is created or destroyed. In open economies, labor and capital also grow or shrink by migration. Macroeconomics deals differently with land than with capital. The problem with land is overcoming its natural scarcity by intensification of use. The problem with capital is first creating it by work, saving and investing. Second is deploying it, often to substitute for scarce land. Third is conserving it by avoiding dissaving. Fourth is regulating its rate of turnover, (a matter I emphasize heavily).

---

[4]Land is fixed in area. Its productiveness is normally on the rise due to synergistic spillovers and public works and cheaper transportation; and its exhaustible elements are progressively being depleted. A "society" may also migrate and spread over more lands, or different lands, but it is people and capital that move; the mountain does not come to Mohammed. Territorial expansion is generally associated with great macroeconomic cycles of ebb and flow, boom and bust.

For expanded exposition of this matter see M. Gaffney, "Land as a Distinctive Factor of Production," an annotated listing of 26 distinctive qualities that distinguish land from capital. An older, published treatment is in the same writer's "Land and Rent in Welfare Economics," in Marion Clawson et al. (eds.), Land Economics Research, Washington: Resources for the Future, 1960.

Being supplied freely by Nature, land has no cost of production. Being fixed in the aggregate, land has no "opportunity cost" in the aggregate, even though each parcel has an individual opportunity cost, i.e. some other use.[5] These qualities distinguish land from humans-at-work. Work is a human action and involves a sacrifice of leisure and often health, lifespan, locational choice, preferred vocations, etc. The worker him/herself in turn is produced by the work and sacrifice of parents, complete with education and medical costs; maintained in service by much of what is called "consumption"; and wearing out all too soon.

Capital also differs from land in being produced. Capital also has to be conserved, by being spared from consumption. Its opportunity cost is the value of the ever-present alternative of consumption-without-replacement. That is always a temptation, and quite normal behavior for retired people.

Capital also differs from land in wearing out and requiring replacement. "Capital is kept in existence from age to age not by preservation but by continual reproduction" -- John Stuart Mill. The rate at which capital is so reproduced, called "turnover," is a key macro variable.[6]

Capital also differs from land in being Protean,[7] that is capable of assuming any variety of forms. Protean is stronger than versatile. Some land is fairly versatile, but it is always the same land in the same place. Capital, on the other hand, may change form and location with each turnover.

---

[5]Wilderness reservations are a "use," so don't think land in the aggregate has the opportunity cost of being wilderness by going "out of use."

[6]J.B. Clark, father of "neo-classical" economics, virtually destroyed macro-economics from 1900 to 1936 as a by-product of his successful effort to obscure this distinction and make capital and land seem the same. The patrons of the profession were contented with an emasculated discipline so long as it did not rock any boats, rattle any cages, or challenge any privileges of the establishment. The collapse of 1929 rocked, rattled and challenged, however. Keynes had a clear field, for better or worse, to re-introduce macro into economics.

[7]"Protean" is from Proteus, son of Neptune in Greek mythology. Proteus was capable of changing his form and appearance at will. In the Greek legend, he wrestles with the mighty Odysseus, and avoids losing by assuming one guise after another.

4. Distribution of wealth and income

a. Functional distribution. Macro deals with these questions:

-- Can real wage rates change (up or down) by changing factor shares? Or is it always just an empty "wage-price spiral," dog chasing tail? There are those like Keynes who say wage rates cannot fall, because lower money wage rates would simply mean lower aggregate demand, lower prices, and the same real wage rates. Others use the same line, The Fallacy of Fixed Shares, to say wages cannot rise, but only cause inflation. With such reasoning they rule out of court any consideration of changing factor shares.

The effect of this fallacy is also to rule out of macro any consideration of changing factor proportions. In this kind of macro, the use of all factors must rise and fall together in lockstep. The only way to combat unemployment is to use more land and capital. The option is foreclosed of using more labor with the same land and capital.

Most writing and teaching in macro is hopelessly impoverished by this Fallacy of Fixed Shares. It rules out of macro most of the obvious solutions to the problems it should be addressing. The chances are you have never seen or heard the question raised, of changing shares or factor proportions. By introducing this element we relieve most of the frustration and futility that has stifled modern macro policy, and open avenues of workable solutions to "intractable" problems.

-- What is "productivity," and how does it affect real wage rates?

-- Do all income payments serve to evoke and reward functional effort and thus to increase output, employment and capital formation? Or are some payments unearned and non-functional? Since land is in fixed aggregate supply, payments to buy or rent land are macroeconomically nonfunctional, and a drain on the incentive system (whatever micro function they serve). When they rise too high (i.e. higher than justified by the marginal productivity of land), trouble is bound to result.

