E. 302. Notes to draw on

Nov. 2

1. Fall of replacement demand.
   Same as cap. shortage
   Same as $-\Delta I_N$; but Kn. formulations is mis leading.
Requires us to think basic problem is reduced desire to create net new capl. There may be some of that, too. As asset values have swollen, maintaining fixed ratio of M to assets wd. Δdemand for c.b.

2.

2-16-65

Hofstadter (unfair to Hicks)

Territorial expansion -

Continental

Agric. & urban - much more than a resid. constrn. cycle.

Boom psych.

Intl. over expansion - serv. in ocean xptn. as well as overland

Premature Malthusianism, 1890 (& 1920)

Scattered settlement (& hi s.o.c. - he fails to stress)

Δ l.v. & credit system

Hicks

(Kansas)

R.r.s.; subsidies to attract lines.

Δ l.v. lures credit from east

Cattle cycle

Withdrawal of capt.

Thms.

1. Terms from Brems
   c, 1 – Is unempl. voluntary?
2. II, C, 2 – aggreg. unempl. – ~~use notes now in office~~
   (All ress. are employed by "advancing subsistence", or I_G – in money)

3. D, 6. Inducement to invest. (Mec, internal rt. of w., etc.)
   No dim. rets. to capl. if balanced.

4. E. Malthus? No, excess capac. in extractive indus. ~~Cartels~~
   cartels
   worsening terms

5. 7. Spending
   1. Can spending limit emplmt?
      Yes, but there are narrow limits to any fall of spending
      Determinants of V:

   2. Determinants of spending (other than above)
      Synchronizn. of I_G with ripening of subsistence, or real turnover of capl.
      a. The general principle
      b. Graphic e.g.s, when term of loans is determined by life of capl.
         If loans are long, M doesn't stop circulating, but

doesn't immediately get reinvested. Adds to C.

That a) accelerates deplⁿ; b) ΔP Thus Δi; short run, ↓ Δ demand for liq. capl.

Thurs, Dec. 9

Heart of classical doctrine re M: -ΔP solves all.
Bes. it ΔV. Contrary to idea of vicious downward spiral.

Determinants of V

Low P

Antic. higher P

Hi invt. opps. & i.r. — i.e. low P of futures
antic. of lower invt. opps. — i.e. antic. higher P of futures
Much M

Regular & certain payments habits

Short periods between receipt & disbursement

Wide use of trade credit, charge accts.

Frequent payments

Many false counter arguments — e.g. that lower wages mean lower demand. Will cover later.

But many real weaknesses:

1. M is + liq.; debt is corresponding neg. liq.
-ΔP Δs both the same.

The reason ΔM leads to net Δ in liquidity is bes. confidence in banks to liquefy illiquid pvt. debt. If you shake that faith, debt becomes more onerous, deposit becomes less inspiring of confidence. -ΔP will not save, bes, after a point, banks assets are not fixed

in M but are the collateral they take, and they go bust.

2. $-\Delta M \rightarrow -\Delta V$, aggravates

3. ~~$\Delta P \rightarrow$~~ Entire situation breeds antic. $-\Delta P$, aggravates.
Including $-\Delta P$ of futures, i.e. higher future $\underline{i}$, which Keynes emphasized, blocks invt.

4. Destroy collat. values, thus $-\Delta$ credit ratings and inv. opps.
This not all bad, bec. r.e. collat. is basis for overly durable invts.
But decline of aggreg. invt. opps. is depressing. And adds to decline of M.

5. Forced disaving — windfall to M interests, while those who want to work for M get nothing or little.

6. Disruption of payments habits $\rightarrow -\Delta V$.
7. Long period of attrition as holdouts resist $-\Delta P$

So the transition to lower P may be long, painful, & destructive. Thus, M can be a bottleneck. Desirable to avoid big declines.

Fractional reserve banking, w. r.e. collateral, in boom-bust developmental conditions, is murder.

(But $\pm\Delta$ collateral values, w/o ~~$\pm$~~ $\pm\Delta M$, is still murder. Destroys invt. opps.)

False & confused counter arguments do as much harm as the false argument.

We have shown $-\Delta M$ hurts. We have not shown that $-\Delta P$ hurts, or $-\Delta W$.

For a time, $-\Delta W$ was regarded as bad: Keynes, Klein, Keyserling, Reuther. Fallacies:

1. Labor-fication. Labor is only cost? In this case, labor is only income spent on cons.

2. Demand for labor is inelastic

a. Best proposal to $-\Delta W$ is in overpriced trades; & among unemployed

b. And, we have seen powerful substn. effect — down invt. immedly. into labor-intensive indy., big Δ returns.

c. Real balance effect. From both lower P & higher i — which is lower ρ of futures.

In fact, best thing we can do is hold down costs of whatever factor is redundant; & of its complements. By compn. if possible; otherwise by price control.

Not just labor. Need to break artificial scarcities of raw mtrls; of bldg. sites.

If capl. is redundant, need to lower i. Now, capl. is scarce, need to Δi. That means cheaper futures: land, raw materials.

Land is surplus, need to lower price. It is an artificial surplus, but that is irreversible. Held up by speen; underemn; &c. etc.

Some other prices to lower.

P.U. rates

X ptn. rates

Mapped raw mats.

Gems from Brems

Highly concentrated thought; elliptical exposition.

p. 214ff. "Direct" labor input-coefficient, a_{lc}

"Indirect" " " " , a_{lp} --- the labor stored in producer goods.

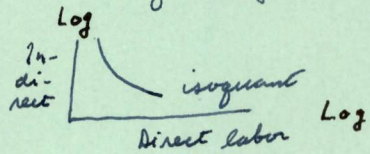
Can subst. indirect for direct labor

Elasticities of substn., η

as direct labor falls, indirect rises, to keep const. output.

Law of vble propns. holds, so as you get more indirect labor,

p. 217 $\eta = \left| \frac{\%\ \Delta \text{ indirect}}{\%\ \Delta \text{ direct}} \right|$ rises.



2 other elasticities, reasoning not so clear. What does he mean by "productivity" of capl, $\equiv \frac{1}{b^i_{pc}}$

Helpful hints on reading Brems math.

1. Elasticities of substn. imply holding output const., on isoquant.
2. $i = \ln(1+i) \doteq i$
3. $e^{it} = (1+i)^t$
4. $\int = \sum$

Lower wages & employmt. 2 ways:

a) Given I goes further

b) More I.

3-9-65

II, C. Chronic underemployment

always with us? '20s, & now – despite "prosperity" — labor unemployment.

In '30s, ~~to~~ 30% labor unempl. over 10 yrs., another "chronic" theory gained currency, "stagnation" thesis, or "ec. maturity", Hansen. And even more extreme Marxist versions.

1. "~~Structural~~" unempl. – of labor

Is micro-ec., i.e. stresses malallocn.

a. Pattern of training for labor not good.

As counterpart, we shd. add, direction of invt. not good, bec. in perfect mkt., it is not only labor's place to adapt to needs of indy., but equally is indy's job to adapt to ~~needs of~~ available resources.

E.g. indl. revn. of 18th cent.

We have instns. now that prevent emplmt. of bottom 5-10% of popn. spectrum: wage tax; min. wage law; min. standards of urban life, bias vs. low-wage indies, low-cost housing; inc. tax causes employers to shun unpleasant jobs; etc.

b. Substn. of capl. for labor.

The big automation scare. Wiener, Michael, Theobald, & most non-economist social scientists.

The idea of 'factor propns.'

Does invention always make factor mix more capitalistic?

Give e.g. of reverse: faster turnover of inventories. Shorter life (over)

Is ok to become more capl.-intensive if capl. supply Δs. Is natural.

~~Depends on relative prices~~ And is ok if Δ MP of labor, as it has. Source of fallacy is to assume inventors are always trying to replace labor. In fact, ✓ they are trying to replace capl. & land, too. Produce w. fewer inputs of all kinds.

Primary way of adjusting factor propns. is to adjust desirability.

(To next p.)

e.g. home heating, introduce wtr. pump onto hot wtr. system, lets you use much less capl. – smaller radiators, smaller boiler.

New oxygen-injection steel method requires less capl/output

Tractors & horses – tractor cost is mostly labor, but breeding & producing horses required mostly land.

of some equipment, e.g. light trucks; lower ~~pri~~ cost of producing much tools, etc.; so same physical item reps. less capl., (i.e. stored up labor); shorter timber rotns.; less oil reserves; replacement of r.r. by trucking; ~~of~~ ~~road~~ ~~haulage~~ etc.

On whole, has bn more capl/man, but reverse e.g. possible, & much of the "Sd capl." is not an S quantum, but change in its form due to lower costs of producing.

What seems on first glance like substn. for labor is not always entirely so. E.g. frm. mechanization, hay baler. Less labor on frms., but more in factories of I.H., Case, New Holland, etc. Replace barns, highly capitalistic, i.e. more durable than balers.

Factor propns. & durability, & deprecn. Proportions in an opn. (over)

What inv-n. does to factor mix depends on relative prices. We apply. invns. that use cheapest inputs; & we try to invent what will be applied.

The rechity of substn. depends requires either fixed mkts, or fixed 3d input. Otherwise, more capl. can only do power of labor.

Fixed mkts., in micro sense, are possible; but want cause quasl. unemplmt.

" " " macro ", " underconss. nightmare

" 3d input, land, is Malthusian ". (But people work deep more land; mgnl. land requires more labor & capl. both ↑ per unit of output.)

But substn. of inputs is very easy, in good mkts., to remedy imbalance

If excess labor, labor cheaper; & capl. dearer.

a) Consumers shift to labor-intensive goods

b) Entreps. " " more labor intensive mixes

Small change of prices brings about big shifts, ~~so~~ so demand for labor is very elastic. If labor is 95% of cost, & wage rate drops 5%, return to investors doubles, & new investment rushes in. It gets higher return, & ∴ rushes out of fields where it is 95% of cost.

(Labor is used taking capl. into & out of storage)

depend on how net inc. is divided among shares.

Is ~~not~~ indicated by $ of capl. per man, regardless of durability, or turnover. To what diff. does turnover make?

a) If turnover slow, gently, have hi cap. ÷ labor ratio, bec. labor a gross.

b) If turnover is low, opn. is self-contained, & its factor propns. are rep. of the ~~ready~~ final product.

If turnover (or depreen.) hi, opn. is just last link in chain, adding some terminal value, and the capl. used requires continual renewal by prior factors. Then capl. v.a. is small % of gross. We must account for gross value, not just net v.a. in last stage, to get ~~v.a. of~~ factor propns. of final product.

Are at least 3 systematic ways to analyze factor propns:

1) Trace all products back to their input components

2) Catalogue all inputs, trace forward somehow.

3) Register all inputs by some comprehensive classifn, get v.a. for each
   a) By area or land site
   b) By firm

To show principle, 1st abstract from inter firm transfers, assume complete vertical integration from prime factors to final output, including constrn. of plant & equipmt, etc. Say it takes 8 yrs. on ave. for efforts of labor to work their way thru the system to become final products. Then it takes 8 yrs. to get started, & from then on, capl. = 8 yrs. output (& if $i = .0625 = 6\frac{1}{4}\% = \frac{1}{16}$, then int. inc. = half of yrly. output!)

Machine that replaces labor is produced by labor. Constrn. of capl. depends on durability of machine. [Is more to it, bec. even if machine is infinitesimally durable, can still replace labor. So finally we are thrown back to note that techn. com also act to sub. labor for bldgs., or for land]

Thus, w. price flexibility there shd. be no unemplmt. of labor, but adjustment of factor propns.

So micro. problem is one of mkt. imperfections, hindering substn.

Is also one of semi-voluntary unemplmt. Backward-bending S curve. Welfare payments, "institutionalized" welfare cases, etc. --- some people's response bends backwards much lower than others.

We can afford to be less fully employed.

2. Macro. unemplmt.

all ress., not just labor.

Wicksell. Value, Capl. & Rent

What do we get from it?

1. ~~Def.~~ Overall

all the sins of pedantry. Rambling, discursive, petty, slow. Apologize.
Hard for undergrads — you don't know what to skip.
Basic ideas are very good, but hid under a bushel — accounts for their slow progress

2. Def.

Much lost motion.

Confusion re money — he's wrong, it isn't capl. p. 98

Land vs. capital. Latter is stored up labor &c. inputs. Former not produced. a vital difference. Capl. requires inc.-creating spending.

Some input. diffs.

a. Macro is largely the study of turnover of capl.

$C + I = Y$ is misleading. Formally true, but wrong implns. re causation. C is not causative. I is I_N.

Better, $I_G \rightarrow Y \rightarrow C$

Initiative lies where there is independent vblty. — there is where to step into the circle & find causation.

Replmt. freq. is the metronome. Hence the key implns. of repl. pol.

b. Land not produced, but can be developed.

Since replmt. requires a place, territ. exp.

Calls for particular kind of capl.

Public

"Rent-goods"

Bias to futurity. Slow turnover.

c. Rent is a flow

Capl. is a fund, can be drawn down at will.

When use capl. to dev. land, endow it w. one of attributes of land, current fund to flow. Lock it up & throw away the key.

Finite flow, probly, but still locked up.

d. L.v. is not a fund. No storing up.

e. L.v. is part of nat. assets — but avoid double counting.

E.g. current fad to count fed.ly. owned capl. as net. asset, counts double, bec. fed. dams e.g. yield no inc., & lands they serve are already counted.

Social v. pvt. capl. – a basic distinction, ~~W. is confused~~ Claims vs. assets. + & – liquidity. Widespread confusion.

Producer vs. consumer capl. W. puts too much emphasis on who owns. Prodn. doesn't cease when goods go to cons.

Residences are major item.

(Int. on cons. debt is not, ∴, "unproductive.")

3. Role of capl.

To advance "subsistence" to:

labor
land
capl. not liqd. in pd.
inc.
[amortn. at intermed. stages? No, not if no cons.]

Originally, ideas identified w. social classes.

Now, still wide confusion bec. one man serves 2 fns.

But capl. as such advances subsistence to others.

W's great contrib. is to see parallel of land & labor, hired by capl. p. 147

E.g. of fixed rent on long lease.

E.g. of annuity from tree

Land as such has a steady uply. inc. Absorbs no shocks. Is a flow, no storage. Capl. buys its service. uply., sells it for more or less, takes the bumps.

4. Rejects all classifns. of capl. except rank by durability. p. 105

2 classes - rent-goods v. capital.

(appreig. depreig.)
(Funds. flows.)

5. Int. is an agio. - a rate of exch. in time.

6. Lengthen processes raise productivity.

7. Math. w. simple int.

We can do better

Same conclusions

~~Outline, 2~~

(401)

1. Taxing the Δ between discovery & liqn.

Under a general inc. tax this Δ shld. be taxed, along w. all other income. It is "interest + rent."

Under a land tax the Δ shld. be partly exempt, to the extent it is interest, and functional

30 yrs. after discovery, its contribn. to explr. motive was negligible, so can tax as rent. Or it was harmful by helping overmotivate prospecting in general.

Ex.

2. Re. The 20-yr. inventory implies a bottleneck. The bottleneck may not be at the mine. If each mill has its own reserves, the mill is the bottleneck. Easily expansible, so the long reserve is an act of will.

3. If long invy. is willful, new reserves won't be used for long time. Or will be used slowly.

Memo

✓ [4. Wartime prosperity attributable to rapid liquidation of frozen capital like excessive minerals.]

5. If new finds are 1-yr. slugs, they won't on the whole be used for 30 yrs., ~~so~~ [some better stuff will be used sooner, but some worse stuff will be used later. Also, by using good stuff sooner we are deferring some other discovered stuff, no gain.]

But if new finds begin use immediately, ~~this~~ one must find better way of expressing their lesser value to lo-i, than

Introductory summary approach to 5 macro bottlenecks. 1

Thurs., 9-23-65

and Tues., 9-28-65

1. Nat. res.

a. Hamilton lock up. Wakefield; Valuev. Artific. scarcity

Max. value as collateral.

Contain settlement

Suppress wages

Still a problem in Lat. Am.

In U.S., artific. abundance. Too much p.w.

Inside framework, artif. scarcity. Key paradox or counterdominant

b. Absolute scarcity?

Not in U.S. Excess capacity in all primary indies.

Feed grain

Is luxury to begin w. Meat

Ia. cd. produce all.

l.g. and. Avoid risk;

[Waste & surplus in crowded orient

Rent; war; inatimality.]

Recurrent waves of intensification

Walras – land becomes recurrently free.

These waves are essential to explaining macro-ec. dilemma.

E.g. current devmt. of excess capac. in ag.

Shock waves – reverse of the Malthusian concern.

Several fringes

Urban -- Calif as e.g.

Corn belt

Wheat

Grazing

Forests - lumber

" - Recreation, wtrshed

Why excess capac?

E.g. of citrus -- all the s.o.c.

Packing houses

Wtr supply

Supply depots

Specialists - e.g. Cty. extension men.

Scattered spatial devmt. is of the essence.

Previous history of overexpansion & collapse of irrigd. ag.

1890s

1920s

Land became nearly free. Not quite — banks etc. clung to its systematically overpriced, relative to abundance, perhaps. But not very scarce.

Note how various macro bogeys refute & ~~still~~ answer each other.

(1.) Malthus v. overprodn.

(2) Cap. shortage v. glut

Glut a) Subs. for labor; b) Overproducer

Of the 2 kinds of doctrines, fear of plenty is the more pernicious & potent. Leads to restricting output; ~~Eg~~ destroying capital, ~~a~~ (Ludd), or aborting it (Keynes). Upholding costs (Keynes).

(3) How to find employt. opps. if end featherbedding, logrolling moondoggling & war. Vs. how to find resources to stop pollution, improve edn, welfare, &c. fns. ~~th~~ ironically that threaten to impoverish us & that beg to survive.

2. Money

Friedman, Schwn.

Weakness of thesis. M correlates historically w. prosp. but as effect, not cause.

Δ real balances by $-\Delta P$. Multiple effects. So M is never a bottleneck by itself — only in conj. w. other problems: a, Downturn w. other causes

b. Rigid P

Friedman casually ~~tosses~~ of bank collapse as self-generating. Overlooks Schwartz. Fisher. Simpson.

3 Spendg.

Is MV.

Some partisans get extreme -- Culbertson; Clark Allen. "Deficient aggreg. demand", root of all evil. Simple, panacea.

Culbertson heaps scorn on structuralists. Latter note tight supply & inflm. in some fields, vs. underemplmt. elsewhere. Emphasize alloctn. problem (& +ves, +threaten the existence of macro-ecnstc?!) Culb. says natly. unemplt. will not spread itself evenly. But since it doesn't, Δ demand means inflm. of many costs before creates full emplmt. — & structural reforms might be easier.

a. Cons. choke. Artless. Also Keynes, who had fear of invt. lim. by future cons.

b. Invt. choke. Low returns from inc.-creatg invt.

i. Net new invt.

ii. Replmt. (Not automatic)

Problems:

a. Spendg not autom. detd. by replmt.

b. Spendg not controlled entirely by buyers. Spendg is a contract betw. buyer & seller. Willingness of seller is as determinate as of buyer.

c. Contracts made, often, before spendg occurs. E.g. buy on charge, or trade credit.

d. People don't work for money — Merc. fallacy. They work for what M can buy.

4 Capital

a. Requires $35,000 for ea. job — they claim.

b. Fear of glut -- ea. job doesn't require enough capl. to absorb the supply. (a variant of 3. Underspending)

c. Shortage of liq. a circ'g. capl. -- yes, variant of 5.