-- Can U.S. wage rates be sustained above world levels based on higher marginal productivities of work caused by larger per capita complements of land and capital?

-- On the demand side, do higher wages mean more consumption spending? Or are they offset by correspondingly reduced property incomes? Does lower property income mean less saving; does that mean less capital formation; and would that be good or bad for output and employment?

b. Personal

Why is there poverty amid plenty; why are some left out?

Why are frequency distributions of wealth and income so skewed and abnormal, unlike other comparative measures of human achievement and ability?

c. Business

How does concentration of business wealth affect factor proportions, employment opportunities, and output? Is "market structure" a barrier to full employment; is anti-trust policy a useful macro policy in support of full employment?

The tendency among economists has been to sweep these questions into a separate bin that macroeconomists call "structural questions," and the people inside the bin call Industrial Organization, and/or Government Regulation of Business. This frees macroeconomists to deal only with "aggregates," abstract and sanitary. This compartmentalization of thought deeply impoverishes what is conventionally called macro today. The goal in these notes is to integrate the questions.

5. Vertically integrated system view

All sciences progress beyond fact-gathering and particular cause-and-effect relations in simple cases to seeing connectedness in whole systems, governed by law-like relationships. Such law-like relationships are of two kinds: either of coexistence or of succession. The former is static; the latter is dynamic and evolutionary.

Both are essential; neither excludes or dominates the other. Micro studies the former, the static relations of coexistence; macro the latter, the dynamic relations of succession and evolution, where economic events are connected in series rather than in parallel. Life is a cavalcade, like a parade or a drama, with events in sequence.

a. Work and capital (W & K) combine in sequence

In micro, because it is virtually timeless, K can be and is treated a lot like land, T (for Terra). The relationship between W and K studied by macro is that W produces K, and is in exchange sustained by existing K (and to a lesser extent by newly saved K) while waiting for the new K to be consumable. K once in existence is operated and maintained by other W, but in macro that other W is linked with the the other new K which it, in turn, produces. Thus the macro conspectus embraces all relations of all K with all W, but in series rather than in parallel.

Since much K lasts longer than it takes to produce, the application of labor is periodic. Work must somehow be evened out by moving labor from project to project. Meeting the payroll, too, must be evened out by scheduling the recovery of cash from capital to achieve even flows at a level sufficient to employ the work force. The corresponding delivery of ripe goods and services to consumers must also be evened out, to supply everyone adequately, putting goods on the shelves for workers to spend their payrolls on.[8] The twin problems of "meeting the payroll" and meeting demand are met by scheduling maturities. This is an important truth for whole economies as well as for individual firms.

Since scheduling maturities requires accurate forecasting and complex systems analysis, it is the most likely thing that can go awry. Even in the imaginary "rational" world of abstract theorists, no one could be

[8]This is where the Soviet system is failing so badly.

omniscient about forecasting a complex future. Omniscience is much more than rationality, it is a God-like quality. It is misleading to impute it to mankind, people like those you and I actually know and deal with.[9]

Actually, even the "rational" world dreamed up by Platonic theorists is only wishful and imaginary. The crazy real world is more interesting and frightening. It is filled with fads, crazes, stampedes, mass delusions, warriors, swindlers, liars, paranoids, power trippers, scams, -- the list is endless. Happily, it is also brightened by loyalty, faith, charity, hope, love, devotion and duty. Remember, however, half the people in this real world are below the median intelligence, and the median is not very high. Many are barely functional. 10% or so spend some time in mental institutions. It is a wonder when things turn out well, and often they don't.

In payment, workers receive "advances" of preexisting capital. These are called "advances" because they are in cash or consumable goods at a time when the capital being currently produced is not yet ripe for consumption. Besides advances these payments are variously called "subsistence," a classical term used at a time when most workers were paid in chits they used at the company store; or "investing," money advanced just as the chits used to be, but redeemable at any store; or "stakes" or "grubstakes" in western America. "Front money" in modern business slang is like "advances," but usually referring only to equity money.

"Wage goods" is a term for the market-basket of ripe or consumable goods typically bought by median workers. A monetary investing is validated only by availability of wage goods at an expected price level. (The money without the goods to back it might be called "improper advances.")

The usual term today is "investing." Investing generally carries the initiative in the system and gets special attention in macro as a result. But it takes two to tango, and in business often more than two,

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[9]Today's fashion is to finesse this problem by assuming investors have "rational expectations." Basically this amounts to the analyst's accepting and validating whatever is in the individual investor's mind by defining it as "rational," denying the right of any outside observer to judge it otherwise. This amounts to declaring each investor omniscient. It serves the social function of declaring the behavior of property owners to be sacred, above outside criticism and judgment.

because sequential relations form a whole conga line. A major preoccupation of macro is the complex of factors determining the flow of investing.

Investings are flows of capital-in-motion, in a process of continual use-and-replacement, like metabolism. (Net new investing is capital-in-creation; gross investing less net investing is capital turning over.) Again, "Capital is kept in existence from age to age not by preservation but by continual reproduction" -- J.S. Mill. Remember those words.

Time elapses between investing by the capitalist-employer and recovery of his capital through sales. Reinvesting waits on recovery (since "he who spends what isn't his'n, must make it up or go to prison"). So the schedule of planned recovery, (aka the term structure of investment), affects the flow of reinvesting to employ workers. Recovery/capital = the flow/fund ratio, a critical variable.

To hire more workers with the same capital, simply turn it over faster, raising the flow/fund ratio. In the extreme this may mean shifting from a steel economy to a bamboo economy. I do not recommend that, except where capital is very short. Given that premise, however, bamboo is the way to go, to survive. It is a harder life, but it works.

Note that there is both a demand side and a supply side to reinvesting. Cash recovered from sales is reinvested in synch with the sales themselves, so that wage goods are made available to validate the investing advances from the worker's viewpoint; and incomes are generated to buy the wage goods, from the seller's viewpoint.

b. Land (G, from Ground) joins Work (W) in producing capital (K) originally. Like W, landowners have to be paid up front. Often the G stays with the K over a long life (as with construction of housing, stores and factories) so the G must be bought outright. This adds to the investment base and lowers the return on investing. Sometimes the land is leased. The rent reduces cash flow from investings.[10]

c. Buying and selling G are offsetting transactions, with no net income-creating expenditure or production involved (except for brokerage commissions).

d. Appreciation of G is income (regardless of realization by sale) although not so counted in the national income accounts, which are thereby badly flawed.

e. Money changes hands over time. The lapse of time between getting and spending reduces the function of money as a medium of exchange. The turnover of money, called velocity, is a measure of its effectiveness in exchanges. Velocity is the Flow/Fund ratio of money. Velocity is quite variable.

Money, once created, has a life of its own independent of its original use. So the velocity of money is unrelated to the turnover of

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[10]The Austrian economists who originally worked this out left G out of their models. Knut Wicksell, the "Swedish Austrian," put it into his models, which are superior. An earlier German forester, Faustmann, had done the same thing earlier, but his work has only recently been exhumed.

capital. This limits the potency of mere spending as a device to increase real income.

f. Normalized models (aka staggered or going-concern models) let us view sequential events as simultaneous, by stacking staggered series and summing sections of the stacks. (Here the metaphor of "vertical integration" runs counter to the graphics. What are normally called vertical or sequential relations are normally shown graphically as horizontal, with time on the abscissa. On such a graph the vertical stacks represent one period of time. We regret that the conventions here are mutually clashing, but we are doing our best in a world we never made. Rather than change all the conventions, we ask you to make this mental adjustment.)

The best model of this kind is found in Wicksell, Lecture on Political Economy, pp. 172-78, on reserve, applied to grape juice and wine. Another is in Wonnacott, pp. 81-85, applied to converting the Keynesian multiplier from a horizontal row to an instantaneous vertical stack (these are traditionally called the horizontal and vertical multipliers). Another is in George Pinches, Fundamentals of Financial Management, selection on reserve, applied to inventories. William Baumol, Operations Analysis and Economic Theory, originated this model, and we will call it "The Baumol Model." It is less direct than Wicksell's grape juice model, but perhaps easier to follow on a graph. In this course we will use Baumol's Model.

In these models, the lapse of time is represented by the fund of capital. The longer the period of investment of capital, the larger inventory is required. And the cost of time is represented by interest on that stack of capital. It does not disappear, just because normalization has contrived that ripe products come out at the same time that raw inputs are going in. To think that it does is known as the "fallacy of the disappearing inventory."

I am sure that the fallacy and its refutation are obvious to those as astute as yourselves, but it is amazing how many economists of some repute have staggered into that fallacy: J.B. Clark, Joseph Schumpeter, and many foresters trying to wish away the cost of interest in forestry, for example. It is a measure of Wicksell's greatness that he saw through this matter so clearly, while others fumbled and stumbled.

Capital occupies land during its life, so in better models the stack is composed both of capital and land. Thus in a normalized forest where one acre of trees is planted and another acre cut each year, if the rotation period is n years, n acres are required, as well as the capital in the trees on n acres.