5. Turnover.

Gets too slow.

Same as cap-output ratio gets too hi -- & gets stuck there temporarily. Frozen.

use expository analogy of horiz. & vert. mvmt. Or of monetary velocity and pd. of turnover.

Reasons why amplitude of swings rises w. durability, or "distance" of product from consumer.

Exemplified by housing, & associated products (mtrls, s.o.c.)

1. Multiple magnification of forecasting errors.

Analogy: putting light rays thru several lenses in series. Or crack the whip. Or slicing golf ball.

E.g.

a. Maverick on subdivision. ~~More cyclical~~ swings of higher amplitude than housing. Municipal & state borrowing for construction — at least pre-1946.

1. Long gestation pd. Cobweb theorem. Careening (with a slack tie-rod) from one side of road to the other. Over reacting to price signals. Reacting to present stimuli when need to anticipate future situation bec. of lag (due to slack tie-rod.)

a) Long gestation pd. adds amplitude

E.g. tree fruits

Add s.o.c. — e.g. wtr. supply.

b) Complication — depres'g assets like housing.

Time-lag is not so much in constn. as in yrs. between youth of house & age. It is the later yrs. that are produced in advance of need.

Tieing present to future house shd. cut down cobweb swings. In antic. future mkt. we also meet present one.

Cobweb pattern does apply to land devmt., bcs. non-synchronization makes for long gestation. But backswing of cycle is different from hogs, bcs. Δ supply irreversible.

Big apts. etc. do have fairly long gestation, maybe 3-4 yrs. from irreversible commitment to completion. And another 1-3 yrs. before all rented & paying out.

Also, many durable structures are built for future demand, and expect to go thru a few lean early yrs. Or are built for residents who expect to sell in a few yrs., to whom resale value is of the essence.

2. Multiple magnification of forecasting errors.

Analogy: lenses in series; crack the whip; sliced golf ball.

E.g.

a. Maverick on subdivisions. Farther from consumer than hog. Much higher amplitude of swings. Bunched in 3 yrs. out of 30? Hardly that extreme today.

They build houses bcs. they think they see demand coming up. Build subdivns. bcs. " " " housing coming.

3. Low replmt. – expansion ratio.

If 1 99% replaced yrly., a 5% Δ to supply demand requires 5% Δ output.

If 1% normally replaced yrly, 500% Δ output.

An applicn. of leverage. Shd. be called that, instead of acc.

Is heart of accn. principle, altho modern expositors often miss the point, forget to relate it to replmt. freq. (Sam. is ok on this, altho. not perfect. So is M.K.)

The "Δ demand" cd. result from lower price decc to lower costs. Spenders are not calling all the shots.

Basic point is danger of hi longevity of capl. stock.

With housing, big factor. 1½ yrly. replmt. on the whole. In depression, stop bldg. altogether, bcs. demand drop of 1½% is all it takes. Swing is tempered bcs. costs fall as demand does. But costs don't fall as fast, & it only takes a small difference to stop bldg.

Can defer replmt. – live on fat. In periods when capl. is scarce, we tend to do that, to squeeze capl. out of frozen stock. E.g. in war

Also reduce demand by doubling up, etc., and a small % decrease of demand means no need for new growth at all.

4. Sensitivity to i.

(Is another way of saying it is capl.-intensive. Requires an input whose supply is very changeable: liquid capl., or reinvestment funds. We perceive this input as part of aggreg. demand, but it is supply.)

5. Sensitivity to land prices.

Both i & land price swing much wider than wage rates.

6. Ebb & flow of migrn.

Leave vacant stock behind, or underused.

a. Inter regional

b. Inter neighborhood.

Matthews stresses cumulative social nature of migration.

7. Behavior of l.v.

a. Supervision, alert innovators get land at low price, intensify, land appres. in their hands.

Upward momentum, encourages bldrs. for some time. The gravy is in the land.

Also encourages buyers, who buy inflation.

Then hi l.v. discourage single-fam. bldg. encourage apts. etc. Thus & how far the supply wd. go.

Then falling l.v. discourage bldg. — & lending.

8. ~~Ups & downs of credit rationing~~

Response of credit rationing to ± Δ l.v.

Yield of inv. is net of risk.

Investor's risk

Lender's risk

Volume of inv. responds to drop of risk.

Also longevity of inv. W/o land collateral, lender's risk precludes long loans.

Rise of collateral values loosens up lenders

Lures capl. into fields where l.v. rise. Esply. on rings of rapid growth.

Flow of credit is herd-like, cumulative. A growth ring hits the public fancy and credit pours in, improves collateral value, resale value, etc. Lenders are highly conventional

∴ Collapse of l.v. destroys inv. opps. in durables.

9. Dearth of capl. shortage.

Is hard to understand. That is what makes it a likely candidate for making the cycle. Things we can understand we can control. But few can see impending cap. shortage, or understand it when it arrives.

Evidences:

a. Half-finished projects - mark end of every boom. Labor is available cheap; l.v. drop; yet cannot finance completions.

b. Δ i.

World-wide - so one nation can -Δ i only by insulating self.

b. (Cont.) Credit dries up. No one will lend. Internal funds dry up – no one will invest. Res. loss has to be replaced ea. yr.

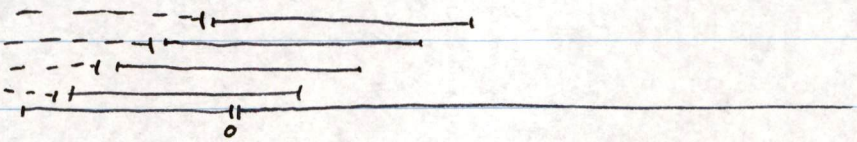
c. Liquidation panic. Shows all trys to raise liq. capl. by selling durables

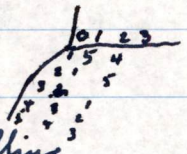
d.

Analysis.

Error of judgement & forecasting. Cannot see depth of recn. from which flows capl.

Suppose we replace 20% capl. yrly. That is N.I. Now suppose we lengthen investments. No problem shows up for 5 yrs, Then pow! No replmt. demand!





10. Logrolling.

Hsg. requires land dev.

Land ∴ requires p.w.

More starts than completions.

Immed. gratifn., deferred retribn.

Each p.w. opens a big chunk – e.g. N.S. Xway. But each must be balanced by other starts before completion.

Result: lagging, massive response.

11. Feedback demand in growth areas.

Housing for hsg. bldrs., roads for road bldrs., etc.

Induced. from outside. Selling harbingers to ea. other. Exporting mortgages.

Lends itself to overdevelopment in areas of rapid growth. History of cycles shows big swings are there.
Suggests importance of ec. base analysis. Keep sober appraisal of long run prospects.

Export deposit slips. – bank expansion.

12. H. leverage on hi i.q. land in growth areas.
Est. flat cost of making a lot = $2,000. cf. Downer vs. for N.W. of Cty
Δ demand for hsg. a little, causes big % Δ l.v. in fringe areas, brings lots of land into mkt. seeking buyers. Plenty of land, for big boom.

– Δ demand a little, requires large % drop in asking price. Landowners hold out, "shortage" appears. Sharp drop in transactions, or deeds recorded. (Value of H. Hoyt – gives you relevant data other than price, showing condition & behavior of mkt.)

13. Spec n.

Cumulative buying.

$MR = P(i + \tau) - \Delta P.$

Causes a) Spec. withholding

b) Faster bldg. – to reap gain

Combo. causes cities to explode

14. Raig.

Esply. commerce, for position, or zoning.

Prescriptive principle.

Gas stations

Water rts.

15. Zoning

a. Rational

b. Irrational —

Mail order sales

Rational behavior becomes to antic. irrational buying of others. Then everyone acts crazy.

16. Supply elast. of inputs

Product (hsg.) is durable & capl. intensive

Bldg. process is labor intensive, inputs are withdrawable.

Regarding hsg. fixed as an input, that is also withdrawable.

17. Tax lag

18. Rent lag

Late boom, rent catches up, compels tighter economy of old stock so it goes further, cuts into demand for new hsg.

Anomaly of higher rent pulling people into old hsg. instead of pushing away. Bcs. old stock was underpriced, tnts. were using too loosely.

Is not really anomaly. Supply is fixed. High rent causes ea. to use less – thus fixed stock goes further.

19. L.v. lag

Works same as rent lag.

Hi l.v. cause intensification. The supply goes twice as far – drains demand from new lands, stops new land devmt.

20. Poor mkt. info.

21. Cost-push & exploitation of investors

In durable goods, cost-push can go further than in soft, bcs. disclosure of outcomes is deferred. Investors can be taken for some yrs. – so many yrs. that costs become rigid at hi levels.

How are investors "taken"? Not that their assets prove in excess when liqd., like hog cycle. But drop in value before liquidated, bcs. not

enough goods are liquifiable then. The true value of durable goods is their rate of exchange w. less durable or consumable or immediate or liquescent goods. Goods may be described as "exchange on" the qu. of scheduled liquescence.

The supply of exchange on '65 consists of goods liquescent in '65 plus a little net saving.

Those who invest in durables are taken when the durables drop in value in early or mid life bec. of Δi, which in turn is bec. of exchange on the present has grown scarce.

Remember, the shortage of exch. on the present does not show up in short cons. goods. Bec. the inc. to buy them slows down along w. the supply. Shortage shows up as slow ~~replmt. demand~~, flow of replmt. funds, sale of durables to raise invt. funds, fall of exch. on future.

Note this is an i.v. matter, not one of aggreg. $ demand.

Rise of i occurs more by down listing borrowers to higher risk classes than by Δ prime rate. In case of deposits, comes by new route of C.D.s.

Exploiting investors then means low i ff. by hi i. Low i due to inflated collat., Δs no. of prime borrowers, & amt. they can borrow.

(Inflation accomplishes this same exploitation in

a different way – and exploits ~~different~~ one class of investors esply. bondholders, to the benefit of equity holders. But it avoids the other kind of exploitation, keeps i from soaring, makes borrowers solvent, improves credit ratings. — and so can defer a contraction. Flow of replacement invt. is replaced by G. Bids up cons. goods, thus puts premium on exchange on the present. But the needed liq. capl. is raised by confiscation from bondholders, etc.] *

22. Extreme changes in favor of investors – i.e. in what investors favor.

Probly caused by ~~the~~ heavy dependence on collateral, swings in collateral, & bad repayment record in downswings.

Or fein wx, looks good. bcs. slow turnover, easier on lender.

Schennan found defaults were largely on long. No sense of personal obligation.

Combo. of defaults & war infln. wiped out debt, made good credit risks.

Thesis.

1. Further reading – rest of book

Emphasize:

XIX. obstacles to full empl.

XIII. Extensions of K. model

XV. K. & classic. models cfd.

Pt. Four, entire

Esp. XVII, Thy of Inv.

So, read everything else, & go back to Pt. One; but go lightly on chaps V–XII, and XIV

2. Empl. role of taxes in pushing too much inv. into stock of p.w.

Bld. the p.w., then tax those who bld. houses or factories to pay for them.

How else might?

3. Factor substn. gets complicated. 3-way. We have just scratched surface.

But Ack. doesn't even do that. Labor-fixation.

4. Has cap/output ratio fallen?

Accnts. & statisticians say so.

Trouble is, s.o.c. not included. And I don't think they know how to msre. capl.

They are pencil-pushers, w/o a feel for real life. E.g. inv. is "buying securities". Needed: better integration of physical & analytical

5. pp. 3-5 of outline for summary of policies, etc.

6. Ackl. Ch. 9, Obstacles to full empl.

a. i detd. by S & I scheds.

i dets spec. i.b., & leftover M, circ'g at predetermined V, dets. P & T

b. Spec. balances can change greatly; ~~so that~~ and instability of inv. makes them do so.

So no practicable changes in M or P can assure stability

c. Liq. trap — below 2%

7. Note how all depends on dim. rets. to capl. as Δ inv.

~~Δg~~ In fact, Δg rets, brs. capl. complements capl.

and low inv. opps. result from capl. shortage, as whole ec. is disorganized by it.

So here is key pr.

8. Weakness of -ΔP as solution

Perverse specn.

Esply. in durables. People stop investing, ΔC, get shortage of liq. capl.

Add to that, effect on collateral.

Ackley, Ch. 17 "The Theory of Investment"

(Idea! Falling prices discourage buying durables, bcs. buying is postponable. But not consumables, bcs. you need them right along anyway. The more durable the asset, the more likely it is to suffer from perverse speed.

∴ falling prices divert spending from inv. to cons., & ∴ they add to capl. shortage. And v.v. for infln.

But infln. can't be used this way endlessly bcs. a reaction is likely if cons. is sacrificed to inv. over several years --- the inv. is advanced, & cons. retarded, but after a while that means there are surplus durables & hungry consumers.)

5-4-65

1. Anti. dim. rets. in aggreg.

Fallacy of comp.

Marx; Keynes; Malthus; (Ricardo; Mill)

2. Backward bending S curve for labor

Does it mean unempl. is voluntary?

It does when we reach the bend & start back, & that is good.

A demand for labor is good, even if we get less work. Exchange invol. unempl. for voluntary — thus A happiness

3. If costs & prices fall, rise of real balances answers K's criticism. (Also, A inv. opps.) But negative balances rise, too! I.e. debts. Is there a net effect? (over)
(Sub. of labor &c. hired inputs for current capl.)

4. From "naive" to "soph." Q thy. by considering S & I.

But S > I is ≡ with A c.b., & v.v. So not adding new info.

Point is, be ready to translate one into the other.

5. Keeps hinting darkly ahead of great analytical difficulties.

Mandarinism.

Probably there is a net effect. Debts are negative assets, but not negative liquid assets.

5-6-65

1. $S > I \equiv \Delta$ c.b.

Run thru $-S$, $-I$

2. $S = I$ in aggreg. $\equiv$ const. M, no Δ c.b. possible by varying spending.

3. Weakness toward Mandarinism.

Acts. keeps hinting of great analytical difficulties.

4. "Soph." Q thy. brings ΔM in via capl. mkts — i.e. via $\underline{i}$.

(Also, $-\Delta P$)

Idea is, desire to $-\Delta$ c.b. wd. mean ΔI, & not ΔC -- wd. be a desire to alter quality of portfolio mix, not to reduce assets.

But it cd. also work out

a) By Δ c. Esply. if ΔM comes in as ΔG

b) By using M to pay debts, thus $-\Delta M$

So the needle's eye of $\underline{i}$ is too narrow

5. W's NR vs. MR.

Imbalance generates $\pm \Delta M$, & cycles

This is the later W. — not the one we knew. Senility.

Over emphasis on banks, M. (That & wage rates, most macro theories revolve around, forget all else.)

6. Lags

M.r. behind u.r.

Wage rates behind prices (behind curtic. future prices, more relevant. Look at stock mkt. today)

7. Forced savg. from ΔM

Review

Dubious. If people are force-fed w. M, they can get rid of it by paying debts; or lending cheaper than comml. banks do (as S&Ls are doing)

a) The Hayek derivation — bias to futurity.

We have seen other causes

b) The Keynes derivation

$NR < MR$; flow under MR.

8. alleged spiral

ΔM starts it; Δy spirals endlessly. Nonsense.

9. (The substantive criticism of c.b. effect is not that you could have endless spirals, or that desired S&I are unaffected by real balances, but rather that desired S&I are affected quicker by Δy than by ΔP.

But that is not to deny that lower costs would solve the problem.

The ~~vicious~~ essential argument is that S&I scheds. are in real terms, hence

Review

not affected by $-\Delta P$ or ΔM; & that M is highly variable, easily & automatically created & destroyed — they cd. not put their argument that way, bcs. for political reasons they wd. then be bowing to monetary policy]

[10. Curious K-n. anomaly - they say i is irrelevant re S; but re I, only i matters!]

9. (Resumed)

In depression, K-n. cd. say that S did not limit I, bcs. banks cd. expand greatly. Limit was m.e.c.

But banks do not ~~lend~~ invest directly. They lend. $\therefore$ credit collateral becomes a big factor, in the relevant m.e.c.

Lower costs might do ~~great~~ harm, destroying more collat. Thus, use of durables, supply of land for collateral gets us into a trap, hard to escape. Therefore, ~~If sole argument is c.b. effect. But Δ m.e.c. effect is permanent~~ comml. banks shd. be kept out of durable loans & investments, using comml. loan thy. (That is hard if l.v. exist.) (& land cycles)

Thus, $-\Delta P$ could Δ real c.b. and not ΔV --- a liq. trap. The essential K. argument.

Thus, in 1933-36, fed. deficits may have been good idea.

Note, however, they cannot take effect via $-\Delta i$. i is already at bottom. $\Delta G \rightarrow \Delta y$, direct.

Desired $S > I$ may involve more than desire to Δ c.b., then. But big cause is probly desired (attempted) disinv., $(-I)$. Ecsts. put finger on less imptnt. vbles --- alleged bi S, or $\frac{dS}{dy}$. It was not that, but $\frac{-dI}{dy}$. Frustrated effort to liquidate, due to

shortage of liq. cap.

So Investors always had available a flood of existing assets to buy, at low prices. (Sellers often used the M to pay debts.)

(Thus, the big debts run up by investors on l.v. collateral were ultly. bad for ec. health — thus answer argument that we need l.v. as collateral.)

11. Ackl. says naive Q. thy. equates nonspendg & savg. But that is naive understg. thy. (Naive: artless)

12. Higher liq. pref. acts directly to ↓S and −↓I ---- that is how one ↓s liq.

No need to say ↓ l. pref. must first → ↓i, as Ackl. does.

13. W.'s orig. thy. of mr & ur assumed flex. P, & showed how ↓P. Later ecsts. introduced rigid P, made it a thy of output.

(W. might not have approved. He had another thy. of output.)

14. Ackl. scolds 'classics' for thinkg −↓W had any macro effect. Is all substn. p. 162

Here we can really come to grips w. Ackl. Indeed, this page wd. be a good take-off for my macro article.

a. This is his first mention of substn. among factors.

But he still suffers "labor-fixation." Only considers substn. of one kind of labor for another; not substn. of labor for capl. & land; nor substn. of all hired inputs (labor, land, & congealed capl.) for liquid capl. (that means new invt. wd. be less durable. N.B. that it takes a little while for that to make any difference, bes. immediate effect is same as any other new invt.) (But there will be some immediate effect when factor costs fall, ΔI, bes. there is a good deal of capl. which can be liquidated faster when o.c. rises for liquid capl. per se. Appreig capl., e.g., including all inventories. Also, there is room for ΔV & ΔM, some of which will soak up idle factors and create its own circ.g. capl. by forced savg.)

Lower factor costs by this means Δ emplmt. 4 ways: ✓

i) Substn., so a given flow of new invt. buys more hired factors (This might also be described as lower prices making given spending go farther. But goods prices aren't nec.ly. lower; factors are lower w.r.t. goods.)

ii) There is more gross invt., bes. some capl. can be liquidated immedly.; & some can be created immedly.

W.r.t. labor, there is also a 3d effect:

iii) Lower wages, specifically, wd. make investors hire more labor per unit land & fixed capl.

"Substn." of labor for land also brings in more land, rather than less, as mgn. falls. (Note 11 w. new invt.)

Beware trap of ~~misusing "substn."~~ the substn. concept, which tempts us to believe there are fixed mkts., & makes cheap

availability of complements seem like a competitive threat instead of the benefit it is. Substn. of labor for land releases brings in more land.

Same goes for durable capl., previously submrgnl. Thus creating new invt. opps, also.

So we get more Gr. Inv.; more land; & more inv. opps.

[The only fly in ointment I see is: factors do compete for limited real invt., which complements all. a liquidity crisis. But liq. crisis is brought on by net disinv., which be caused initially by Δ inv. opps, which cause a liq. crisis. (over)

over

Note my earlier allegation must be mostly wrong, that Ricardo effect creates inv. opps. when wages rise. It alters character of opps., lengthens them.

iv.) Δ future o.c. inv. opps. also cumulates boom by throwing more raw mtls. on mkt. (& land) Much fusible capl. is partly finished raw mtls. Need for cash throws it on mkt. (This is only depressing when it slows invt. in producing the raw mtls., as when a previous excess is brought to light. a big net disinv. may ensue, crisis.)

b. Suppose we do just consider labor. Proposals to lower w.r. are not aimed at all, usually, but at minority of restrictive gild-unions sitting on best jobs. Bottlenecks in labor force.

c. If all factor costs fall:

i. There is substn. of hired factors for new invt. That kind of substn. is a macro-ec. effect. Δ r.f.

It also means Δ I, immedly. from Δ r.f. of existing "free" (or liquidatable) capl.; (& probly some capl. formation). It need not necly. be a net Δ I, but an Δ r.f.

That fits, & seems to explain paradox of present (5⁻-65⁻) when inv. opps. in housing are low, yet $\underline{i}$ stays hi.

What wd. bring on a desire to disinvest for purposes other than $\underline{re}$ invt? A drop of collateral values! There is the trigger, & the missing link in my anal. thus far. I haven't given it enough importance. It is indep. of monetary system & policy. Hi, rising l.v. lure invt. into durables — the Lorelei effect again. Sinking l.v. trigger attempted — I, soak up I, freeze M, cause debts to be called by lenders.

Thus also explaining why $\underline{i}$ can fall so low after crash. System geared to lending on collateral; takes a while to adjust to doing w/o it. Meantime, it's hard to liquidate anything: but, once you have M, it's hard to invest it! Hi bldg. taxes have shattered inv. opps. there; & is no collateral.

ii. There may be $-\Delta P$, too, & a c.b. effect.

iii. There is substn. of labor for land (even if land price fell too) bcs. land-time is tied to invt. & f

When labor falls, & you subst. it for new capl., you build less durably. 1st effect is ∴ to apply less labor per site. But you spread over more sites. Thus creating need for land devmt — & durable capl. for land improvement! Paradox!

14. Summary: If $-\Delta C$ of hired factors,

a) a given I hires more factors

b) Stage is prepared for higher futures G.I. (gross invt.) bcs. current invts. are shorter

c) Immed. Δ G.I. bcs free capl. is ligd. to get higher o.c. returns. This cheapens raw mtrls., further aids $-\Delta C$. (But someone must be ready to consume more, to permit the lign. This is primarily done by Δ G.I. in b & c, & even a, are macro-ec., even tho also micro-ec.] antic. of lign.

d) There can be ΔM, w/o influ., repg. new capl. frmtn.

e.) New invt. gets spread thin. Less labor applied per site (the first round, altho more over time.) (Also, note this shortens constrn. or mfg. time, allows more labor to work at one time.)

So more land must be devd. Cheaper labor + more capl. doubly encourage that.

N.B. Macro must study changes in resources available — thus land devmt. is essential part of macro, like cap. frmtn.

f.) New invt. opps. in produc'g durable capl. previously submarginal.

g.) Probable -ΔP & c.b. effect.

Big problems come from attempted -ΔI, triggered by dropp'g collat. values.

Criticiz'g Eckley, he overlooks 2 substn. effects:

subst'g free labor for gild labor; & all free res. for mnpy. ones
subst'g hired factors for durable capl.

and some macro. effects

ΔG.I.; a little immedly; & a lot, later
ΔM & ΔV, repl'g new cap. funtn., as higher invt. opps ... a real ΔN.Inv.
Δ c.b. from -ΔP (he does mention it later)
Greater hiring power of given I
Δ inv. opps in durable vs fixed capl., & land element, (later reversal, as Δ+P pulls labor back)

II, C. 2 Aggreg. unempl.

All ress. are employed by advancing subsistence.

a. Curtue ec., advances to himself

b. Barter ec., advanced in kind. Limited by ripeness of capl. fund.

c. Money ec., " " money, " " " " " " ",

bcs. normally gross invt. is detd. by ripening of capl.

And if we try to simulate ripening by ΔM, get ΔP

Unemplmt. involves all factors: empty stores; excess capacity; vacant land; idle men. Too little I_G to carry them. An imbalance.

Part of solution is to sub. labor for capl. But what makes this a general soln. is that it Δs I_G, employs all factors.

Unemplmt. is always partly ~~also~~ voluntary in that all inputs have h.o. prices. If we ΔI exogenously, may just push up h.o.p.

Sovereign solution is ∴ to lower h.o.p., which a) Makes given I_G go further. b) ΔI_G

Thurs, 4-29

0. S&D for savings, & $\frac{i}{}$

Say is dead: Keynes is dead; & I'm not feeling too good myself

1. Say's Law

Output dets. spending

Keynes

spendg dets. output

Keyn.

Replmt. dets spending

Residual points for Tues

1. -Δ Costs of labor causes labor subst. for land - i.e. use land more intensively — and bring in more land. New opps. in land development.

-ΔW also Δs value of fixed capl., which uses labor as complement. Same time, causes fixed capl. to be built w. less durability, i.e. a higher % of labor. Thus doubly encourages inv. in that.

There are some of the several ways that -ΔW → Δ employt.

2. Some Micro-ec. effects are macro-econ. — subsitn. of ~~tot~~ hired factors for capl. Ack. wrong to scold classics for thinking there was a macro effect in -ΔW. Subsitn. of hired factors for new capl. is macro.

3. Factor subsitn. gets complicated. We have only scratched surface.

4. Our thesis - see p. 4 of outline.

5. Gen. opinion today, cap./output ratio has fallen.

But is s.o.c. counted? And do they know how to measure ratio? Ackley, e.g., is mixed up on this one.

Final Tues

1. Who found fallacy on p. 467?

2. Review & integration.

1. some key weaknesses in Keynes

a. Liq. trap — basic ideas only apply if have one.

i. If hi $\underline{i}$, have none. Can pay off nat. debt. e.g., good way to create capl.

ii. In any event, short term int. available

b. Dim. rets. to inv.

Overlooks comply. of capl.

Overlooks vital dynamic of rising & falling collateral values. (altho this wd. bolster their lack of confidence in $-\Delta P$)

c. Can't explain hi $\underline{i}$ before recessions (except by blaming myopic F.R. policy, but that is monetary school)

d. Labor fixation.

No treatment of substn.

e. Overlooks problem of capital turnover — assumes that can change w/o limit or resistance in response to spending

f. Understates response of sav. to $\pm \Delta i$; & also response of Inv. (favorite & perennial argument of those who wd. replace mkt. by controls, s & d are inelastic to price)

Understates response to $-\Delta P$, by focusing on durable "bonds" & elevating perverse spec. to a general rule.

g. No solution to nightmare of infln. w/o full employment.

h. Misidentifies key independent control variables as $\frac{dC}{dY}$ & not I.

In fact, initiative is largely w. gross I, a fn. of replacement

i. Based on religious prejudice — anti-Calvinist. May well be the emotional basis of entire philosophy.

Policy Recommendations

1. Theirs
2. Mine

1. Theirs
   a. Wells.
      i. Govt. buy farms, thus release capl.
         " retire mgnl. firms.
      ii. Pay students, to avoid structural unempl.
         (analogous in part to limiting work week. This limits working years.)
         (In long run, is this any answer to restrictive practices? They'll just raise the requirements further. Like literacy breeding gobbledygook.)
      iii. Import oil.
         (How about balance of payments

2. My policy recommendations.

a. Max. inv. opps.

Good in conventional K. analysis. [$\Delta \frac{C}{Y}$ also good, s.r., but no create capl.] Leverage.

Better yet in my anal. Activates entire capl. stock. Shortens all cycles. Reduces accelerator instability. Eases credit rationing. Δs capl. fmctn.

As to emplmt., max's empl. mults. All inputs. became more complty. to labor.

b. How to max. inv. opps?

i. Tax reform. $\frac{1}{3}$ of Mke. wd. be removed tomorrow.

Propty. tax

Inc. tax

ii. Reform school fnc's — end bias vs. people.

iii. Structural reforms -

e.g. of water supply, bias to fecundity. Labor gets discounted MP.

iv. Break all bottlenecks

3. Is war necy?

Infln. isn't cause of war prosperity.

Obsolescence is. Need for quick retooling, replacement. Huge inv. opps.

Bottleneck breaking.

Ackley Chap. IX Some obstacles to full empl.

1. Liq. pref., (under special conditions)
2. Inconsistency of attempted S & I ---[possibly offset by Pigou effect]
3. Inflex. wage-price.

These 3 destroy notion of automatic corrections in the ec.

1. Liq. pref.

If i falls, all may hold M speculatively on a rise. p.174 (why not invest in liquescent assets?)

Speculators are helpful if they iron out bumps; but can create a cobweb cycle — uses wheat e.g., p.176. Says "bond" mkt. is like this — but assets highly durable. I.e. specs., if bond prices rise, expect them to fall, & will not buy (why then did they rise? and why not invest in short lines?)

(In view of stock mkt. levels in 1932, "high security prices" seems an implausible explanation of anything.)

(1) Demand for M has 2 "parts": xctions & spec. (Rather, last 5-6 fractions affect $ demand for M)

K. at times seemed extreme, had ΔM have no effect on xctions demand for M (e.g. by ΔP or ΔT), so $\Delta M \rightarrow -\Delta i$. But Ack. proposes a "sympathetic" interpn. that goes less far.

(2) p. 182 Simple o.c. of M effect, makes desired c.b. elastic to int.

Ackl. makes it sound complicated.

p. 183 He tries but fails to distinguish this demand from xctions demand.

(3) Risk aversion — hold M not bes. you ~~exp~~ expect Δi, but you expect change, + or −, and you avoid risk.

"Spec." demand for M, based on customary expectations, really amounts to say $\underline{i}$ is sticky, a rigid cort. Rest historically, it isn't. 7R Asset Book.

Collapse of both inv. opps. & supply of liquid capl., collapse of collateral values, more realistic.

Pt. II: Classical Macro.

Eckley, Chap. V. "Say's Law & Q. Theory of M."

1. From acctg. to ecs. — from identities to causation.
   Analogy: thy. of S&D. Definitional equality is consistent w. there being a behavioral relationship between S&D.

2. Say: output dets. spending.
   Current thought: spending dets. output
   Taffney: Lign. dets replmt. spending

3. Straw man:
   Say's Law, & classical ecsts.
   assumes no hold idle balances. This also comes from Q thy. of M.
   (I say, assumes no change in "idle" balances) (How define "idle"?)

4. Q. Thy. of M
   Const. V; P ∝ M, & P are flexible so $-\Delta M \rightarrow -\Delta P$ & all continues as before.

5. Reasons for holding cash balances.
   a. Transactions motive (what other motives might there be?)
      Transactions V vs. Inc. V.
      Shorter payments pds. mean less need for c.b.
      "Idle balances" defined (implicitly) as M held at end of interpay pd. Analogy, seed storage.
      That def. wd. get very fuzzy in world of irregular payments.

6. Rigid P, then $M \to T$

7. Say's Law inconsistent w. Q thy?

Omit, pp. 120 - 23.

Ch. VI Wages, Prices, Employment & Production

1. Classical full-empl. = m.

a) p. 124 sets up model where labor is hired; by "indy"; only labor is "hired": stock of capl. & nat. res. are "given" — & evidently merged w. entrepreneur.
This reflects "labor-fixation" — see my outline.
This is hardly a statement of classical macro, where Wicks. had land hired, too.

b) assumes dim. rets. — in aggreg. Fallacy of comp. Marx, Keynes.

c) S-curve of labor may be anything.
(If backward bends, way to full empl. is to reduce demand for labor) (& unemplmt. is all voluntary)?) Not quite. (over)

d) Unemployed find work by lowering wage, results in higher output. (Says O about subbing labor for capl., à la BB & W; not for land. Thus you can in fact Δ empl. 10% while Δ output much less — say 5%, which eases "problem" of how to consume the Δ output)
(Lower wages shd. also bring in land now submrgnl., simul. creating new inv. opps. to develop same; but destroying inv. opps. in labor-substn. goods)

Even if curve bends backwards, is a net result. At higher wage, some will work more, others less, & composition of work force changes. Higher demand for labor means we exchange involuntary unemplmt. for voluntary. Maybe get no more labor; but much more happiness.

If A.W.r. means lower propty. share of inc., is no net "inc. effect" anyway.

e) Keynes criticized that if wages fell, so wd. prices. Ackley says Q thy. of M answers this — rise of real balances.

(Both speak as tho wages were only cost. Actually, -ΔW wd. cause substn. whatever happened to P.)

(Thus, macro-ecsts. throw away distribn. ecs.!) (Ack. writes of "profit margin" as the other share.)

f) pp. 130-35 Graphical restatement.

g) Effects of rigid wages.

Unemplmt.

Basically, whole Ackley philosophy is almost a caricature of itself: labor is only input; M is only limit on output.
But he does give a fair picture of classical ideas, or try to — unlike McKenna & Samuelson

Chap. VII Saving, Inv., & the Rate of Interest

a) classics thought all M saved wd. be invested; bcs. some return, however low, is preferred to none. (I.e. they neglected liq. pref. & did not apply idea of a continuum.) (I wonder if this, too, is not a travesty on them)

b) classics thought S & I were equated in a capl. mkt., cleared by i. (A. intimates maybe a rate of 0 wd. still leave S > I. Ask class about the possibility. -5 wd. occur; & enormous I in hyper durables, fill in S.F. Bay. Utter nonsense)

c) p. 142 S & I both int.-elast., hence mkt. cleared.

(Discuss reasons why they are)

(Doesn't mean they aren't also affected by other vbles., like income, expectations, etc.)

d) The demand schedule for borrowing.

Aggreg. dim. rets. to inv.

e) Supply of savings

Probly responds +ly to Δi, but effect swamped by other ones.

f) assumes initially, p. 141, that all S find their way into I by purchase of perpetual bonds! ^ Thus assuming away gr. of durability, replacement, etc. (p. 145, lets short term lenders resell their bonds: what do short term borrowers do? "Repurchase" — i.e., repay: so they aren't perpetual.) (Betrays his discomfort w. real things)

g) Hints that under classic ass. of no idle balances, presence or absence of large vol. of old bonds (existing assets) has no macro-ec. import. But once you consider net shifts from "bonds" (real assets) to cash, it has import. Maybe not diagram, e.g.

If are no idle balances, might be a flight from assets, but it wd. Δi & still equate S & I. p. 148. (Fuzzy.)

h) Acks's 'soph.' version of Q. thy. differs from naive by considering S & I; & ΔM comes into system via capl. mkts.

i) Wicksell's natural rate vs. money rate, p. 149, ? if ΔNR, & MR const., get ΔM.

(This idea is premised on lags: banks not having to pay Δi to depositors. & Banks expanding simul; loose reserves; etc.

Why shd it banks respond to Δ demand by ΔMR? Custom in part; in larger part, better credit risks.

Why shd it investors wanting M to invest withdraw their deposits, thus forcing banks to pay higher i?

This is basing too much of a theory on a quirk of the banking system.)

Lag of wages behind prices helps boom along. (For 'wages' read 'costs'.) (Note, this shd. also lessen longevity.)

W.'s model of cycle had Δ n.r. as indep. vble; A. notes banks might initiate by $-\Delta$ m.r.

Forced saving is involved. a temporary diversion.

j) p. 151

alleges ΔP fails to eliminate excess demand permanently. Bcs. factors get higher incomes, & go therefrom to Δ spending — infl. spiral. BS. Forgets Pigou-like process so well described earlier, p. 139

p. 152, Same spiral works downwards if n.r. drops below m.r., & banks absorb funds. (He has not previously mentioned banks, & doesn't explain how they absorb funds.)

p. 152 Alleges excess of ~~D~~ desired S over I is in real terms; i.e., S & I schedules are. By which he means they are not affected by $\pm \Delta P$. Hence no thermostat.

(But a desire to $S \gtrless I$ is a desire to $\pm$ c.b., nothing more or less.

Higher i makes you want to lend more; & borrow less. Which one is "investment"? Maybe S & I alone are too simple. ? ~~?~~ ; $\lfloor \frac{X^S}{Q}$? Or : $\lfloor \frac{X}{Q}$ Lend, or invest direct: supply of capl. Borrow to invest, or invest direct: demand for ~~for~~ capl.

Bradley

The idea that S & I scheds. are indep. postulates inflty. elast. c.b. Otherwise, I invest as I save, keep const. c.b.

k) "Naïve Q Thy" ~~as~~ equates non-spending & ~~hoarding~~ saving. "Soph." thy. sees you can save w/o hoard's.

(But it is naïve undercons. thy. that has ~~you~~ savg ≡ hoarding; & not naïve Q thy., which indeed assumed exactly the reverse, no hoarding possible!)

l) Δ liq. pref. acts to $-\Delta P$ only via Δi; & v.v. p. 153

(I wd. say Δ liq. pref. wd. reduce spend'g of all kinds, both C & I. ~~The $-\Delta C$ is $+\Delta S$, which matches the $-\Delta I$~~ No need to go thru step of Δi to achieve that result. Indeed, Δi may work the otherway?)

(Note he has hung needles' eye idea on Wicks.!)

m) Wicks. had 2 ~~kinds of~~ divisions of aggreg. demand, each i-elastic: I, bcs. borrowers want more at lower i; & C, bcs. people save less,

n) Wicks. had assumed flex. prices; later ecsts. introduce rigid costs & prices, thus convert W's thy. of prices into a thy. of output & emplmt. (W. might not have approved!)

End Chap. VII: a key chap. but poorly expounded & badly confessed.

The confession may be there simply bcs. A. is trying to expound indefensible theories from bed rock — & ~~they~~ their bankruptcy glares.

Chap. VIII: Summary of Classical Thy.

a) Before W., were 3 watertight compartments: emplmt. depending on real wage: P, depending on M: & i, balancing S & I.

b) W. tied them ~~together~~: M → P via i.

c) This implies a middle step, a loanable funds thy. of i, where dishoards & ΔM add to supply. But this collapses, bcs. ΔM must = 0 (reasoning not clear) p. 160, so this gets us nowhere, pp. 158-62.

Ack. is full of dead ends like this — a terrible mannerism in a text. Scolds unnamed, uncited writers, as he goes along, for vaguely described errors. Terrible writing.

d) In classical model, unemplmt. results from wage too high.

(He shd. say "costs." Labor needs complements.

One such cost is lack of, resp'g shortage of liq. capl., brought on by freezing.

another is land

Others are utility rates, xptn. rates, &c. mnpy. costs.

Restricted opps. of several kinds.)

e). Scolds classics for thinking $-\Delta W \rightarrow \Delta$ empl. by any macro. effect. Is really all substn.

(This is his 1st mention of substn.! Previously, labor was all costs! Maybe it still is — he is thinking about subbing one group of labor for another.

p. 162 -- Series of errors in his views.

1. Says lower w.r. of one group of workers is one story, but lowering "genl. level of M w.r." is another.

But when we ~~then~~ advise lower w.r. to help emplmt., we are referring to one group of workers — those in tight unions who preempt good jobs.