A more subtle fallacy was committed by Friedrich and Vera Lutz who normalized the rotation and stacked the capital but let the land disappear. We will not be studying that in this course, but you should know that many people have had profound difficulties reconciling relations of coexistence with relations of succession, and these inventory models, properly understood, accomplish that very neatly, and are worth your careful study.

g. Macro deals with economic "glitches." An ideal economy is glitchless, but in macro, glitches can occur. They occur because of bad scheduling, with maturities out of synch with needs. Irreversible errors are possible. According to Omar Ibn Al-Halif, "Four things come not back: the spoken word; the sped arrow; time past; the neglected opportunity." He should have added a fifth: the misinvested dollar.

The great thing about the market economy with flexible prices is that it is so full of self-correcting mechanisms, or thermostats. A thermostat is an example of "negative feedback," which is equilibrating and stabilizing and makes the system home in on optimality.

But economic history indicates there are also traps for the unwary. There can be lags in adjustment after mistakes. More serious is "perversity." Perversity is worse than irreversibility. Perversity means a glitch is self-aggravating. It is like the sufferer who scratches because he itches, and itches because he scratches. Such a condition is called "positive feedback," a dangerous cycle indeed. "Vicious spiral" is another name.

One such perversity is the liquidity crisis syndrome, when there is a great crush to convert goods into dollars. One individual can convert any asset, even the "hardest" (furthest removed from being consumable) into dollars by selling to another investor. But all sellers together can do this only by turning the hard capital into "soft" (consumable) goods (e.g. turning textile plants into salable clothing).

However, it takes the working capital from the sale of soft goods to operate the plants, and thus recover the capital stored up in them. Lacking that the capital in the plants is frozen in. A rise of interest rates, which should call forth more investable funds, instead freezes the system and calls forth less.[11]

A related perversity is the Ponzi syndrome (Ponzi was a classic swindler who borrowed to pay interest on previous debt.) Those who are stuck with delayed construction schedules, and have to borrow more to pay interest on earlier borrowings, get on this treadmill. The higher interest rates go, the more they have to borrow. Some Latin American debtors today are in this bind, as described by David Felix' paper on The Baring Crisis etc.

Thus macro deals with boom and bust, crises and collapses, and of course how to avoid them.

6. Extended sequential interdependencies

This follows from macro's being both aggregated and vertically integrated. Macro follows chains of reactions through the whole system. It treats economic adjustments as a cavalcade of events through time, rather than a grand system of instantaneous mutual adjustments.

a. What can the group not do that an individual can?

-- Invest in excess of cash flow by borrowing;

-- Reduce cash balances by spending more than is received;

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[11]The loss of capital is immediately signalled by a drop in the market value of the plants. This drop is not just a "paper" loss; it is real negative capital formation. From any given cash flow, a higher share will go to cover interest, leaving less for capital recovery. Besides, cash flows will be lower.

-- Increase inventories by investing more (without raising prices).

b. Macro sees the interdependencies in long sequences of flows. One failure to pay, for example, may stop payments through several succeeding stages, and have multiple effects, like cars piling up behind a freeway accident. Likewise one failure to deliver feedstock may hold up a chain of succeeding operations.

c. There are two sides to every transaction. A's spending is B's income. The use of money turns every single barter transaction into two separate transactions. Macro-economists dispute still over whether money is just a veil over barter, or a separate agency with its own effects.

Completing the barter is known as the circular flow of money, where investing returns to the spender as sales; and labor services return to the workers and property owners as goods and services to consume. One way or another these flows meet and balance. The aim of macro policy is to balance them at high levels.

7. Dynamics of capital in motion or flow

a. Capital formation by saving/investing and destruction by dissaving/disinvesting.

b. Capital turnover. How much capital is "set free" each year by ripening and liquidation. The term structure of capital -- how much is scheduled to ripen and be recovered in various future years. How stretched out is the schedule?

c. How interest rates, rising or falling, serve to equate the supply and demand of investable funds by changing turnover rates. Or do they? This is a point of controversy.

d. Timing of replacement. This is different from capital recovery, because capital is recovered gradually over the life of machines, etc., but scrapping and replacing the carcass is a discontinuous event.

e. Obsolescence and adaptability. How fast is new technology embodied in the operating capital stock of a nation? How fast can capital change its valence for land and labor, faced with needs to change factor proportions?

f. Migration, and new combinations with new lands in waves of territorial expansion.

g. Valence of capital for land and labor, over time.

h. Determination of capital flows by interaction of the inducement to invest (demand for investable funds) and the supply of such funds.

i. Irreversible traps for capital

8. Money, credit and banking[12]

a. Lending and debt creation

b. Money

1. Definition and functions

2. Determination of quantity

--the process of monetization of collateral

--what can and should be monetized

--constraints on quantity: required reserves, supply of such reserves, capital of banks, quantity of eligible collateral

3. How much is needed?

4. History of money

5. Current and future status. Dangerous condition of our financial institutions, with historical parallels.

c. Velocity of money

1. How the urge to adjust the stock adjusts the velocity instead. How this is another way of perceiving the Keynesian multiplier process.