2. Overlooks substn. of labor for capl. & land

3. Overlooks effect of lower costs on ΔV. (TP on pp. 162-3 does acknowledge this. Ack. vacillates between forgetting this & returning to it)

4. " " " w.r. on inv. opps.

Thus overlooks 2 important substn. effects, 1 & 2; & 2 big macro effects, 3 & 4. And (5.) Substn. of labor for capl. & land is macro bus. & r.f.

f) Wage rigidity is only cause of trouble in classic system.

g) Classics wanted monetary policy.

Thought it better than fiscal, bec. deficits only help if ΔM.

"Modern macro thought" reverses emphasis.

End

Carmel Boom

Canal Boom

I. Pre-conditions

A. Collapse of 1819

Discredited expansionism, end of Jeffersonian prosperity. Whig revival. Forces of containment. 2d Monroe adm. & J. Q. Adams.

J. Q. Adams was as mild an anti-expansionist as you can imagine. He simply wanted to make it orderly, with more Fed. coordination. An evolved Federalist position. Containment did not last long.

Whigs were neo-Hamiltonians. Wanted cheap labor & dear mfg. goods. (over)

Animosity to & suspicion of east by west. Desire for local govt. control, non-coordn. Anti-bank; anti-"loose constn."

Overpriced Fed. land. Anti-bank feeling was transposed anti-containment feeling. Cheap credit made dear land look cheap, but later foreclosure changed that. (Cf. FHA today -- modern version of wildcat banking)

B. Xptn.

1). Turnpikes.

Flatboats

Cattle drives

Sleighs

2) Regional differences

C. Land use

Subsistence was large part of agric. Or self-contained regional units.

Early n.w. was self-contained, versatile. South more specialized.

Self-contained. Supply met own demand. Mills ubiquitous.

Limited regional specializn.

Exports ~~of~~ of West were hi value in small compass: ctn., furs, pork, beef, flour, grain, whiskey.

Supported by land price to discourage migration; & slow sales to lower revenues so tariff cd. be maintained.

Low uses based on dear xptn.

Scattered settlement. This, as much as primitive modes of xptn., was what kept land uses low.

D. Heritage of ~~excess capacity~~ unbalanced, half-finished devmt.

In ctn., e.g., ca. 1819 "devmt." had gotten ahead of demand - "by 14 yrs." An empty frame - badly synchronized devmt., some parts ahead of others, hence the "half-finished economy". Parts might be finished, but not their complements.

The "frame" was a "foundation": not invt. in growing ctn., but clearing land; draining; road bldg; harbor facilities. Items further removed from consumer. They are what got out ahead.

It meant there were ample inv. opps. in form of "niches," awaiting availability of capl.

In other areas, pvt. land devmt. had gotten ahead of p.w. In N.Y., e.g., Erie Canal long delayed by waiting for Fed. aid; in center, Potomac route preempted by Nat. Rd.

Everywhere, turnpike interests held back canals.

N.E., containment interest of the pd, had its own good roads, locally fnced, self-contained, blocked Fed. aid to xptn.

Fulton patents held back steamboating.

Many short & ec. canals held back by interstate problems. N-S canals, from Balt. & Phila. up to N.Y. (Boom canals were mostly e-w, every state had her own.)

N.W. fmrs. had defied unsympathetic Fed. govt, settled ahead of xptn. Needed xptn. Feared N. Orleans.

E. Heritage of regional rivalry – race to the west.
Made almost inevitable the defeat of containment.

7. Border states stagnate -- Mo., Ky., Tenn. Had been ahead of the others.

II. New wave of investment opens the boom.
The financing had to have been available
A. Transportn.
1. Erie Canal
a. New technique, for U.S. Old in Eng., boom of 18th; older in Europe.
b. Required dense popn. W-n. N.Y. had it. W-n. N.Y. made canal pay. Genesee V., wheat & mills Trade from west was small. [Linking NYC to Ohio was not major effect – NYC grew on s-n cth!]
c. State finc.
Pa. & w-n. states had previously fined turnpikes, but this was big boost to use of States to finc. Tapped new capl. sources, important. Began great impnt of capl.
If capl. shortage had closed last boom, this solved problem.
Opened a floodgate. Demonstrated is better to do it yourself than wait for U.S.

2. Overland

Horses replace oxen. Farm work, also on roads. Cost lier, factor. Big breeding indy.

Cty. fnce. of trunks, esply. in n.w., an important factor. Heavy use of cty. for roads.

In so., esply, scattered settlement, poor roads, forced heavy reliance on horse xptn. (Hence famous s-n cavalry, civil war — & poor supply.)

3. River

Steamboat. Gibbons v. Ogden, 1824.

New cities, harbor & wharf facilities, entire Miss. V.

Use of State & Munic. bonds to fnce. Esply. in So.

Expectations for Miss. system. The xptn. backbone of the country. St. Louis, Cairo, Louisville — declined for greatness.

A. E. pork barrel. Not yet ready to build canals, but to improve rivers & harbors.

4. Lake

Ports everywhere. Eastern lakes first, (probly.)

5. Urban.

City streets, etc. Buffalo, Auburn, N.Y.C.

B. Farm capital

Horse-drawn implements, & horses. Cultivator, rake. Lighter machines, from e-n. factories, that horses ed. draw. The automation of its day — subbing horse for human power. [Note, horses are produced too — indirect labor]

Cheap Root axe. (pioneers still stuck to woodlands, thought prairies were bad land).

Iron plow. Jethro Wood, interchangeable parts.

Seed drills — rows, allows intertilling.

Fanning mill, for threshing.

Etc.

C. City-bldg.

III. First projects are very successful.

They had been long deferred. Pressures built up. They were in response to present needs — not remote future needs.

They relieved past imbalances; and/or replaced depreid capl. which had been worn down.

Erie Canal best case.

City lots in Buffalo.

Secret of success — moved toward better balance.

IV. Feedback or multiplier lifts whole economy

Frozen assets & other idle resources are revitalized

More Eco. capl. moves in, & e-x capl. moves west.

(Improves allocn. of capl. as well as macro. aspect.)

Idle resources go to work, and create the capl. for their own employt. Multiplier (but in my view, outside initial
invt. is required not to offset saving, but to offset Δ cons.)

V. Factors promoting bias to fecundity

Capl. diverted from complements; s.o.c. & meeting needs directly; so reaches out to a longer way to meet them.

A. Scattered settlement & lengthening of lines. "Continental sprawl"

1. Extensive mgn.
2. Every mgn. — (see green p. 1, 3/3 (a, 2)
3. Extensions of Erie.
   a. Mohawk V. itself repd. leapfrog. Hudson was undevd.
   b. N.W. states (all this for ⅛ the traffic!)
      Ohio. [Maumee-Wabash:
      Mich
      Ind.
      Ill,
      even Wis -- Milw. west
   c. Feeders in w. N.Y.: so. up Genesee

B. ½. Competitive emulation: racing. (Ohio was the main prize. -)
   Pa. (deeply settled)
   C & O.
   Richmond & Kanawha.
   Even Carolina
   (More-over) Balt. v. Phila. on Del. & Susq.; Ct.; Mass.; etc.

C. ½. Logrolling - weakness of state fmce.
   Pa.'s problem. Same in Ind. & Ill.

D. ½. Regional mults. — same as for housing.
Leverage of mgnl. areas. Capl. flows.
Sometimes or partly in kind: cattle; wheat.

They also ~~competed~~ faced for Ohio from the south. Cinn. faced both ways – exported flour & pork.

And Cinn. even tried to tap Toledo! Cinn.-Toledo canal. (not finished until '45)

(Another projected Ohio canal, just being finished today.)

Portsmouth – Cleveland, n.s. in Muskingum V., could go either way. Opened '32 -- one of the few that was finished.

These flows in kind give us a good understanding of realities behind monetary flows.

1. Cattle. In growth pd., the west imported breeding stock, net. Thus, investment demand absorbed cattle, lowered final supply, maintained price, which stimulated inv. demand. A dangerous circle.

(Repeated in later waves. Recommend Osgood book, cattle boom of the 'eighties in Mont. & Wyo.)

Micro or macro? Macro cycle requires gen'l. overvaluation of future goods vs. present ones. Analogy not perfect! If every indy. used its own output as capital, or if cattle were the only indy., then deferred output of final goods wd. not maintain their relative prices.

But a region, like an indy., can use more output for capl. fmtn. — using outside capl.

Cattle not nec'ly. typical. Is one kind of cycle, ends when flood of output lowers prices. Cobweb. But other cycle ends when the price of remote future goods collapses. Is also a sort of cobweb, in response to invt. demand.

Case of cattle, full of invt. demand floods consumer mkt. No capl. shortage possible — pd. of prodn. shortenable.

E. Preference of for. capl. for large, lasting public projects. Difficulty of subdividing capl.

7. See green sheet

2-18-65

The Canal Boom

I. Terr. Exp.

A. Succession of land uses, 1825-37. New xpt. changed best use of all lands, forced universal change & adaptation.

Pol. exp.? Not much, save vs. Indians. But A. Jackson repd. expansionism.

E.g. Jackson v. Creeks opened Ala., Miss.

Trapping, fur trading: W. from St. Louis

Grazing, cow-calf.

Growing regional specializn., breed'g vs. feeding vs. cash-grain

Grazing, out to Mo. – the wild west of those days. Elsewhere, we crossed the Miss. slower. (Mo. admitted 1820)

Feeding: Scioto V.

Ohio developed. Fed cattle need to be slaughtered, don't drive well. Cinnc. devd., great packing center. (Home of the pork barrel.)

Many fat cattle still driven east. Fat hogs really don't drive, Cinnc. became hog-butcher of world.

Hog-feed'g a higher use than cattle-feed'g.

Cinnc. wtr. xptn. made possible. To south & e.

'35, u. Wabash V. came in

Wheat: (the ctr. of the n. – staple export)

Genesee area of w. N.Y. comes in w. canal. (Before, was misc. low frontier exports of whiskey, tobacco; but flour was small A, hi P, to Quebec by L. Ont., or Schenect. by winter sleigh.) Rochester, mills by falls of Genesee.

1832, Ohio wheat starts in. (Bec. Genesee wasn't producing enough, lag of land settlement. (Wheat remained east of corn bes. mkt. was in Eur. largely)

Butter & cheese:

Mohawk V., wheat goes out, b. & c. come in. Herkimer. Replace Orange & Ulster Cos of Hudson V., which become N.Y. milkshed

Same in Mass. – Boston milkshed pushed out c. 12 mi., butter & cheese moved out beyond

Cotton:

Ala. & Miss. develop, & up Miss. R. & out Mo. R. Highly scattered. A wide end run by slave power, enveloped n., but w/o strength – S. W. collapsed in civil war, like empty bag.

But, as ctn. belt moved west, widened, bootheel to Ts.

Oriented to sea. & export. No internal lines of comm. – accounts for great s-n cavalry, weak supply.

Urban:

Chi. expands, e.g. Hoyt.

Cermick on Buffalo.

Intra urban

New w'fronts in N.Y.C.

B. Scatter

Map from J. D. Hicks

But every frontier had same scatter (& each required a higher standard of xptn.) (& set a higher standard of l. v.)

Leaders & laggers, as today, every frontier

Fed. land pol. Overpriced. & sold only in big chunks, 160 a. min., $2/a. Many preferred squatting, unsurveyed land.

C. Xptn.

"The Xptn Rev."

Water: rivers & canals & lakes

Rivers:

Gibbons v. Ogden

Steamboats

New cities — harbors & wharves. State & Munic. bonds

Expectations for Miss. system.

Work of A. E. — pork barrel system.

Canals:

Erie, 1825.

New system of state finance. (Minor, direct Fed. role, & but Dist.)

~~Emulation (induced inst~~

Induced inst.

a. Emulation

compn. - parallel. State & munic. mercantilism.

Log-rolling — other cties

b. Compln.

Feeder lines — most traffic local

Pvt. intensifn.

Lakes:
Erie Canal opens Gt. Lakes
Port decent everywhere
But only 1/8 traffic – [cf. major inter urban hi ways today]. Universal tendency to overest. big picture, ignore small & local.

Canals: (cont.)
c. Extensions
Ohio network
d. Other
Widespread
Indiana comprehensive plan
Ill. & Mich.
Maumee - Wabash
Miss. & west
Mass., Ct., Del. - Susq., etc.

Overland:
Gvt. improvements. Horses replace oxen. State & City. Force.
City. trunks. In new western states, more provision for local force. & public action. in north

D. Capital flows

Induced from Eur. Use of state's credit. Land sales. Pol. influence of big owners to get dem't.

Cattle dem't. into new region. Capl. flows west, in form of product. Price umbrella effect

Wheat, same. 1835, U.S. imported wheat, net.

Emigrants take capl. west. Was not just the poor who went.

~~Biggest~~

E. Lag of supply response to cap. inv't.

Slow payout from all this activity

Immediate gratifn; deferred retribution

(Hint at cobweb effect

a) Micro – overexpansion of U.S. specialties relative to world

b) Macro – " " durable capl. relative to liquid)

Capl. frozen in forms of slow recovery. P.w. esply.

(Ecsts. speak of 'durable goods indies,' 'capl. goods indies,' etc., think of Mke. as type; some stuff is, but tractors not very long life, etc. Oregon, e.g., much more dependent on long savings)

~~Hubert Humphrey~~

Relationship, land settlement & xptn, vital in dynamic of Am. history.

Canal & River boom.

1. Xptn & settlement ~~early~~ before boom.

Turnpikes, & flatboats, cattle drives

South & had river xptn, opposed Fed aid. NE had her own good roads. NY wanted aid, delayed project.

Nat. or Cumberland Rd. only exception. Jeffn pushed: a, in deal to keep Ohio & NW States from taxg fed lands.

b, For Va, Md, Pa — all cd tap on.

c, NE had lost power, cdn't stop

d. Military integrated & synchronized planning thereof. Fed hiways finally gets back to him. Westerners beared restrictive East; & anti-intellectual.

J.Q. adams pro Fed. improvements,

Turnpikes pvt., tolls too hi, didn't pay either. Showed pvt enterprise ng for xptn.

Ag. was largely subsistence.

Western exports: pork, beef, flour, whiskey, grain.

Mills ubiquitous.

2. Pressures for boom buildup (so that first essays are very successful)

Monetary stringency

Canals old stuff in Eur. 1765, Bridgewater etc. Eng Canal boom.

NE & SE block Fed. aid.

NY delays obvious rte, waiting Fed aid. (See-saw action: next time it was Mo. behind, led with t.r.s. – also Boston, Balt, Charlston.

Potomac Rte preempted by Nat Rd., so the most obvious route for a canal was't developed. Principle of relative backwardness, or the last shall be first.

~~Steamboat proved & developed, but trapped, until 1824.~~

Balt. probly exploits position. Balt. & Phila., which tapped w-n NY via rivers. (Balt. probly cdn't dev. her rte., bec Pa. wdn't cooperate. Phila neither, NY wd block.

Ky & Tenn stagnate, pop. pushes north, new mkt to tap.

NY wishes ally with new west, block so.

Turnpike interests (whether pvt. or public) block canals; as canals later hindered rails, & rails roads

In SW, steamboat devd, but trapped. Fulton patents

New Orleans mapste, pressure for new outlet. Advantage of Atlantic ports, competitive.

Canal & river boom, 2

3. Xptn innovations open boom. was new to N.Y. But Pa. & western States had long helped fmm turnpikes]

Erie, [State fmm, success of. Prepared to subsidize, low tolls, but elastic demand, pays for self.

Area thru which went was already settled, ~~evidently~~. Most traffic local. Mohawk V. esp., ? imagine (thus settlement had leapfrogged Hudson patroon area)

1824, Gibbons v. Ogden. Steamboats.

4. New xptn revolutionizes optimal area specializ. Was only limited specializ before, so in all areas, subsistence crops become increasingly obsolete.

Erie canal cuts cost to 1/5, travel.

Changes opt. land use, ~~encouraged~~ esp in w-n N.Y.

Mohawk, wheat out, cheese in - around Herkimer; Orange & Ulster Cos., cheese out, milk in; ~~to Genesee, N.Y.~~, is now obsolete to use land for ~~wheat~~ Genesee, wheat in, pasture out. ~~cattle~~ Berkshires, dairy out, sheep in. ~~cattle~~; ~~sheep~~; ~~whisky~~ ~~grains~~; ~~bread grains~~; ~~Coarse~~ feed grains, ~~feeding cattle & hogs~~. ~~hogs~~ lime cheap on mat. I corn hogs

Genesee & Lake Shore Should now move into vegetables; fruits; dairy.

~~Feather~~ Ohio, grain now better off, pushes back pasture; ~~beef~~ ~~pushed back~~ ~~west~~. ~~Cheese~~ ~~sheep~~ Now fatten hogs instead of droving, to Pa & Potomac. Scioto valley esp. feeder area. Upper Wabash comes in after a while. Cinn. packing center.

4½. Also new fm techniques: produced in eastern factories, spread by canals.

✓ Cheap ~~Collins~~ Root axe - pioneers stuck to woodlands.

✓ Iron plow. Jethro Wood, interchangeable parts.

Seed drills - rows.

Horse drawn cultivator, rake.

✓ In gnrl, variety of new tools, horse drawn, allowed great subbing of horse for human power. Also for oxen, bcs machines now lighter, easier to draw. The automation of its day. Revolution in farm mechanization are nothing new.

Fanning mill, to help threshing

Rotations: corn for turnips — corn, oats, wheat, clover.

6. But land development lags, most favored areas.

a. Land remains in old uses – e.g. grain in w-n NY fruit district. And wool.
In 1826, Utica - Rochester, land cleared on banks of Erie canal only back c. 1 mile, – M & Comm-r, p. 497 (over)

b. Some land entirely idle, held by absentee specs for a rise.

Settlement passes around it.

c. Local govts fail to provide local xptn nets, i.e., feeder roads. From Erie, e.g.

In NY, wild specn, but waited for State to build feeders. Also, patroon area undeveloped. And 1830, 4m/12m Ams. lined w. appns.

Thus canals hindered, rather than helped land devmt.

NW, canals n.g. w/o local roads, these not built. Linear devmts.

7. So firms develop new lands in areas further from good xptn.

So long as better areas not producing, price on-farm to them, which canal has raised, hi enough to warrant.

Hortic & dairy & mkt-gardens develops scattered thru NY., Pa, e-n Ohio.

7½. Wave effect.

Takes much more land from grain than should, bcs included areas are depressed – bcs hi l.v., & expectation of move to hort.

Next wave west, grain farming scatters westward, pushes cattlemen still farther. Out here, specs held whole cos, refused rates, held back complements.

8. So new canals are projected to tap new areas.

a. Extensions & spurs of Erie: up Genesee; to Oleon.

b. In West: Ohio: Cinna – Toledo. (Opened as 1845 extension in part, also compn. Cinn sent flour & pork both ways. Mich: Borrowed $5m.
Portsmouth (Muskingum) – Cleveland: opened 1832. Brings wheat to NY, bcs NY was't producing enough to keep price down. Tobacco comes in, over-expands
Ind: Wabash – Toledo (Maumee)
~~Complete network~~ "Comprehensive system"
Ill: Ill & Mich. all this while Hudson Valley still undeveloped.

Here then was a linear decrease. Local govts not building feeders.

1821, Wheat from central N.Y. sold at Savannah cheaper than wheat from central Ga.

: Canal & river boom, 4

c. Parallel lines: Pa. Portage – opens '34 (higher costs & nearer obsolescence.)

C & O

Richmond & Kanawha

d. Other lines:
New Hamm – Northampton, bailed
Susq. & Tidewtr, Balt. raids Phila.
$80,000/mi, costliest of all.
Ga, fooled around, started r.r., abandoned,
1844, depression.

New world "metropolitan urban mercantilism", using canals instead of guns.
Object to tap west. Actually most traffic local, wdn't justify. But had to stake claim.
Cities have always pushed claims too far afield, neglected (hence unpaidly exploited) local mkts. Pushed out routes to forestall competition, failed to serve where none.

✓ 9. State free compels proliferation, for logrolling.
Pa, Ind., esp. (Cf. Calif today) Also Ohio.
Dreams of taxless States
~~Many canals left half-built~~
Thus endeth J.Q. Adams' dream of integrated & synchronized system of p.w.

✓ 9. Mkt for food sustained by construction & attendant demands. ~~activities~~
Vast sums poured into constrn. Borrowed from Eur. Experts see. –
low xptn charge, misleading
Build new cities. E.g. Chicago! 1836, first grain & meat from Chi. hit Buffalo. Factories, streets, houses, hotels, banks.
Building keeps canals busy. Actually they proved unec. for long distance hauling, even successful Erie, which advanced on dev. of NY state.
U.S. imports wheat, early '30s! (or did M&C misread evidence?)

✓ 10. Banks expand.
↓ l.v., lend on that, to buy it. Vast Jon. Jackson destroys BUS, hated for 1819 contraction
Wildcat money accepted for public lands, taxes, etc.
Money moves in to spec. Cdn't happen in Eur., bec land not freely xferable.

✓ 11. Other expansive, cumulative aspects . . .
1832, U.S. moves deposits to pet banks
1836, U.S. distributes surplus funds.
Congressmen were big western specs. E.g. Dan'l Webster. They no doubt were influenced in which way they bought canal stock, etc., by personal interests. Is it not probable that Nat. Road system today is similarly biassed?

Canal & river boom, 5.

12. Lower Miss. devmt.

a. Xptn.

Steamboat. Non-skeds. (Grew even more in 1840s)

Limited to rivers. No canals, (a few in Ky). Few roads - popn too scattered.

Tombigbee river system; Mississippi; Red; Mo.

oriented to ocean & overseas. No internal trade. 7/8 world ctn., oriented to world ec. more than nation.

b. Growing specialization — Even when r.r.s. came, were mostly to sea, or ff. rivers.

Grain, pork, downstream.

Slaves, mules.

Extreme specializ in ctn. — slavery forced it.

c. No technical progress.

Capital in slaves

d. Settlement

Exceptionally scattered. Hence famous hospitality; & peddlers.

Plantations self-sufficient — hence no farm towns, no aggregative influence from that source, as in NE settled areas such as Ohio. Probly each plantation had its own gin.

Leapfrogged up the rivers. To Memphis. & up Miss from N.O. to Vicksburg. Little Dixie, NW outpost: in 1830-40, denser than Memphis, St. Louis, Evansville — even New Orleans. Nat. Rd. heading for Jeff. City.

Alluvial delta lands developed very slowly.

Great end sweep, had surrounded N.E. But NE was compact. Old S.W. collapsed in war.

Slavery took best land — also S.C., central & coastal Ga., Tombigbee V., Va. Piedmont, Miss Δ, Red R., & spots on Ts. coast.

e. Cities

Mobile, Montgomery, Natchez, Vicksburg, N. Orleans, replace Charston, Savannah, — (tho these make some comeback later, with r.r.s., & Atlanta, Chattanooga, before war)

Dendritic rivers mean monpy, mean stagnation, key points. Thus New York City becomes chief entrepot for south. Increasing returns.

e. Cities (cont.)

Plantation areas kill off local urban growth, by self-sufficiency in the kinds of services provided by small towns. (Small farms, being small, look to city for storage, mechanics, e.g. Plantation man has his own — & goes to big city for lawyers etc.)

f. Finance.

State banks, to free from Phila., Chestnut St. La., Ala., Miss.

Fncd land, slaves.

as cap. went into slaves, little left for real cap.

g. Cfson with North.

Falling behind. N-n Ohio, Mich. Ind., even Wisc., rapid growth.

Cleveland grows fastest.

Canal & River boom, Ch 7

13. The Crash.

Specie circular. Jackson acts like 2d B.U.S. had 1818, & 1st had, 1795.

Eng calls debts

~~Boom~~

Becomes evident is more new land served by canals & packets & r.r.s than is demand for.

LV sink. Banks sink. Flow of inv halts, tries to be reversed

Eastern agric. reforms, revives, higher level.

State credit ruined. Many default.

Half-finished projects stop. Eg. Nat Rd at Vandalia.

Ind. canals; Pa. canals.

Erie &c. had made M bes long overdue, low tolls.

Mgnt canals thru unsettled land cd only succeed if forced so as to get land settled: free at 1st, tax land. But opposite.

Late-comers got hurt most, bes built at higher cost, & had shorter useful life

Burned states remained cautious of rails. So did NY, to protect inv.

So Mo, Minn, Ts, Balt, Boston, & Charleston took rr. lead.

Some basic cyclical factors distilled from Canal Boom.

1. Lagging supply response

Response to what?

↑ demand (ctn)

Lower costs (xptn; fm. machinery)

Causes of lag

Containment &c. restrictive policies (resultant leapfrogging)

Slow land conversion

Outright speen. — ΔP makes land free. Land sales hi in boom.

but not land settlement

slow change, on inner frontiers

~~Need for durable inst. (slow payoff)~~

"Bias toward futurity"

Technological necessity? Not much

prescriptive rts. promotional rates,

Magnified xptn. needs due to scatter, racing, emulation, etc.

land enhancement, logrolling, avoidance of obvious compn.

Non-coord. of complements (lag of local fnce., probly most general relation)

over

Hi wages cause substn. ~~labor for~~ land capl. for labor. e.g. producing horses.

" Cartel price-umbrella syndrome; mngt. escape into future

(~~Failed to mention~~) Consumption of output by growth itself (reduces exportable supply)

availability of outside capl.: its preference for big p.w. and land purchase; its keeping local factors occupied producing for future, not present.

Drain of eastern capl., non-replacement, lowers output capacity there.

More causes of bias to futurity

Ignorance of aggregate supply in preparation (weakness of price signals, they don't forecast)

Bias vs. pooling & sharing basic indivisible & immobile res. & facilities: land & p.w. Each pvt. & public unit wants its own, bcs. fear neighbors & mkts. are thin. (Fear of N. Orleans & N.Y.)

Racing: military, pol., prescriptive, & scale reasons — (& defense vs. mopy, as above.)

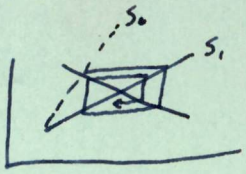
Lag of i.r. rise — held down by custom, anti-usury laws, & ΔM, & liquidity of collateral in rising mkt.

Emulation w/o understanding. Ideas vulgarized as they fan out. Idea that Erie tapped the west, & N.Y.C. grew on that. Actually Erie tapped W.N.Y., & N.Y.C grew as ctr. entrepot, by sea, in compn. w. all Atl. ports! N. Orl. was grwg fastest, by river trade, '30s.

Logrolling & l.v. the Lorelei. Immed. gratn., deferred retribn. Benefits appear to be immed. — pol. bens. are — & ec. bens. are so long as people willing to buy land.

Logrolling & non-competitive bias — avoid established routes & tapped territories, but is ok to open up & end new ones.

2. Cobweb theorem – micro.



Key qu. 3. How adapt to macro? In self-contained ec. A surplus of everything?

Surplus of frozen durable capl. Shortage of liq. capl. Collapse of durable values as liqn. attempted.

What price is implied in macro cobweb? Price of durables vs. their cost, (& nondurables); due to a) lower costs; ~~into lowered~~ b) higher expectations c) new territory prices in growth areas vs. prices elsewhere; prices of all final products vs. their costs. W. Territ. expn., is new inv. opps. from more land, so all costs fall, while relative prices stay fixed. The price-cost gap that opens up is the inventor's gap.

4. Cumulative factors in massive over response. (Feedback)

There make it a spasm

Ricardo effect – later in boom, higher wages creates pref. for durables; & it happens that land devmt. requires durable capl., so hi wages stim. land – dev. simul., hi land prices do same.

External ecs., reflecting, & anticipated, banked on – developmental spirit

Rising land mkt. encourages both bldrs. & specs, & both of them promote p.w. (note importance of mechanism for x ltg. demand for land into p.w.)

Capl. inflow, lets boom feed itself

ΔM & collateral values

ΔV from Δd liq. & hi i.

Chain reaction of interbank racing, for Δq returns + prescriptive

Thurs. 3-4

lose out. Fixed routes become fluid, compn. reigns

Chain reaction of intrafirm racing. E.g. one firm, I.M.C., undercuts costs of (over) Induced invt: complementary competitive, etc. E.g. larger inventories needed to do more business. Different voltage levels. Pvt. & public

Accelrn. of technical progress due to hi gross invt.; embodiment of stocks of frustrated ideas.

Multiplier – potent in real terms bec. forced by outside capl., and recovery of frozen capl.

Logrolling. Immed. gratifn., deferred retribn.

Emulation

Racing

Esterhazy shaft, but can't turn back. Then, forced to Δ mkt. share to pay off fixed costs. Cracks oligop.; creates competitive phase. Comment on imptnce. of observing the form that compn. actually takes.

[In bust, once oligop. is cracked, existence of excess capac. from cartel syndrome calls for huge Δ output & huge liq. capl.; n.a.]

4, Cum. Factors (cont.)

$\frac{\Delta Y}{\Delta I}$: the mult. ($\stackrel{?}{=} \frac{1}{1-mpc}$ The precision of the eqn. is misleading, but people love a model)

But note leverage of the independent I --- mostly in durables.

Other I is fn. of replacement or inc. Durables can wait, & continue, can be devd. in way ahead.

Accn. princ.

Shock wave effect

~~Obstacle~~

Thrust & baffle effect — leads to Δ invt. requirements

Δ credit worthiness → Δ inv. opps.

Reflection of psychology of plunge & success — social eminence of plungers, discrediting of ~~prudo~~ cautious (Sewell Avery effect)

Nov. 2 →

Release of frozen capl. leftover from earlier booms.

Premature xptn. routes now get used & even clogged.

Cum. renewal of older sites as new bldgs. pull tnts. from old, weaken defenders.

5. Evolution of boom, preparation for bust

Capital that was unfrozen gets refrozen

Baffles choke off pvt. invt.; Δ p.w. to dev. new lands; refreezes capl.; shortage & hi i eventuate, choke boom.

Hi labor ~~& land~~ costs, plus scatter, push invt. into durables. Abundance of liq. capl. permits this. But then exhaust capl, all output stops as Δi.

Better areas revive, as l.v. "outgrow their old clothes"; creates new demand for capl., & superior comptn. for new lands, half-developed.

5 (cont.)

Land prices rise disproply. Thus discouraging bldg. on empty land, but encourag's renewal, intensifn., extension, etc.

Growth areas get unbalanced, too few export indies. to balance local services. This happens bcs. of capl. inflow, serves as export. [and bcs. too many nuclei, seeking Sg returns & prescriptions]

Cap. requirements of life ↓, bcs all further apart. (Initially, improved xptn. probly reduced per capita capl. requts, that may help boom)

Monetary authorities forced into tight M policy. (Not a matter of discretion, as Friedman says of '21-'29. Has happened too regularly) 1819, Eng. return to gold

1837, specie circ.

1857, ?

1873, demonetizn. of silver. "crime of '73".

1893, cleveland & free trade. gold outflow

'27, FR pol.

5½. Autonomous vbles.

Inv. in durables. Other invt. is automatic fn. of replacement—Cash becomes available, also the niche.

Case of durables, cash becomes available w/o the niche, directs invt. to new niche-bldg. - very durable.

Fall of futures limits invt.—bcs. they absorb so much.

Investment "demand" is supply - of liquid capl. "Demand shortage" is capl. shortage. The "effective demand" approach obscures this.

Bring in facts on Δi in '29)

Replacement demand falls, is probly most acceptable way to put it, for Kn. minds. But also emphasize Δi, fall of future values.

5

6. Causes of crash.

Run out of liquid capital; inv. demand, that is, falls.
Frustrated effort to liquidate – individs. might, society can't.
Cost-push

No evidence of oversaving or undercons. Opposite: -ΔS, contribs. to shortage of liq. capl. (Hayek made sense at this time, explained crash; Keynes made sense later, more + approach)

1. Heritage

Too much frame; too little filling
(analogy of oil fields – start from fringe, work back in to center)

Principles: Features of territ. expansion cycle

- Cfer. disadvantage, munic. merc.
- Prescriptive r+s. – inter urban, inter regional, international racing.
  Racing for a) Δg rets: b) ?initial possession.

Mutce. of mkt. shares; competitive emulation.

- Immediate gratifn, deferred retribn. (logrolling)
- Logrolling, or inter regional equity

- Half-sized projects superseded by half-finished ones
- Containment-expansion syndrome. Leapfrogging. Exagg. reaction to mapg.
  Re banks; toll rds; land poling; urban centers; steamboats (from Fulton to non-skeds)
  Cobwebs – central orgg theme – how devmt. gets ahead

1. of need. But must xfr. princ. from micro. to macro — how can everything be excessive?
   Lag of supply response

Bldg. ahead of settlement; settlement ahead of bldg (p.w.): non-synchron.

Scattered settlement

Exploitation of investors

Bias to futurity, or excessive longevity.

By mapg.
By land devmt.
By prescriptive claim-staking

- Too much frame; too little filling ←
- The paradox of simult. artif. scarcity & artif. abundance

2. Accumn. & cap. inflow ff. by ↑ attempted trfrs. & return flow.
   (Helps explain how everything can be excessive)

3 Cumulative factors

Comments on Matthews on Canal Boom.

1. U.S. the source of instability (? don't get ulcers – ? grin 'em)

2. U.S. capl. import, 1831 —

3. Jacksonian inflm., 1834 – 37. Easy banking.

4. Land devmt. basis of boom.
   Urban as well as rural
   True of all booms – missing in Ackley.

   Vague as to mechanism – nothing on canals

5. Little direct Fed. invt. – but repaid debt, turned capl. to other uses

6. Boom fed on itself – endogenous

7. Previous boom, 1819, got 14 yrs. ahead of demand for ctn.
   '33, frame filled up
   '33-36, boom not in ctn. prodn., but devmt., deferred payout.

8. N.W. not 'subsistence', but balanced & self-contained.

9. Tight credit ends boom.
   9 states ceased payments

10. Not sure of depn. 'til 1842

Points from Matthews on Canal Boom (Ch. V) 1

1. Savings in U.S. greater than Eng's other trading partners.

2. U.S. adverse balance, 1831— i.e., importing capl.

3. '34, recession. But then Jackson infln. took over — stopped B, U.S. from checking wildcats. Jackson moved gov. dep. to pet banks, '34–'36.
Govt. let some of surplus stay in banks, expanding reserves.
Redistribn. was in '37: before that piled up in banks
many more banks were started in hope of becoming pets than ever did.

4. Redistr. not until 1837. (so it never cd. have fueled much of canal boom.)
Before Redistr., funds piled up in pet banks, fed reserves, basis of expansion. (?)

5. Banks loaned to buy land, from U.S., then U.S. fed its deposits in lending banks.
Large ΔM.

6. Land demnt. "connections of boom". "The boom definitely focused on land." – p. 49. '34–'36, sales at $1.25/a very hi.
Urban spec. too.

✓ 7. Repay's Fed. debt turned capl. to other invts. & improved State credit.

8. In boom, Eng. exports to U.S. rose much.

9. Δ ctn. price, '33–'36, helped ignite (last stage of) boom. But boom fed on itself, got ahead of ctn. price.

10. 1818, huge Ala. ctn. land boom.
'20s, ctn. price fell, excess capac. evident
'33, frame filled in, pressure for new land demnt.

9 of 1 Ctn. output didn't Δ in '30s; (but demnt did)

11. alleges n.w. was subsistence oriented, in domestic trade. (Probly understates importce. of wheat export, & overstates importce of distinction between internat. & interreg. trade, bes. no. did export meat etc. But is right, it was more self-contained. "Subsistence" is wrong word; balanced & integrated are better ones.)

So n-n. boom is less attributable to world prices — self-generating. (Eng. capl. might affect it, tho.)

(Since boom was in self-contained n. as well as export-oriented s. can't attrib. primarily to Eng. ctn. demand.)

12. Leaves unsettled the qu. of real v. monetary causes.

Bent is sure U.S. was source of disturbance — combined monetary & land boom factors.

13. Credit tightness, import balance, ended boom. p. 60

14. Mutch. says 0 of canal boom, etc. Vague on internal impr.s.

15. Recovery in '38-39 — then long slump '40s.
N.W. esply. Wis., ~~did belt~~ lagged s. — s. didn't recover in '38, Wis. did.

Credit tight, '37, stopped p.w. '38-39 credit eased, let prt. improvement & prodn. recover inside the framework. Was no

glut of final products – pp. 64-65. Land sales did not revive.

~~FB~~

'39, B.U.S. fails, loaded w. bad v.v. stock

'41, a 3d submerged revival.

'42-43, worst yrs — took a long time to get there.

(Pres. Harrison - Tyler)

16. 9 states ceased int. payments.

April 5. Ag. Ec. 468.

Summarize cycle.

Lag & leapfrog essential concepts. ("Distributed lags in supply response", modern fad)

Price signals misleading. Lack of info. re aggregate response over next several yrs, capital to be liquidated. ΔP

Role of land speck in lag. ~~Land~~ Makes MC = 0. MR = MC = P(i+c) − ΔP. Lag of local distr., waiting for state or fed. aid.

Cumulative factors: decr'g costs, developmental, build ahead of demand. External ecs. reaction vs. monback restrictive thinking. Desire to control own destiny, freedom racing among nations, regions, cities. Military arguments. many of one city, etc.

emulation .. imitate successes. 90% herd, follow the leader. Desire to create many — vs. desire to avoid many, about.

logrolling — fed, state, local. Herd psychology, follow the Judas goat. Reflective principle. Spend, tax — see one get rich at home, so buy in Fla. or Hawaii. Something for everyone, begin simul.

cap. inflows (from liquidation elsewhere, builds up, empty riches for return flows)

monetary expansion

artificially low i.r., due to custom & lag; state interposition in credit mkt; monetary expansion

→ Emulation, cont. Ideas deteriorate as they fan out. Imitators miss essential elements of success. Erie canal tapped local traffic largely; W-n trade went to N. Orleans: 1830s, N. Orleans was fastest growing city. & NYC grew bcs of factors internal to the city — thus attracted ctr. business, that was its big growth factor, in direct compn. w. all atlantic ports. But dramatic phase was tapping vast developing hinterland. appealed to avarice & laziness — w/o subjecting ourselves to rigors of competition. [one result is, many xpt. lines built for remote traffic, C&O, B&O, race began 1828. Slow race, ths. Balt. spoiled by Nat. Road. used mostly by local — often choked by local. — imposes linear pattern on local devmt.]

Scattered settlement, & scattered location of guide innovators makes all works open up more land than they serve.

Wave effect. Taking more land than necy, by cities from mkt gardens, causes mkt. gardens push out, take too much from milk dairies; they push out, too much from cheese dairies; they from grain, wheat; they from cattle; they from sheep; they from hunters, trappers. A spongey, yeasty structure results, entire society — collapsible. Too much land allocated to all uses.

hi wages encourage durability, big inv. opps.