2. Forces affecting velocity

3. Recent values of V, and trends

4. Effect of federal deficits on V. How much crowding out?

d. Equation of exchange

1. M, V, and spending

2. Reconciliation of Keynesian model with Equation of Exchange -- a matter of translation. Systemic integration of the equation: role of MV in determining real national income. Overloading fiscal and monetary policy leads to inflation.

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[12]See separate sheaf of notes, "Money, Credit and Crisis".

9. Territorial expansion.[13]

Dynamics of investing in territorial expansion: of nations; of industries; of cities. Territorial expansion was the pre-Keynesian full employment policy, and has now slightly modified its character from one of land settlement to one of mercantilism (aka imperialism). With their penchant for pigeon-holing important matters out of sight, many macro-economists now consign all this to the fields of international economics and economic development.

We will treat it under the heads of capital migration, fragility of banking institutions, and the effects of military spending on federal finance.

10. Forecasting

a. Short run

Business sales and supplies and interest rates

Tax revenues

b. Long run. "Futurology" or "eschatology" which mean "what is all this leading to," cumulatively?

1. Resource exhaustion. There is lots of eschatology in Marx, but no resource exhaustion; ditto for Keynes.

Neo-Malthusians have rebelled at this. What happens to increased population with dwindling resources?

2. Cumulative capital formation. They used to worry about how we could consume all the products of the capital formed by saving and investing. Now they worry if we will have enough. Some folks are born to worry about something.

3. More leisure? Less?

4. Distribution of wealth and income as population pressure leads to higher and higher land rents and values, class divisions, concentration of economic and political power. A class society? Class warfare? Large-scale entitlements? Bread and circuses? Decline and fall of American values and economy and society? A new harmonious synthesis?

11. Policy packages. Macro is generally the basis for political policy packages at the national level. As a science it has suffered and suffers from the association, but its relevance to current affairs is enhanced. To

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[13]Separate sheaf to be distributed on territorial expansion.

understand the science as such you need to cut through the politics; but to understand why half-scientific doctrines have evolved as they have, you do need to understand the political alliances that produced them.

12. Peace Dividends and their Consequences.

Most of the worst boom/bust cycles in history have followed great peace treaties. Public policy has rarely been able to cope with ease and prosperity as well as with hardship and common enemies. This is one reason the race keeps going back to war.

Macro policy needs to face up to this historical relationship and cope with it successfully. The upcoming peace dividend resulting from ending the Cold War (and assuming it is not lost on the Persian Gulf) presents a wonderful opportunity to improve everyone's lot. History suggests it is more likely to be blown away in class warfare, divisiveness, competitive overconsumption and depression.

There is little precedent for such studies. They are up to you and me. We had better start now.

Fri. Apr 2

1. #11, K

K. from. U.S. lagging.

Supply side ecs. ~~Bush I~~,

Reagan - Laffer, Δ incentives to work, + to save + inv

Bush I, lower tax on cap gains

Clinton, reverse crowding out

Bush II, ~~more~~ deficits

consume more, equity w/draw

untax cap gains

borrow abroad

Thus, supply side evolved into demand-side, w/o anyone saying so

So in Macro we pay attn. to demand-side ecs.

Flows of inv't.

Inducement to invest

Def. of investing - inv. - creating

Turnover & gross inv't.

~~You blow th~~

Idea with us from beginning.

Mozart.

Old stuff. Go to cutting edge

Blow thru here ...

Macro. Choices

IV Cap.

A. K as a fund.

(~~Tax~~ Fund, flow, & rates)

1. K that displaces labor

- ~~Cattle~~ Livestock, breeding
- Timber
- Farm machines
- Fears of Ludd et al

B. Flow of K

Labor produces K, both

- House e.g.
- Douglas-fir e.g.

V. Inv., or flow of K

A. Quesnay & Circ. (4 kinds of advances for H, Mozart)

B. Glitches

Irreversible conversion

Self-aggravation

Rescue by borrowing abroad — for a while

C. New dismal scientists

D. Ricardo - fixed v. circ. K

E. WF in monetary ec.

F. Allegories

~~220~~

Capital & Turnover

Syllabus

II Mac problems
3. Slow replacement
11. Shortages of
- K (covered on Apr. 2) (Review!)
- Domestic information
- Flows of Inv (net)
- Turnover (gross)

Slow T as mvs allocn.