Subbing cap. for labor, due to hi wages of construction pd., creates new invmt. opps. E.g. produc'g horses. 1830s (rake, & cultivator) Cap. is labor stored up in matter, & takes labor to produce the matter, clean back to mines or fields. Also subbing land for labor – bring in new land. another periodic, but a good one.

Racing (resumed). Pattern of cities neglecting their own immediate trade territories, as being in the bag or pocket, competing for uncommitted lands. (cf. long-haul vs. short haul rates, controversy)

Xptn. innovations unstabilize situations, many race for mpy prize of fringe territories; inadvertently develop new-in lands. E.g. Erie Canal; B&O r.r.

Most affluent have dual allegiance: to old core (slums & downtown, most concd. holdings) & to fringe, also concd. In between is middle-class mass, lacking effective leadership of its own, or at least balanced by aviation.

Compn. for fringes, plus potential Δs there, swings patricians to back new xptn. like free trade. Engl. free traders held lands abroad, e.g. in Am. prairies, plains. A new political alignment, continues to build two long, beg lag of pol. reshuffling.

now U.S. patricians moving to free trade, e.g. intl. oil majors

Core areas revive. Why? a) Compn. finally hits them; b) Their capl. has been liquidated to free new areas, sites open up for renewal c) Fringe growth changes opt. use of old centers, they must rebuild to meet new opps.

d) Higher l.v., in sympathy w. gen'l prosperity, urge on prompt renewal, higher turnover

Superior routes revive ... new boom touched off by superior new devmt of a mgnl rte, or several. Best route blocked by inertia; allegiance to old forms of xptn; etc. Comes back to claim its own. Erie canal is the long way around. Balt. is much closer, by Potomac route.

Racing (resumed). Dubiously. Phila. shd have gone up to Delaware, tapped onto Erie; Balt. up Susq., same. But each state had to have its own, e-w throughway. Even at cost of some ruin – even if foreseen trouble. Had to be indep, not on tender mercies of rival state.

Large share of benefits indirect, show in l.v., the Lorelei. Lets benefits appear to be achieved, when they really aren't. Capitalization in aviation. -- escape into future, away from harsh reality. Mysticism takes over: devmt of the country; Malthus. Simple arithmetic discredited as too prosaic. Appear to be developing balanced, self-contained ec., not a limited segment of world ec., so no limit to growth. [Limit is capl.]

✓ Prescriptive principle. Once your city has tapped a region, much harder for other to get fed. aid to rival you. Unwritten law — & often written.

Might get Fed. aid to go west, a nat. purpose, but not to compete w. established vested.

1. Assignments

2. Gen'l. plan: finish '37 cycle, then return to summarize elements of cycle.

3. Summarize points already made re '37 cycle.
   a. Pressures of demand built up, so first projects were very successful
   b. Canals proven elsewhere, were innovation here.
   c. State fncg a big instl. innovation
   d. Steamboats ~~here~~ were techn. sound, mngy. just had to be broken
   e. Tendency to orient canals toward capturing new territory, ~~focus~~ underemphasize need to serve nearer, older territory, ~~neglect~~ & forget that latter provided most of traffic
   f. Lag of auxiliary ~~devmts~~ improvements behind trunk devmts.
      1. Local feeder networks
      2. Pvt lands
         a. Out & out speculation
         b. Slow adjustment to new opps.
   g. Lagging central devmts. push popn. further west.

4. Wave effect.
   Dairying shd. have comed. in Hudson V.; [hortic. in L. Erie shore] But scattered thru N.Y., Pa., and e.n. Ohio.
   Takes more land from grain than dairy & hortic. cd. use. Pattern of diffused hi b.v., gen'l. expectation of ultimate conversion to higher use. analogy of Sta. Clara V. today, waves moving out in SJV, encomag'g FRP etc.
   So grain scatters west, in a wider circle. Pushes cattle still further, etc.
   Widest spectr. here, bec. highest % & b.v.

5. New xptn trunks projected to serve new settlers. (like CVP, FRP)
   a. Erie spurs -- up Genesee V.; Ocean spur.
   b. Ohio: Cinn. - Toledo, partly to free Cinn. from N. Orleans grip.
      Portsmouth - Cleveland (Muskingum V.) Wheat to N.Y.
   c. Mich: $5m loan
   d. Ill.: Ill. & L. Mich. Canal
   e. Ind: Wabash - Toledo (Maumee Canal) - then a "comprehensive statewide system". If a little is good, more is better.

6. Parallel lines. Competition emulation. Racing for Ag returns.
   a. Pa. portage

b. C. & O. came late, when recognized obsolescence of Nat. Road

c. Richmond & K.

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Devmt. of squatting after crash. Land sales hi in boom, land settlement hi in bust.

1841, Preemption Act, recognized adverse possession of squatters

Crash discredited expansive p.w., ~~but~~ esply. enervated States. Brought new demands for Fed. aid to intl. improvements: r.r.s.

Free Soilers: pro squatting, expansion, Fed. aid (irony, in origin of Republican Party. Equal irony, Dems. against it.), abolition? - no, but vs. extending slavery.

Superimposed on other issues was slavery or no. No Compromise. Balance in Senate. Oreg., '59.

Now it was Dems. of SE who dragged feet, opposed expansion. Slavery had isolated them. They edit win West. N.W. vs. S.E. was civil war. N.E. quietly raked in chips.

1851 bust helped turn tide vs. South. In boom, slavery ed. expand; in bust, free soilers.

1862, Homestead & Morrill Acts; RRs to N.W. Chicago.

Fruits of victory. Expansive interests prevailed — to their own undoing.

9. Internal improvements, boom & bust. Assign rest of Urban Expansion.

Harris objects:

a) Control public lands, cold storage

b) Valorize, max. unit price, thus make public lands appear better debt collateral. a sterile position ... in aggreg., a fallacy

~~Also placate influential W-n specs.~~

Usual line, wanted for revenue. Sold slower than that.

Wanted low rev. to justify tariff, avoid paying debt.

Had pushed reg. of apportionment, prevent use for rev.

6. Ambivalent position of the Establishment ... e-n & w-n lands.

7. Jeffn.

Repd. a migrating agric.

.. the west

Not a spec.

Wanted compact expansion - never got it.

Bought La., embargoed Eng., turned us to West.

Pushed policy of admitg new States as equals, .. & more.

assured nat. unity. Threats of Aaron Burr, Ts., Deseret, Eng & Mexico & Russia, etc.

Internal improvements - Nat. Road.

Exploration

8. Land sales policy to 1862

Sales for revenue: Q x price. $1.25/acre. We forget, all thru 19th, a big item, covered other taxes

Opposition of tariff interests -- an embarrassment of riches.

Distribution to States

Opposition of neo-Hamiltonians ... Whigs, who wanted both tariff & cheap labor. N.E. esply. saw future in mfr. Lost to Jackson. ✓

1828, canal boom. Maysville veto, limited Fed. aid to int. improvements, direct, but states had full throttle. & distrib. funds from land sales. & easy money.

Land sales & money supply. Wildcat banks, bank notes, accepted for public land. Specie circular & crash of '36.

Tues, Oct. 26, '65

Residual observations on canal boom.

1. Cartel price-umbrella syndrome, & bias to fecture.
Discussion. Modern examples. Forestry. Desire of large firms to min. mgmt. problems — the res.-output ratio. Some figures on KCLC to illustrate.

2. "New towns" today. E.g. of typical monuments of late boom. SSJ. I.D.

3. Linear devmt. of land use along canals. Failure of local govts. to build feeders, waiting for State. Absurdity of tapping Ill. when w-n N.Y., over 1 mi from Erie Canal, was unused, or in sheep.

4. Principle of dfr. disadvantage — cities seek to capture remote provinces.

5. Manic-depressive banking policy of U.S.
First, attacked & weakened B.U.S., put Treas. M in pet banks,[132] etc.
Then demanded specie.

6. Some aspects of crash.

Too much land — so values sink. Apparent cause. Land collapsed, banks followed.

But was not more land. Was more capl. sunk to dev. land. L.v. repd. present value of durable capl. — of $ exchange on the future.

L.v. sunk when we realized we had too much exch. on the future ~~old~~ relative to exch. on present.

That wd. come to light when exch. on present dried up unexpectedly — show the staggering diagram again.

Goods for immediate delivery become scarce relative to goods for future
Nov. 2 → delivery. Leads to lower invt. & inc. & cons. But not via K. mechanism of lower net inv. C+I → Y is misleading. I_G → Y is truer, and Y → C. (over)

That essential relationships is obscured bec. ~~$~~ spot prices also fall. ~~But~~ 3 reasons:

a. Micro — some commodity spot prices fall relative to others. But that is not a general price drop.

b. General p level drops. Due to M collapse.

c. Particular spot prices fall, on which heavy ~~future~~ expectations for most future goods. Primary products, usually. Am. products, 1837. The commods. which have absorbed the most capl. Their fall is not compensated by the relative rise of others bec. the fall of their futures does not raise futures elsewhere.

d. Commods. fall rel. to labor? If so, blocks invt. opps. Is nice for the employed, but leaves unemployed.

Cobweb, maybe mis leading bec. depends on shifts in relative prices. But we can adapt it by defining price as the price of future goods in terms of present goods. E.g. the price of Y_{25}; or of perps.; inverse to i. Price of land, (in terms of spot commods, e.g. the CPI.)

C + I → Y, etc. suggest autonomy of I_N, & a "mult. process" that no one has ever been able quite swallow.

Such a defn. is most approp for cobweb, bes. cobwebs based on, constructed on postulate that supply is fn. of price of the previous pd. The more durable the product, the more likely that is to be. a) Bes. long gestation pd; b) Bes. of long life after birth (altho the 2 are hard to distinguish)

Cycles are marked by big changes in ~~demand for~~ price of future goods in terms of present — the further future, the greater the swings.

Land devmt; housing; explm. for minerals; forest planting. Tells us where to look.

~~Fail of~~ Fall in futures marked by liquidation crisis. Everyone seems to want money, but money merely represents present goods.

7. More bias to futurity

a. Hi wages, subst. capl. for labor. Cumulates.

b. Overestimate future of developing regions bes. they consume for their growth their own products, & the use of their local inputs.

c. The El Dorado spirit. Confidence in the future of a region, district, or neighborhood. Causes people to invest in individual parts & members of an economy in the confident expectation that others will fill up the difference. Can do wonderful things — but can also mislead.

Is why the regional aspect of major development booms is so important.

d. E.g.s of raids for prescriptive rts.

Causes you to invt. in land devmt. when returns are <0 — in pds. when l.v. are rising.

Thus, subsqnt. land is occupied & improved.

This may occur at more than one stage. It might seem it cd. only happen once, on land w/o tenure. But there are further forms of tenure.

Thus at urban fringe, you cannot reap conversion $ always just by buying. You must secure zoning — often by use. If you get early shopp'g center you also get vested interest in: use of necy. streets as arterials; bus routes; improvement of xways (Fondulac, Capl. Dr., currently)

Apts., too, get "tenure" by use — exemption from min. standards that grow progressively more exacting over time.

Other e.g.s.

Squatting
Homestead act
Minerals exploration
Dams
Wtr. use
Utility extensions
Urban annexations

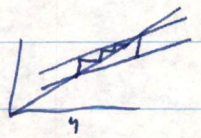
Chain reaction -- once one begins, many follow.

8. Cumulative factors in boom.

a. "The" Multiplier of Keynes

i. Expound, usual forms

(A). Graphic



(B). Algebraic. $C+I=Y$; $C = a+bY$; $Y = a+bY+I$

(C). Instce. of fixed ratio of Y/I

$Y - bY = a + I$

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

ii. Criticize

Makes I_N the autonomous vble, w. great leverage.

Requires we assume that the intent of investors is framed in terms of net addition to capl. By converting cash into assets. So they set out to Δ capl., they are frustrated by ΔC, they try again, etc.

K-ns. put it in terms of an Δ periodic flow of net I_N. That can be manipulated mechanistically. But in terms usually presented, makes no sense. Requires motive to Δ assets. (If Δ l.v. Δs assets, destroys this motive.)

Mult. assumes idle resources, spending as bottleneck. But liq. capl. is bottleneck. Thus fn. inv. — capl. import — is key, allows ΔI which is real.

Multy.

Tues., Dec. 7, '65

1. Yesterday's big push up by Fed.
Fed. follows mket. up.
What happens if fights it & keeps lo i?

a. Creates capl. by confiscation. If we accept confiscation as a principle, where do we go next? Is no need to use infln., then, can confiscate directly.

b. Defeats own purpose by destroying faith in $.

i.) Capl. flows out

ii.) Investors who prefer passive role have nothing to buy best lend, on fin. secs. — no bonds, etc. Even hi i bonds wd. be a risk, which they are seeking to avoid.

Borrowers cannot sell bonds — who wd. buy? Wd. require very hi i to compensate for infln. + unwanted risk.

iii) Historical lesson of Latin America, etc. Continual infln., no capl. fmtn.

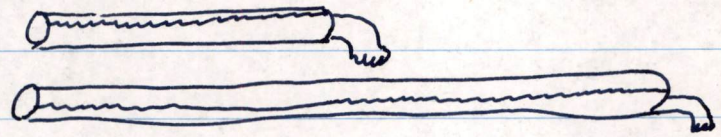
Besides those good reasons, bondholders today have much political power. Corp. bonds have become more common than stock, bcs. of inc. tax.

Munic. bonds held by rich, bcs. deductible
Union pension funds, etc., tend to be in non-equities.

2. Why is mkt. i rising?

Years of slowing recovery of capl. It's not coming out the end of the pipeline. Pipeline gotten too long.

If you double length of pipe, keep same circ'g. capl., must halve flow.



(Since it takes capl. to build the pipe, too, you may have less circ'g capl.)

If you try to Δ invt. by Δ monetary spending, you Δ price of finished goods relative to factors. Thus Δ i.

This Δi should attract circ'g capl. to fill the bottleneck. But problem arises when it cannot.

(i.) Irreversible freezing of capl. ~~in~~ in time-deprec'g forms whose recovery cannot be accelerated.

If all capl. were like timber or cattle, cd. quickly solve. Like Wicksell's wine economy. He needed more capl., so withdrew the 5th (last) yr. of wine to pay men to begin a new cycle, while also keeping existing cycles going.

Hi i does attract new capl, in that way. Liquidate timber; minerals (oil in depression, 10¢ a barrel.) Except when you flood mkt. with a few products, they collapse in price, so you don't recover much this way.

(ii.) Rigid programs that continue funnelling capl. into durables.

Public programs

Developmental works, far ahead of demand. -Δg cost. L.v. the Lorelei.

Work relief, p.w. Emphasis on not competing w. pvt. bus., hence boondoggle.

(iii.) Cartels

Alum. in depression.

Most minerals.

Monetary Limits on Aggreg. Output.

M as bottleneck.

Classics said -ΔP solves all.

Determinants of V

Not so simple.

-ΔP means

a. Forced disscaving

b. Falling collat. values

c. Destroy ~~credit~~ credit ratings

d. Period of attrition, antic. further -ΔP

e. Uneven distribn. of -ΔP

Thurs Jan. 6, '66

1. Submit copies of workable ideas – might use next week

2. Further comment on exams.

3 b, Mkt. forces & full empl.

Missed the message of B-B & W. Slight fall of wages causes large redirection of inv't. into fields using much labor

Missed noting how much present unemplmt. is not the fault of free mkt, but misdirected regn.

We don't need more gov't., but different gov't. controls.

4. What do we learn from war?

i. It's labor-intensive. Character of demand shifts

The hardware is, too – rapid obsolescence. Partly bec. compn. is keener, more genuine. Maybe peaceful compn. wd. help peace, too.

Replmt. demand comes along fast

ii. It opens new inv't. opps. Burst of new inv.

iii. Breaks bottlenecks

7. Missed the point

Micro bottlenecks are partial; macro are aggregate.

War, tough qn: cf. war spending & capl. spending. Why is war spending not equally barren in long run?, & result in shortage of liquid capl? I regard war as a form of consumption, [requiring very little capl. or land as inputs.] Reduces other cons., but that may not be of the essence. Also reduces other net inv. But not gross inv.

Xptn cycle.

I. Getting started.

1. Price contrast, central vs cheap land. Peripheral holders chaste ... cheap. Peripheral munic. eager for any dev-mt, not hold'g out for rich. Central ... to ...

2. Cheap xptn (war delayed boom by depleting cars)

New freeways. War Δd numbers who cd force cars.
also left govts able to force roads

War left low reg. xptn rates. Augmented union ranks, trucking cos, etc.
Techn. advance. New opps make M mor'g goods. Developmental rates.

3. Ec. of scale in bldg, requir'g big areas; freedom from mossbacks.
Not only do you build cheap, but create a community, external ecs.

4. Higher incomes & assets, desire to move to better neighborhood

5. Antic. govt boom, desire to get jump, attract matching funds as dev. proceeds (+this motive grows stronger in boom, dies in bust) To est. nucleus, attract hangers on. Crystallize a fluid developmental situation toward ye nucleus. Then achieve ecs of scale.

6. Downtown obsolete, moss-backed covered, stagnant, restrictive — underdeveloped.
Downtown had stopped subsidizing xptn. to outlyers did it, w. free parking.

7. Cheap materials

2. Techn. advance; or breaking mnpy.
(Gibbons v. Ogden) (Canals, rr., auto)

1945, was maybe fear of air dev-mt, others ran scared.
& War must hv. broken many restr. practices.

Also, have been continual unspectacular advances in hiway bldg.
Earth-moving much cheaper.

8. Tho anything may lead, is gnrly residences. Self-sufficient indivds, or small clusters, go anywhere. Rest follows.
Hi % pop. Δ now is in unincorp. areas.

~~2. Downtown~~

Xptn cycle, 2

II. Cumulative reinforc'g feedback phen. that make it a surge rather than steady, orderly transition

A. Early stage of boom

— 1. Scattered settlements require new xptn & c. p.w. Thus qualify enormous areas for higher use. (& thus keep land cheap). (Δ inv. in cars this time) so necessarily overbuild for present mkt. a big surge, & have then overbuilt. (over)

— 2. The Δ inv. → Δ N.I., Δ buy'g power, all projects prosper. Long gestation pds. of stim'g p.p. To physical gest-n pd., add lag of land dev-mt.

3. Settlement lags basic p.w., where these are, but gets ahead of them where they ain't, as Δ l.v. cancel advantages of beg under p.w. (most settlement today is in unincorp. areas!)

Tues, 8

Thus stimulates extend'g p.w. (Now in illogical directions. Chinese wall effect.) Houses w/o sewers & sewers w/o houses.
at several voltage levels, complex patterns

— 4. Process of bld'g clogs up p.w., creates demand for them. Also demand for bld'g — supply creates its own demand, self-sustain'g. Lag of dev. under present works leads to push'g p.w. further out, keeps p.w. busy. Take's in ea. others washing.

— 1. 5. Induced inv.

compl. — includ's suppliers, acc. princip. Increas's ret. to aggreg. inv., than external ecs.

compet. — munic. or metrop. mercantilism. Capturing provinces. This often antics com'g of basic trunk, e.g. St. Lawrence seaway. Maint'g relative position.

✓ Like war. Island hopp'g — grab now, develop later. Get the jump psycho. Where there is only room for one, several want to be that one. - parallel r.r. e.g. "Trade race." When the winner is clear, race ends, all stop investing, winner settles back to enjoy spoils. over

✓ 6. Rising costs encourage inv. now. (unstable)

— 7. Supersession at each wing forces it at next.