III Mac Choices (Preview)
A. Shortages
4. K
5. Flow of K

Apps:
- Arrears
- Shortage of K
- Haycks
- K/O ratio & RPM of E
- Shortage of liquid K viz a bnk
- Deflation marks rise of real i.r.

VI Shortage of K as a choke
A. Simple Q of K
B. Mis allocn of K
C. Slow T
D. Exporting K
E. Low domestic K-formn
F. Summary

Recap of Lecture of Wednesday, April 7 2004

Using the Syllabus, go to III, Macro Chokes, on p.3

A. Shortages of the following:

1. Natural Resources

For details, now go to the Electronic Reading, "Macro Chokes"

Go to p.2

Note the shift from Arabic to Roman numerals. #I, in next line, corresponds with #1 in the syllabus

I. Scarcity of Land and Natural Resources

A. Malthus

B. Artificial Scarcity

1. Jewish prophets
2. Greek lawgivers
3. Roman reformers
4. Everywhere that fee simple has spread
5. Quesnay, Du Pont, T. Jefferson
6. Adam Smith
7. Henry George
8. Data from today, items a-e
9. Failure and cooption of the intellectuals
10. Keynes

C. Studies of terms of trade

D. Environmentalists vs. the GNP (this is a long section)

E. Expansion onto new lands

F. Land as a superior good – Auri sacra fames

Go to Syllabus, note we revisit this topic in IV

II. Scarcity of Money (this is on p.6)

Friday, April 09, 2004, First lecture on money

Electronic reading: "Money, Credit, and Crisis"
Note from Sy Mabon, we revisit this in V A + B
First, turn to "Macro Chokes," pp. 6 ff.

II. Scarcity of Money

Why is it a problem?

A. Past hyperinflations, legacy of suspicion

B. These controls … can prevent monetary expansion when needed

C. Why was dM (increase in money supply) needed?

D. Why did banks fail?

E. Have we solved the problem?

F. Where are we now?

III. Spending

"Velocity" (V) = turnover of money

A. Determination of V is more systemic or endogenous

B. Early Keynesians had V always winding down

C. V ignores ideologies, and goes its own way

D. List of factors affecting V

1. More M
2. Low Prices
3. Anticipated higher prices
4. High interest rates (Low prices of bonds, etc. Explain capitalization)
5. Anticipated lower interest rates (Same as 3)

6-13, covered next week

3. Slow replacement/renewal of American capital stock See #VI, C

4. Division of society into haves and have-nots: concentration of property and income, decline of taxes on property, on high incomes, and on inheritance. Two-tier labor market.

5. Dependence of government policy on inflation as the main policy tool to combat unemployment: overreliance on "demand-side" economics

6. Boom and bust (national and regional), with positive feedbacks. Instability, insecurity. Link #10

7. Bank failures; shaky condition of banks Link #V

8. Massive growth of debt: High and rising share of interest payments in budgets, private and public.

9. Continuing import balance. Growing foreign ownership of U.S. property and U.S. public debt. Link VI. E

10. Economic rigidity caused by people fearing crises, grasping for security to avoid falling into the 2nd tier of labor market, losing retirement income

11. Shortages of capital, domestic capital formation, flows of investment, and capital turnover. Shortages worsened by misallocation of given supply, induced by unwise

government spending, and influence of tax policy and other public policies on private investing. Link VI, below

12. Control of vital controls over the economy in the hands of unelected Governors of Federal Reserve System (the Fed) Link # V

13. Counterproductive disincentive taxation, unrelieved and even aggravated by #4, above

14. Growth of alienation, with resulting social problems

15. Withdrawal of leaders of economic thought from analyzing and guiding public policies in the U.S.A., and California

16. Chokes that keep idle resources from filling unmet needs. See #III, below.

III. Macro chokes - a summary

Electronic Reading: "Macro Chokes"

We face the paradox of needy, some actually hungry people, poorly housed, unable to find good jobs. Hunger, sickness, overcrowding and other problems constitute demand; work capacity is supply; but they cannot meet and satisfy each other. Why not? What is the choke? What

can we do about it? Macroeconomics is a search for the answers.

A. One set of chokes comprises shortages or inadequacies of the following:

1, Natural Resources;

2, Money;

Electronic readings: see ahead (RPM of loans, and real estate loans)

3, Spending;

Electronic readings: see ahead

4, Capital;

5, The flow of capital, or gross investment;

Electronic readings: see ahead (*Avances*.doc; Shortage of capital;

Mon., Apr. 5

Don Giovanni

Intro.

Partial demand is limited

Aggregate " not " in any such obvious way.

Say's Law.

Demand for Inferior Goods is limited. Demand for Superior Goods rises. There are resource-based: horse-farms, gas & cars, coastal sites, golf, polo, skiing, ... And these are not produced.

Ted Turner - "Don't fence me in."

Reply: "Don't fence me out"

I. Nat. Ress.

A. Malthus

Diim. Rets

a. To labor

b. To K

closing frontier? 1890

New frontiers, higher level of social org. & tech.

- Irrigation
- Cities

Today, bullet trains in Japan, Korea, Taiwan, Europe

Environmentalism — keep out immigrants.

- Sierra Club fight
- Keep out motor cars, better

Old notes

B. Artificial Scarcity

Isaiah

Greeks - Solon

Romans - Gracchi

LDCs: Batista in Cuba; Diaz & Huerta in Mex (allied w. leading Californians); Somoza; Las Casas; Cortez et al. in Texas;

France before rev.

Czarist Russia

Eastern Europe

Riverside

Large firms, more land per worker

see p. 3

C. Terms of Trade p. 4

D. Misleading GNP (& GDP)

Symbol of how many - ecists ignore limits of the earth. (+ other things)

GDP measures "the economy".

E.g., "official" end of recession, 9-01. Never mind that ~~people~~ jobs were falling.

NBER, & Robert Hall.

I unemployment, & W.R.S, & MROR

GNP, no depletion

Cut redwoods

Deplete fish, oil, water, erosion, pollution

GNP, no depreciation

Origins during W.W. II

GNP, no cap. gains

GNP, no divide by popn, so GNP grows while GNP per cap. falls

GNP, includes ~~prop~~ offshore inc. — Mostly prop. inc. (use of GDP partly compensates, but repatriated corp. ~~inc.~~ profits credited to U.S.)

Loss of health — human depletion — not deducted; but medical care is added in.

See p. 5

Solution - p. 6

E. New lands

p. 6

Boom & bust. "In God we trusted, in Kansas we busted." - 1893, led to Populist revolt.

Dust Bowl, 1933-36, Grapes of Wrath

Military cost

15% of our gas used by military

"Land of the Old AEC"

March AF-B

San Diego

F. Land as superior good

p. 6

II. Scarcity of Money p. 7
Why not print $?
A. Legacy of suspicion

Etc.

Francisco & Craig may speak on this.
See me Thurs.

III Spending p. 8

Review for Midterm, April 30 2004

I. Skip for now

II. Macro Problems

1. Low and falling rates of pay, low job opportunities, growing need for double incomes

2. Malthusian problems, pressing on the limits of Earth, its space and resources. Link with #IV.

3. Slow replacement and modernization of American capital stock, slow embodiment of latest technology in capital actually in use. Example: dirty old power plants still polluting the air.

4. Growing division of society into classes of haves and have-nots. Concentration of income and property in the hands of fewer and fewer people and corporations. Two-tier labor market. Decline of taxes on property, high incomes, inheritances.

5. Overdependence of government policy on inflation as the main tool to abate unemployment. Stagflation. Overreliance on "demand-side" economics - even by those who preach "supply-side" economics. Example of Prof. Robert Hall encouraging equity withdrawal in his macro textbook. Hall a supposed to be a guru of supply-side economics, of untaxing saving and investing for the purpose of fostering more capital formation.

Hall is also the one who, representing the Nat. Bur. of Ec. Research (NBER), pronounced in

late 2003 that the depression had ended in Nov. 2001, even though it was known that 2 million or so jobs had been lost. It is a macro problem that many highly-positioned economists no longer regard unemployment as a problem.

6. "Instability" (a euphemism for boom and bust) still prevails, nationally and regionally. Ups and downs entail spirals of positive feedback. Link with #10, below.

7. Bank failures, and shaky condition of some that did not fail. Need for U.S. Govt. to bail out some shaky banks.

8. Massive growth of debts, private and public. High and rising share of interest payments in budgets. Note that interest payments are "income-creating," but not "job-creating." It is a problem that many high-positioned economists fail to make that distinction, because they do not care about making jobs.

9. High, growing, and continuing import balance, jeopardizing the value of the $$, which already is falling sharply, helping cause the high gas prices you observe at the pump, for example.

10. Economic rigidity and stasis caused by people fearing crises, grasping for security to avoid losing their business capital, falling into the 2nd tier of the labor market, or lacking retirement income.