Δ'g demands of xptn.

8. CBD, underdeveloped, is in sht run incr. costs, overcrowded. So los'g a few mgnl customers & workers doesn't bother them so much as help new centers. (later they may be spurred to redev., realize long run decr. costs)

over

Some elements of incr. ret:

a. More conc. demand allows larger bld'gs; Δ specializ-n; more contacts; cheaper utilities etc per cap.; stores attract stores, etc.

Under establ. p.w., hi l.v. slow bldg; encourage more p.w., & risg l.v. under them promote bldg. there. So keep pushing out.

This is true of any small region, by itself; also of national circulation system viewed as whole. Pop. very scattered. To serve all pop., must build grid passg by undeveloped lands & cities, too

Holders of particular outlying lands w. political pull will run hi-voltage xptn lines to their places, by-passing interstices. Thus leave unfilled gaps.

Racing takes form of makg town more attractive just in gen'l, to attract unspecified ind-y. In time of flux, all tend to do it.

✓ Scattered pop. requires much higher spending per cap. for p.w. — so more inv. as result of expansion

Better xptn means Δ specialig-n, Δ productivity, also change — like removing tariff. Thus a downtown Blv'd will destroy some outlyg shoppg; & some inlyg resid. Thus new inv. opp.

Where best sites & routes are undevel'd, new comp. stimulates new inv. there rather than opposite. E.g.

.Xptn cycle, 3

9. Bldg that depends on external ecs depends on Δg l.v. When l.v. are Δg anyway, tend to overest. their efficacy.
also, when mkt is credulous enough, responds better, will buy the affected lands at advanced prices.

10. Δ sav; also Δ turnover from old assets that at last can be unfrozen. Encourages inv. in durables. ample liquid cap. Note that at this stage SC provides more liquid cap., not less.

11. Growth of new xptn kills old, (after a feeder stage when helps it) gets it back to hi unit costs. Hence change, once under way, surges. Autos & vs busses e.g. (But is temporary — will get to a replacement basis)

12. Rising l.v. -Δ liq. pref. Encourage inv. Ease borrowing.

13. Rising l.v. guarantee success of ventures, encourage inv.

14. Rising l.v. suggest more intensive dev. wd. be approp., encourage heavier invs. accelerates renewal of old areas — thus an unexpected Δ mkt. develops. (also discourage lower uses, push them farther out).

14½. New methods of financing proved & emulated.

15. Higher inc. & l.v. Δ borrow's power.

15½. Decentraliz-n requires Δ inventories to compensate for slow delivery.

16. Success of early ventures encourages others, faint hearts, "practical hard headed" types, etc. Object lesson.

17. New xptn form develops fastest where old forms nil. E.g. L.A.
Thus develops an entirely new city, scares others. Establishes a nucleus where none before, perhaps superfluous, like parallel r.r.

18. Establish lines of credit. Facilitates subsequent borrow'g — up to a point.

Xptn cycle, 4

II

B. Late boom

1. Hi l.v. under p.w. choke off bldg. But encourage more p.w.
Even after total bldg lets down, p.w. just gettg started. (Fisher)
(U.S. program today)

2. Higher level govts get in (& higher voltage p.w.?) (Also, more conc. pvt. ownership)
Others hvg skimmed cream, these develop projects that must depend on non-salable ben, 2dry ben., etc. Broaden fncl base, raise M
But by takg them, discourage others from developg – e.g. sellg land at hi price.

over

3. Pol. pressure, log-rollg. forces projects all over, something for everyone.

4. Better lands & routes revive. (First projects were on cheap land.) St. Lawrence; downtown; Grand Rapids.
Long Island today. (First developments were in areas less favored by natural inertia)

5. Upgrade housing, store appeal, etc. Nuclei havg estabd. selves by hittg mass mkt, now seek to cap their devmt w. hi-spendg, hi-taxpayg pop. Reserve land for them.

2. Extravagant hopes of lowering taxes by Adg tax base.

6. Inv. moves into more durable things. Esp. distrib. nets. (Freezing up cap.)

7. Land prices rise enormously.
Long term E-Z payments conceal

8. Complements go to antic. coming of builders, create boom, — but may choke them out! (Cf. 2, where builders choke out fillers)

8½. Stores etc. get bigger. Because of scattering, each must be more self-contained. W. auto, they have access to more people in neighborhood, tho fewer in aggreg. than if downtown.

Today the community corp., "Development credit corps", are burgeoning to attract new ind-y. By-passing ~~Wall St.~~, probly force some racing from them.

Fed. hiway program of course.

3½. False booms, gen. ~~by~~ fueled by false info., often deliberate, to gull credulous. Since r.e. mkt so secretive, no sound info, rumor replaces fact, etc.

First projects are successful, wherever they are, bcs is much underempl. mobile labor & cap. seeking opps, rush in to complement.

Later projects lack this advantage. Even their own financing hits trouble, & many end ½ finished.

Xptn cycle, 5

II

B Late boom (cont.)

✓ 9. Monetary authorities try to curb excesses by tight M
(Specie circular; "crime of '73" - demonetizing silver;
(1819 - Eng went back on gold; 1893 - Cleveland's free trade? outflow of gold.
outflow of M?)
1927, FR tight M

Tight M stops small investors. Doesn't stop big ones at all - probly they invest more

✓ 10. Dearer land cuts out mass mkt but encourages "inv." mkt & snob appeal. - larger lots
Cap. gains from Δ l.v. provide funds for this — self-sustaining.

✓ 11. Higher xptn costs discourage farther outward thrust, focus inv. on closer cult-n of nearer lands.
Vertical xptn burgeons - apts, offices.

12. To avoid obsolescence, do nothing

✓ 13. Skyscraper forests, fight for light & air, too large - each forces others up.
Race to the sky.

✓ 14. Hi l.v. basis of much credit

✓ 14½ Movement breeds movement - as others follow the crowd, to be near markets, labor.
also, new neighborhoods become fashionable style centers; & more exciting places to live.

15. Some ops come to rely on Δ l.v. to compensate for errors; cover peculation; pay debts, & on time. Sail close to wind - no reserve for contingencies. In delicate, precarious positions

15½. Successive waves of inv. in more & more durable goods. as co.'s get surer, stronger; as land devmt becomes more attractive.

16. Rising distrib costs - e.g. farm-table spread.

16½. Highest % Δ pop. etc in farthest-out belts; highest absolute Δ nearer in. Hence greatest scope for error in remotest belts

Xpts cycle 6

16½. Predict "Golden Sixties", grows tide of pop, etc. General optimism.

II B Late boom ¾ (cont) over

17. New areas, beyond ken of established centers of collect'g info, so no one knows total supply, e.g. Scattered, harder to exchange info, assemble it.

18. Gett'g jump, captur'g provinces, maint'g relative position, excelling in something — such motives lend selves to gen'l overexpension

Antic. unearned incs, matching invs, crystallizg on you, encourage such think'g. Also gett'g over the hump, to realize ecs of scale.

19. Mov'g & bld'g cost M, take resources. So develop'g areas sustain selves for a time; & slight orig. error leads to large final error, like sliced golf ball.

20. Hi l.v. in some areas push people to others. There they find great ecs of scale, & these areas absorb many — strand others.

21. Mass builders had no problem of specs. Build house, then sell, compact.

But now upper inc. mkt wants individualized ~~lot~~ house, buys own lot.

22. Late boom devmts probly doomed to fail: higher costs; most cap. already crystallized elsewhere, so hi l.v.. Both for developers & complements.

Even tho better conceived & located. St. Lawrence?

23. Vast oversupply of developed, but unimproved land, due to lag. At several voltage levels.

Higher $\frac{c}{q}$, late boom, means higher % fillers
olders.

Esp. as services Δ %. Thus more leverage from basics,
greater slope for error.

Unstable pattern, can't level off. Stops go's up, goes down.

Hi costs

(Includes scatter's)

Restrictive practises. (trying to upgrade model, once mass mkt has est. them)

Shortage of fluid cap.

Specs turn vs you.

Surges end.

Debtors saturated. Banks at limit.
Peculators exposed

Increas's ret. to durable cap., turns vs you.

Illusions punctured

Xptn cycle,
1

II B. Late boom (concluded)

23±. Cap. gains, allow pay's hi p, → more cap. gains.

24. Sheepishness of discredited prophets of doom, so no one dares knock.

25. Developmental projects, depending on other inv's, are slow to make money, it's understood, so people not dismayed by no early returns – long lags accepted.

III. Upper turning pt.

cf. 18

1. Hi costs, realized, overcome antic. of further rises. Then part of demand disappears, so prices of outstand's supply drop. Rigid costs, so who buys new stuff?
2. Shortage of fluid cap.

Causes:

a. $-\Delta S$, due to higher l.v. Draws funds into mntg inventories. (over)

b. $-\Delta$ disinv., due to lower turnover, congealed assets

c. Hi costs require more M, meet limits of supply, push up i

d. Tight M policy

e. Higher % of pop. in non-productive age groups. Less in 18-44 group.

f. More demands from other needs. Must stock & equip new bldgs of last yr. Scattering requires higher inventories. Etc.

Effects:

a. Reduce inv. in durables. Sell durables – try to liquidate.

b. Stops the mgnt inv's; & that stops other inv's, depend's on them. Stops hiways, etc, & all that induces. Bes. threatens to leave dev-mts stranded, half-finished. Stops races, as one quits so many others. (over, " ")

c. Stop rise of l.v. Jolts specs, thus kills ~~much of~~ part of demand. Starting downhill, kills more. (Makes land look much cleaner, short credit)

d. Banks call loans.

e. Depress's effects focussed on regions, areas, of rapid basic devmt. Lose 2dry ben., hope of ec. of scale, constr. bus., hurts.

f. Calls attn to precarious bases of l.v., vast current oversupply Price depends utterly on mass hold's for future

Refine:

after decade of invest'g in houses, furniture etc, consumers pay less rent. So they should be saving more. But they aren't. So all inv. in housing is lost cap., unproductive, & not maintained.

When it begins to peter out, will peter out altogether. For is largely self-sustain'g, most inv.s presume that other invs will be made

III Upper turning pt (cont.)

3. Internal devmts prick outward bubbles — even tho final failures themselves. (They absorb little inv. cfd to what they destroy. (not that the other stuff can't be inv. well earlier) Higher voltage internal dev. ff. low voltage ~~or~~ mgnl dev.

✓ ✓ Cruel) St. L. Seaway. carried very far. But as cap. is tied up in outer projects, the inner ones can't be The nec. cap. is strewn all over the countryside, & irretrievable for long time, much of it forever.

4. End surges of xptn inv. as mkts saturated, merely replace current stock. autos. Note upgrading, too,

5. End of upward movement lays bare sins of those who banked on it, jolts confidence. Embezzler at the races. Fncl insts, sub. good luck for sharp analysis of loans. Insull - elaborate system of borrowing to buy stocks.

6. Jolts lenders, hurts collateral

✓ 7. Hi xptn costs, ever higher, ruin outermost dev-mts. Lower effic. of all, scattered about. They go hi bcs of scattered settlement; TCC; tmsts; etc.

8. Holders, hi's had vision of higher use, won't improve for lower. Part of dv. process

9. Communities, want's higher inc.s, zone out mass entirely. They zone out ind-y to preserve resid. values, destroy their base.

10. Specs unload.

Over expanded house buyers draw in horns. (so the one mkt that zon's allows is dead) (oversupplied)

✓ 11. Cap. fmtn has 6n. in duc's more cap. fmtn in several ways.

a. By Δ's output from new equipment, requires more storage, process's, etc.

b. New distrib. nets develop lands adjacent mining

c. New cap. requires material which must be produced, that takes cap. And so on another step back, etc.

d. Competition, trade race, to establish central position, achieve ecs of scale. When comp. folds, race ends, winner stops running too.

Now all this ceases.

As b'ldg stops, & p.w. fail to yield surpluses as antic, lower other taxes, etc., punctures illusions.

Xptn cycle
9

III Upper turning pt. (cont.)

12. End upward movement of l.v., end that incentive to build (Both direct, & offsite capturing)

13. .. .. hold land, so downward move must start

14. Constr. factors desert erstwhile bldg areas, leave p.w. underused. They go back to where p.w. already ample, from yore.
(Note, our distr. nets are not underused in sense they don't get filled near their capacity, probly. But in sense the lands they pass are vacant; all must travel further ∴. Also, some probly underused present capacity. P.U., probly build cheap, low capac. lines over long distance, lose much ec.)

15. Hi landpices hv. bn stim. new out thrusts to cheap land for some time, sensual stages & levels. Now even this dries up — hi l.v., tight M, dear xptn, mtrls — leavg less NI, hence less pp. to buy developed lands.

16. ~~Skyscrapers~~ hv. ruined nearby sites?

17. Non-basic uses choke out basic, often in antic.

18. Which comes 1st, do hi costs stop constr; or fluid cap. shortage?
If 1st doesn't come, result is extend xptn further until 2d does.
So is one or other.

~~19. Scattered~~

19. Developers & communities act, as the mnpsticly, seekg to attract ~~from~~ hi-class customs, even tho not mnpys. Ratchet. Overzone.

. Xptn cycle, 10

III Upper turning point (~~conducted~~) (cont)

20. Distrib. nets continue go'g, while fillers slack off.

21. Debtors saturated

22. Banks reach limits

23. Winners of races to achieve unique ecs of scale are decided, so race stops, inv. declines, both by winners & losers.

24. Desillusionment w. cheap. subs destroys demand for everything.

" " ✓✓ 25. W. cap. locked up in fixed stuff, can't develop the new.
— can put this across ok. in article.

26. as new pattern of layout becomes fixed, no more demand for autos, either — bulge is over.

✓ ✓ 27. Most supply being from past, small % decline in overall demand can stop new bld'g entirely. So it doesn't take much -Δ N.I. to cut off all constr.

✓ 28. When l.v. begin to fall in gen'l, those projects depend'g on Δ l.v. will fail finely, even tho well conceived otherwise.

This occurs when developmental projects proceed all over, so none can attract pop. & cap. from any other.

Experience of 1st ones in Δ'g l.v. leads to belief all will

In boom, is probly overlooked that new xptn not only allows for decentraliz'g some fns, but also allows for more centraliz'g of others. Miscalcs. wd lead to bld'g many things in wrong places — any pd. of flux means errors, old rules prove false guides.

This waste leads to subsequent cap. shortage — never retrieve this cap.

Xptn cycle, II

III Upper turng pt. (cont.)

29. People are investg in antic. of Fed Hiway program. But how many hiways can be built by org. that can hardly refund its outstandg debt now?

Xptn cycle, aspects.

1. Low costs. Confidence revives. Constr. recommences.

2. Wave after wave of higher prices, encourage prod-n further & further back toward source.

Finally get back to nature. Even there, encourage prod-n ... of Xptn!

So far from consumer; so ponderous; such lags; such spec.; finally develop more than need. (Serve entire area to serve one.

(Pol. units large, sparse areas over rep., serve whole pol. unit to serve part

3. Rising costs encourage; hi costs stop. Basic antithesis

4. Internal development pricks outward bubble. (Internal dev. at higher voltage, after outer dev. has advanced to lower voltage stages. Maybe.)

5. Much demand speculative – based on antic. of rising demand, income, either your own or someone else's; &/or rising costs of prod.

6. Annual exp. on cars has Δ'd much more than on other things, % wise. Obviously the "Δ" must taper off (otherwise eventually spend all on that alone!) The relative Δ must stop altogether.
(Group-mindedness helps acct for surge of demand)

7. Sheepishness over underests. of past leads to overests. of future. — always ready to fight the last war.
Late boom, boosters rout knockers.

. Xptn cycle, aspects, p. 2.

8. Growg cap. means growg depree.-n, liq. traps to offset.
   Growg inc., means growg sav., liq. trap.
   Cap. gains, too, not reflected in Nº figs. Higher depletion allowances maybe too.
9. As recentralizg-n ff. on decentral-n., surplus xptn facilities appear. So more must be spent; ↓ of what is spent, less is inc., more is for hs's, etc. cap. xfer.

   Bringg back to center little as demand for central streets, which outlyers have to use anyway. Outermost appendages utterly surplus.

   Obsolesg old, depree., debt-free structures has no ill effects, early cycle. But obsolesg young, debt-ridden facilities is another matter.

10. Lag of land ~~dev~~ impr. behind dev.
    At several levels: nat. trunks, regional, urban, subdivid. ... room for extreme errors.
11. Saturation of borrowg power.

12. Bulge of cap. fmtn, gives way to mere replacement. (& then much isn't even replaced)
    But why a bulge, instead of continuous, orderly movement?
    And why, when say auto mkt bulge ends, isn't it replaced by new bulge elsewhere?

13. Protracted, sustained hi land prices, an ideal culture medium, hotbed to nurture developmt plans for conversion, to realize on the income that justifies such values.
    Values sustained by artif. scarcity, collapse

14. Long gestn pd, coupled w. lag of land use behind p.w., leads to vast oversupply.

15. Land & his/ prices rise faster than per cap. inc. So sell to upper class mkts. Their p.p. is fed by cap gains — refined form of tak/ in ea. others wast/, & very unstable.

16. Continually chang/ techn. & inst. sett/, affects details, but not basic forces underly/.

E.g. no state bonds in some states, so munic., distr., or "dev. corps". Or pvt corps w. privileges from state, which borrow.

E.g. caution in subdivid/, but extravagance in superhiways.

17. Dearer residences will send people back to apts — in cities that allow them at least.

Law of subst-n, always work/.

18. At outermost fringe, inv. proceeds apace, needlessly extend/ xptn, commercial bld/, etc. Bubble pricks, discover we have enough — bes contract/ pop. requires no more xptn. And assoc. cap. improvements.

Master pattern

Fringe expansion is a mgnl, self-sustain/ thing, after apt. — requires demand at hi cost level, & creates its own, w. generative effect of invs. But stop it once, & there's no reviving it

Then we are thrown back on restrictive, overzoned communities.

New boom can only start when someone hits off another Erie canal — i.e. a project so good & overdue that it ~~de~~ needn't create own demand

19. Mov'g costs money – i.e. basic mov'g, of permanent location

a. It takes resources, clogs up xptn facilities, gives impression of greater need than is. Stimulates over-dev. of grow'g regions — & this extra dev'm't causes more dev.-mt, etc.

a slight miscalc. thus has enormous ultimate error. Like send'g off long gun shot. – w. slice or hook added when miss strt ahead.

b. Truck rates advance, ICC – get fig.

Mak'g new dev'mts unec. (esp. in conjunction w. other mis'g costs) And old, diffused by land spec. plus cheap xptn, run into dear xptn, which cuts them off from ea. other, so they undersize hiways.

✓

over

20. Gambling psych. – a site is lottery ticket

21. Cities grow'g in illogical directions, due to meet'g Ch. walls.

Thus antic. linear cities won't develop, as pop. moves to cheap land – w/o adequate p.w. etc of course, & w/o fnd power to instal them.

22. Antic. higher use stops inv. in lower use. E.g. Jack Lee's orchards.

23. Basic demand for hous'g probly not inc.-elastic; but spec. element has d'd his'g spend'g dispro-

24. Overbuild for luxury mkt late boom. (cap. gains?)

25. To serve scattereds, must serve interstices.

Polit. factors may mean to force it, must serve whole pol. units.

P.U., too, extend service to ~~marginal~~ diffused areas below cost, make up from dense areas.

But as most pop. diffuses, must raise rates. So facilities underused.