11. Shortages of capital:

- the simple fund of capital as a whole
- domestic ownership of capital
- flows of investing
  - ➢ net new investing
  - ➢ turnover of old capital

Shortages aggravated by misallocation of given total supply. That, in turn, is aggravated by

- unwise government spending, especially when deficit-financed
- influence of tax policy, and other government policies, on private investing

12. Control of the economy in the hands of the unelected Governors of the Federal Reserve System
13. Counterproductive disincentive taxation, unrelieved and even aggravated by #4, above.
14. Alienation of the have-nots, with resulting social and criminal problems
15. Withdrawal of the highly-positioned leaders of economic and social thought from analyzing and guiding public policies in the U.S.A. and California
16. Chokes. Link with III, below.

III. Macro Chokes

Scarcity of Land and Natural Resources

A. Malthus

B. Artificial Scarcity

1. Jewish prophets
2. Greek lawgivers
3. Roman reformers
4. Everywhere that fee simple has spread
5. Quesnay, Du Pont, T. Jefferson
6. Adam Smith
7. Henry George
8. Data from today, items a-e

a. New jobs come from small, new firms. Traditional giants fire workers, hold onto lands.

b. Large firms use fewer workers per $ of property value. Singer Sewing Machine and Mattel Toys have about $5,000/worker; Chevron/GULF has about $1,000,000 -- 200 times as much.

c. Agriculture Census shows that the larger the farm, the fewer workers per acre. "Class I Farms" have 22% of the land with 7% of the labor. Texaco got 77,000 acres of California farmland with Getty Oil Co; Boswell has 150,000 or more acres; etc., etc., etc.

d. Jon Udell on the merger movement in Wisconsin. Wisconsin firms that got merged into national and multinational firms reduced their payrolls and their output.

e. Writings of Polly Roberts. In chemical terms land, when concentrated in strong hands, has a lower "valence" for labor.

9. Failure and cooption of the intellectuals

10. Keynes offered inflation in lieu of structural reforms. It helped - until stagflation hit, 1975-80

C. Studies of terms of trade

RFF, which tried to show there was no resource scarcity, was taken totally by surprise by OPEC in 1972. They never dreamed oil was scarce enough to let a small group control it. Oil jumped to $30/bbl in the U.S. RFF would have looked better had they looked for the truth in Limits to Growth, rather than laughing at its mistakes.

The fashion today is to attribute high oil prices entirely to the OPEC cartel. But that is to miss the main point, which you should please get: it is natural scarcity that makes a cartel possible. Sure, the cartel

takes a monopoly profit, but its very existence also warns us that there is a looming problem of natural scarcity. That is the bottom line for us.

D. Environmentalists vs. the GNP

GNP is a measure designed by materialistic Philistines which leaves out many of the best things in life, and includes some of the worst. Environmentalists remind us of more than Nature, they point up the dangers of rampant materialism.

20 years ago Americans used half as much energy/capita as now. Were we only half as happy then? Most of us were just as happy 50 years ago, but don't take my word for it, look at the soaring suicide rate. Listen to the old-time music with its peaceful, sentimental themes and compare what you hear today, what is it telling you about the serenity of life? Have we elevated culture by evolving from Verdi and Emerson to Bruce Springsteen and Oral Roberts? Have we enhanced national security by evolving from the Minutemen to Star Wars?

So what do we do? We take full employment -- meaning voluntary employment, of course -- as a more meaningful goal. When we take materials from nature and add value to them by work the result is

less "materialistic" than when natural material accounts for most of the value. Thus labor in secondary and tertiary occupations is an avenue for infinite economic growth without looting and spoiling The Earth's treasures. These are "downstream" occupations. Be sure you understand "downstream."

E. Expansion onto new lands

The frontiering tradition fostered wasteful habits toward land, and a cultural subconscious that still responds to insane rhetoric about colonizing outer space as though it were a continuation of the frontier. The challenge today is to modify the cowboy ideology in light of the hard fact that the world is round and limited; the military cost of holding more than our share is ridiculously high.

F. Land as a superior good

A "superior good" is one for which demand rises more than in proportion to the increase of income, so if incomes rise by 10%, demand for the good rises by, say, 20%.

The economic alternative of devoting technology and capital to land-saving purposes is ridiculously easy. It entails a host of simple things like substituting jogging for golf; skating for skiing;

swimming for powerboating; hiking for ATVs; intensive margins for extensive margins; downstream processing and recycling for upstream extracting; husbandry for rape of the earth and its people.

The problem is that as incomes rise, demand for land, and resource-derived products, rises faster than incomes. Give examples.