26. Induced inv.
competitive
complementary

27. Tendency of ambitious men to overcommit themselves.
Claim more than you can develop: lands, franchises, routes.
Coupled with rt. of use doctrines, antic. of base period rationg, etc.
Thus "To heck w. developg area A – that's sewed up. Let's pour our funds into gettg started in area B, before rivals get it." (over)

27a antic. of unearned inc. powerfully abets this kind of thinkg.

27b Also, land dev. sits w. ecs of scale, external ecs, "over the hump" situations – take big risks to make it.

27c The matching prine. – attract outside inv., once make self attractive enough.

28. Desire to maintain relative position, hencekeep up w. leaders.
This w. many substs. for objective judgement & appraisal.

29. Process of constn. itself brings many benefits, gives illusion of success.
also, even doubters may have + time-pref., enjoy present benefits.

30. Supersession at each ring takes land from lower use, stimulates
" " next ". Xptn itself eats up much of antral
city, forces people out, As demand for xptn!

31. Growth of liq. sinks – due to more depree., higher raw material costs
smaller % of payments are for income, current production. So inv., esp.,
ceases to be income creatg so much – offset by disinv. by sellers.

Policeman asked woman driver what yellow light means. "Go like Hell, red lite's comin'."

Cities push routes, to capture a province, for future development. War-spec. psychol. combined

Xptn cycle, aspects, p. 6

32. Fall'g costs discourage bld'g, paradoxically.

33. Inertia means slow xptn bld'g, then overbld'g, ff. by restrictive reaction.

The overbld'g takes place on submrgnl routes, for pol. reasons etc.
Restriction then — & perhaps earlier — ips to withhold better routes.
(But some dev. of better routes, etc., is what pricked bubble)
(Hi cost of some raw materials, etc., allowed by withhold'g better sites, etc.

34. Migration to new areas flows, then ebbs. So cap. in old areas becomes useful again, & total supply excessive.

35. Hi % cap. concealed. Means low turnover.
Deferred deprec., due to durability, catches up w. ec.
White elephants, hi % of cap. ceases to be automatically replaced.

36. Inadequate info.

37. Overall picture:

Cities scatter, evoke xptn boom. Stunt to consolidate gains near centers, boom collapses.

38. Teamsters Union
Rwy brotherhoods

39. Δ'g spread of prices between stages, due to dearer xptn.

	CPI	Wholesale	Food, retail	Food, Wholesale	Motor vehicles, wholesale
1941	95.5	96.4	95.9	100.0	
					1950 106.7
Jan 1951	116.2	110.7	112.8	89.3	134.3

40. Δ's prop. of debt is for autos.

41. Downtown, while underdeveloped, may be in sht run incr. costs, (which some mistake for long run). When outlying dev-mts 1st ~~threaten~~ drain off trade they feel no pain. ~~But~~ Also, others underest. downtown's potential. But when basic position threatened, downtown retaliates, acts together
Inertia – firms locate near other firms, to interact. Once basic central position is threatened, take bright.
One aspect is quality of customers. When downtown starts getting the stiffs, w their external diseccs, it must act.

Downtown's trouble may be largely just a bottleneck, like ptg, easily remedied. As mnpies, may fail to exploit ecs of subcdg xptn & still survive. But when forced to by free ptg of comp-n, whoosh.

42. Δ l.v. stimulates bldg that depends on external ecs.; l.v.

43. Δ l.v. stim. spec. home-buyg (simul stim. bldg vacant, so explode)
Such demand very unstable, collapsible. (After '29, Grand Rapids, lots used per cap. declined)

44. Inv. in cars was big thing in xptn boom. It has qualified vast new areas for urban dev-mt.

45. Xptn inv. is apt to be a surge, also bcs firms locate near other firms, inertia (over) unsteady, irregular, lumpy, wave, splurge
bcs to serve a few scattered houses must make service available to interstitial lands. Nec. over build, oversupply mkts. Is as true of autos as anything. Ea. Am. family now equipped w. the xptn device to utilize tremendous areas.
After the surge, no more nec. for long time.

46. Relocation of hsg has been as big a factor in boom as Δ of no.s. This means new xptn – w/o destroyg old. (except autos can move too, but they leave public xptn underused)

When inertia overcome, a few big leaders move, new centers get started, over hump, is a surge of moving.

Band wagon psych, stampede, also involved. Man is social animal.

Xptn cycle aspects p. 8

49. Decr. costs in public xptn mean auto growth augmented itself, once under way. (Also, it ruined much surface xptn by congesting roads)

48. Δ l.v., affects liq. pref. Order of magnitude enormous.
% all double since '50, say from 300 to $600b, 300b in 5 yrs
$60b/yr !!

49. as inc. Δs, everyone's borrow's power Δs, + this Δs inv. opp.
as l.v. " " " " " " " " "

50. W. so many cumulative factors feed's the upswing, we can do damn fool things under their protective umbrella, still get by. Thus create fabulous errors, suffer on downswing.

51. Ris's distrib costs as city explodes. Less effic. cities.

52. Congestion & explosion. Neither is novel. Careless talk of new era, as tho this had never happened before. To look back is to see it is also to see most Has, wave after wave; ~~each time ending in disaster, fiasco has broken~~ we created only to crash ~~ignominiously spectacularly~~ in ignominious disaster.

" "

53. L.v. rise, choke off inv. opps. Has been a continual outward push, developers mov's a jump ahead of ris's prices — & gett's bus. from pass's traffic mov's by to develop & inhabit next ring out. But finally ris's p get ahead of them, coupled w other ris's costs. Some opps remain at current inc. level when they decline enough to start cumul. downturn, + then all dry up.

Basic

And entreps., ridden w. debt they assumed to buy costly land, lose credit stand's for yrs to come.

54. Cheap xptn allows investors to escape costly land, city explodes, widens circles! Then ∆ xptn cost forces back toward center. They reluctantly do so, but soon bid remaing lands out of sight. Collapse.

also, inner lands absorb less inv. anyway, breeds collapse.

55. Suburban munic. incorp. undeveloped land, overzone it, thus spec. on grand scale, prevent "premature" "low-class" dev-mt — reserve entire area for rich. (who are desirable not only to pay taxes, but vote right)

Communities competing to set a "hi tone", lay more traps for rich than there are rich. They encourage hi land prices to keep out peasants

56. Desire to avoid obsolescence inhibits dev., after pd. of rapid flux & many object lessons.

57. In a forest of skyscrapers, extra premium on being the tallest

Like mining a flight resource. Here it is prestige, light & air & view.

Leads to overdevelop.

58. Saturate debtors. And even const. annual ∆ becomes smaller % ∆.

59. Unstable paradox: all costs rising, shd stim. ec. — but get ~~smaller~~ larger houses!

60. Inability to discrim. among qualities of land. So pay fancy prices for outlying lots. But these are even fewer in view of quality — so part of real rise concealed.

Xptn.
cycle, 10

61. Land prices rise under cover of long term loans, lower monthly payments. Thus they rise on cheap credit, & when that goes, boom goes.

62. Constr. people antic. growth of urban base (e.g. from St L. beanway) move to meet it, & their movement creates the demand they antic., temp-ly. Non basic ind-ys, too, may antic. basic. — & choke them out!

63. End's FHA means greater i.r. disparity, frustrated lenders buy land.

64. Costlier land shd mean smaller lots, smaller houses. But dearer land is due to antic. of future Δ, & appeals to investors. So can make lots bigger, houses too, appeal to diff. kind of buyer, spec. Thus upgrade hs'g, & sell to unstable mkt, who buy less & less for immed. need, more as inv. for future

65. What finally triggers off downturn? Probly this: disprop. am't of cap. concealed in fixed, low turnover forms. Δ cons demand, & ~~less~~ inventories, make for hi inv. opp. there. But the $ not available — is sunk in long term inv., & consumers won't save much. So upsurge of sht tm i. So people sell durable invs to get sht tm money. This starts them down — & specs take fright, unload.

~~Cap. ds~~ Shortage of liquid cap. funds triggers liquidity panic

This contradicts some of my other hypotheses:

a. That productive inv. opps disappear, so people buy land

b. That amort-n charges pile up & overwhelm new inv.

Xpth cycle, 11

65 (cont.)

Expand hyp. Cap. is concealed, but invs being so complementary, have vast new inv. opps, ever expanding. This forces up i, which kills off l.v., which collapses all.

Thus new outlys houses require basic p.w.; & basic p.w., when come, create niches for many new houses. Add this to inventory shortage, & you have what no one foresaw, a shortage of fluid capital

So here you have houses w/o p.w; & there have p.w. w/o houses; & no way to bring together, nor to provide both with their full complements.

Also, rise of l.v. discourages sav., → free spending on cons.

What of hyp. that higher l.v. cut off constn? Maybe answer is, there is no limit to how much land you can create by new xpth, so hi l.v. simply stimulate new land dev., & all the inv. opp. in them. Trouble w. the land hyp, is no mechanical reason why it shd go up & up, despite all. Cap. shortage, on other hand, ff. very plausibly, & is very plausible that no one shd foresee it.

66. Hi land prices necessitate higher loans, to buy & build; this tightens money; which pulls plug, starts l.v. down.

67. Success of early ventures, object lesson, stimulates many, many more faint hearts: Bridgewater Canal, Eng. 1765; Lancaster Turnpike, Pa, ~~18~~ 1794; Erie, 1825 (Gibbon v Ogden, 1824); N.C. grant, 1850; etc.

Xptn cycle, 12

68. Extravagant hopes by current taxpayers that new xptn will lower their taxes. From tolls, gas taxes; or Δ'd income perhaps; or, w. munic., Δ prop. taxes. Add this to pressure of direct benefits, & swing balance.

69. Techn. advance; or breakg mopy, may start it (Gibbons v. Ogden)

70. New form of xptn at first stimulates old, feeds it. — e.g. autos bring passengers to stations. Then competes.

71. New xptn form develops fastest in unsettled areas — acquire land cheap, fewer competitors & roadblocks to hamper.
Or where existg xptn not so good. Thus Boston, Balt., Charlston pioneered the r.r.; while Pa. pioneered the superhiway, LA the automotive city.

72. Desire to attract hi-class customers makes lessors, munic., behave unpetchy — i.e. not compete pricewise, act ratchety. Thus rigid p in depress.

73. Subdiv-n activity peaked later than constr., past cycles. (Fisher)
(Today, hiways just zoomg up, as bldg & perhaps subdividg too lag)

74. Still rely ~~mainly~~ on simple expl. of upper turng pt;
i.e. price rises, chokes inv., ends demand, spirals down.

75. There are many things & combos of things that might cause upper tng pt.
Problem is really cum. factors. Bes something is bound to give us a strong downward thrust sometime

Xptn cycle, 13

76. Early boom, people establish their lines of credit. Thus going into debt a little bit facilitates later borrow's, (probly longer term)

77. Late boom, more conc. landhldgs, more overall org., hence more inv. designed to create external ecs. E.g. r.r. owns big area, pushes line out to develop it. Also, big, self-contained dev-mts, create their own "external" ecs. internally also more highly org. pol. units, e.g. overall T.D.s, to force bigger things, & justify by capturing offsite ben. from all over.

78. Late boom, builders of germinal facilities try to collect offsite ben on new lands. Probly ask too much, get no dev-mt. But by broadening repayment base have eased force, get enormous projects.

79. "Developmental" projects. Do not make M at first, but attract custom, compl. invs, then pan out.
All invs are a little this way. But new shopping centers, industrial districts, synthetic cities, is longer lag, & more dependence on compl. invs by others.

Ec. 302

Ramalaikis

In U.S. accts. we do not include "repair & maintce" with capl. goods prodn.

Only prodn. of new capl. goods is called investment.

Marco -

If there is a constant or rising capl: inc. ratio, as more affluent people require more streets etc., saving must be requisite to any Δ income.

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$k \equiv \frac{1}{V_y}$

1) $\frac{M}{P} = k\,y$

2) $\frac{M}{P} = c\,y + L$ Demand for M = supply of M
Demand $\propto y$ ···· i.e. transactions demand

3) $k\,y = c\,y + L$ (Proceeding by rote)

$k = c + \frac{L}{y}$

$\therefore V \propto y$

(1) tells us that y & V are inverse. So we have not proven that. We drew it from =n (1). Fact is, in $MV \equiv PT$, causation is from left to right. So can never go from that to conclusion that $T \rightarrow V$

(2) tells us that demand for $M \propto y$. [From that we infer that $V \propto \frac{1}{y}$]

(2) does not tell us the mechanism whereby S & D for M are equated. We must reason outside the =n. Excess demand means lower P, or maybe lower P of futures (higher i), a lower y.

(3) Shows the danger of mechanically following routine math. methods w/o deep understanding.

It combines 2 non-commutative =ns, & ∴ is not causation itself. It gives no relevant info. not already in (1)

It tells us that, since the demand for M & the use of M both $= \frac{M}{P}$, they must = each other. But it doesn't

say how they get to be =.

Tues., Jan. 4

I. Honesty on Exams

II. Comments on "

1. Terrible

2. a =

Max a by having $g' = T' = Ti + a$

Res. $T = C_0(1+i)^t + S(1+i)^t - S = (C+S)(1+i)^t - S$

So $T' = (C+S)(1+i)^t i = (T+S)i = Ti + a$

Not bad

III. Fear no bogeys

a. Resources ok

b. Peace ok

c. Machines ok

Real problems are:

a. Fear of goods & prodn. & comptn. & people. Applying micro. to macro.

b. Over investment in future

c. Over reliance on inflation as panacea

IV Due: Copy of your ideas on workable measures & proposals

V. Ackley

Pop. Δ

1810-20	33%
30-40	33
50-60	36
70-80	30
90-1900	21
1920-30	16
40-50	14
50-60	20%

2-8-65, Ec. 302

[1. Correct self on GNP & N.I., & transfer payments]

Survey of Major Cycles

1. Ayres chart. "Indl. prodn." Departures from trend.

Key years.

Rough only.

2. House-bldg – Matthews. p. 99

Note growing amplitude

20.- yr. cycles

Not separate – tied to other cycles

Deferrability of replmt.

Leverage in mgnl. accum?
Gambling
Racing
Speen.
Basic expn.

Some reasons for cycle ampl:

a) Long gestation pd. — cobweb principle.
b) Durability & accn. princ. (capl. stock adj. princ.) applicn. of leverage
c) Effect of i. Very sensitive to ± Δi.
d) Ebb & flow of migrn. — on ebb, less needed (effect of U.S. pol. in '24?)
e) Encouraged by Δ l.v.; halted by hi l.v.; mkt. glutted by intensificn.; prodn. & sales halted by – Δ l.v.
f) Herd-like behavior of credit — follow the crowd. for collateral security
g) We may run out of capital?
h) Durmt. of land & p.u. in big chunks — (not just as result, but cause)
Political factors in territorial expansion. E.g. of wtr. supply of S.F. L.A.
i) False demand from constm. people
j) In a slump, effective supply Δs bcs. people willing to use poorer supply.
k) Bldg. is labor-intensive, so excess capacity can disappear.
l) Rent rigidity, resulting lags
m) Poor mkt info
n) Internal cumulative tendencies — social effect. Abandoned areas deteriorate socially, so migration spurs migration
o) Land durmt gets ahead of bldg – acceleration again.
p) Taxes vary -- $226 today, 2-3%. "Tax lag."
q) Cost-push: artificial scarcity of land; real shortage of capital; institutionalized: unions, codes, etc.

Long period of cycle lets these be

o) War -- we draw down durable capital, must replace afterwards

p) Previous infln. — wiped out debt, raised credit ratings of borrowers, both pvt. & munic.

3. Ask Alan — where are we now in house-bldg. cycle?

Current tightening of credit. 10-65, suddenly read about it everywhere. World shortage of liq. capl. (the only kind you can lend or invest.) Underdevd. countries left w. half-finished projects — i.e. big dams w/o complements, w/o pvt. land devmt. Banks in U.S. pruning lists of prime borrowers. C.D. compn. for funds. Etc.

4. How fit into macro?

Importance of m.e.c.

Importance of supply of liquid capl., per i.v.

Matthews: What shd. we learn & retain?

Chap. XII. Periodicity; major & minor cycles.

I. Fisher denied cycles exist. Fisher as a prophet

Matthews shows some excessive need for formalism — models

A.] p. 208 classifies slumps. 20 yr. cycle, one missing bus. of w.w. I. Coincides w. bldg. cycle.

B.] p. 225 U.S. is most a 'closed' economy, hence shows endogenous cycle in purest form.

(Hence irrelevance of much Keynesian anal. to U.S.) (K. interpd. hi i as due to concerted effort to ~~avoid~~ support the £; his bête noir was the g.s.)

C.] U.S. & Eng. are much alike. Long wave. bldg. cycles. dominate.

(and territorial expansion; continental & urban)

Hart - Annals

ch. XI Key Facts

Time series - output, prices.

A.] Alleges ~~that~~ price & output move together, except in agric. (He's wrong. See A, below]

B.] No price level drop after W.W. II — a big difference from ~~Nap~~ 1812, Civil, & WW I.

C.] p. 284 - Durable goods, big source of instability. (to availability of capl. is key to cycles. Soft goods output is dominated by current demand, & it holds up. Hard goods dominated by availability of capital) Or investment demand.) (Or demand for exchange on the future)
[This is not same as net I; rather, has to do w. character of gross inv.]

p. 285 Echo effects require future fluctus — is vague as to reasons why. May be damped.

p. 287. M a prosperity. (cause or effect?) p. 291, leans to

D] ± Δ M as cause. (Maybe it was ± i, instead)

p. 290, note big Δ i, 1893; p. 288, 1873. Shortage of liquid capital.

A] p. 293, sounds as tho failure of M to grow accounted for bad times 1865-93. But, p. 262-3, good yrs. are 1880-83, '86-'93, and 1880-93 was near to a 'sustained prosperity! Wholesale p fell from 100 to 70, 1880-96. — p. 290.

E.] See E, p. 4 Hart, like Friedman emphasizes M; v. G, on p. 4 Keynes emphs. V; more correct (over) emphasizes T; cost-push emphs. P.

Pores issue. We know that ~~shortage of M~~ hi i chokes off boom. Key qu. is, is it due to tight monetary policy? Or real shortage of capital? (If you allow easy M in face of real cap. shortage, get inflm.; thus, are limits on freedom of mon. pol.)

to say he regards M & V as complainant. so spending is determined entirely by other factors.)

G] 296-97. Skeptical of cons. fn. idea, & Keynes law.

a) Series show as hi a % of inc. saved in '36-37 as in '20s.

I agree. Cap. gains, late '20s, hi consumer debt — dubious if we save more.

But maybe cons. lags income - which K. wd. interpret as a bid on growth, I wd. interpret as the cap. funtn. necy. to allow growth.

b) We don't know what savings are. Figured as small residual.

Leverage ~~a acct~~. principle, of error.

New Morgenstern book, on reliability of data.

alternating impressions from reading the papers.

Interp. of neg. saving — cons. debt.

E.] Hart is a monetary theorist.

We all can see hi i chokes off boom. But how

M .. Hart, Friedman, Patman. Bankers restrict M.

V .. Keynes. Hi i chokes off inv.

Is hard put to explain hi i endogenously. In his environment it was imposed by effort to support £.

K-us. wd. not accept this pigeonhole. They regard M & V as infly. malleable & complaisant, so S & I decisions prevail.

P .. cost push. Natural factor rise, requires more real capl., or M, to force prodn.

T .. Wicksell. Replacement demand slackens b/c of hyperlongevity. Shortage of liq. capl.