

b4 Capital formation

Legenda on Capital Fmtn.

M. Postan, "Recent Trends in the Acc of Capital", EHR,
Oct '35

Newman, Bldg Industry & Bus. Cycles

Hull, 1911, Construction & Cycle

Likert Survey?

Knight, QJE, Aug '36, Quantity of Cap & i.r. From this see
if Knight conceived of a rate of investment, which affects
current yields; or just quantity of capital, divorced from
current flow, production costs.

Haberler, "Interest rates & cap. fmtn", Capital Formation &
Its Elements,, 1938

Hayek, Profits, Interest, & Investment 3-71

Cassel, Thy. of Social Economy ch 13, 19

Haberler, Prosperity & Depression p 69-79

(These are "shortage of capital" explanations of bus cycle)

Land spec. & cap. formation.

Can we condemn land speculation as a ~~radical~~ ~~alternative~~ ~~investment~~ ~~that~~ ~~raises~~ ~~interest~~ ~~rate~~ ~~by~~ ~~competing~~ ~~for~~ ~~funds~~? No, because if a rise is generally anticipated it will occur immediately, and no more funds will go into it.

We cannot say, that is, that because land values are expected to rise no productive investment will occur for rates smaller than the expected rise. At least we cannot look upon this as having any determinant effect. For there is no cost of production, there are only future yields, and these will be capitalized at whatever rates are determined by the differences between production costs and sale values of real capital. There is no "natural" level of land values between which and the anticipated level we get a ~~puzzling~~ ~~gap~~ gap that sucks in capital. Only where opinions or personal circumstances differ will sellers and buyers not calculate the same present value from given expectations of yield and alternatives.

However we do get particular times when land speculation sucks capital from productive uses. Suppose the man who sells the land turns around and buys more land, etc; in other words, there is a net increase in land purchases. But the same thing could happen with stock spec.

The fact that land values have risen does not prove that there has been a net increase in land purchases over ~~some~~ time. They could rise with few or no purchases.

Whenever ~~y~~ is expected to rise -- which means, for land speculator, that costs will fall and he will know ~~knew~~ ways to use land so as to increase revenue --- and ~~i~~ is low now, so you have no alternatives for capital anyway --- you will hold land idle. Now this is fine, and it is economical, but it causes unemployment, which is a political menace. Unemployment is not a waste if the men have to be paid more than they are worth, all things considered. Of course if anticipations are wrong, then it is a waste, or may be.

Now men prefer a society in which they do not have to work for very low wages, in case that should become economical. They bleat about "involuntary unemployment". People, in their general stubbornness, especially as monopolists, land speculators, etc, maintain very high holdout prices sometimes, in particular national psychological spells, throw in some silly politics and capital confiscation, and, since what is economic is just a matter of individual opinions, which may be wrong en masse, make unemployment economic. Because it always seems economic to wait until the other fellow gives up the ghost first. But if the other fellow goes to Washington and gets a general pension, etc, everybody can hold out a while longer -- and Washington may be subsidizing them all at once, usually at the expense of those who are not holding out.

So I would conclude, generally, that the so-called unemployment problem would be solved by taxing land and people whether they produce or not; and not taxing capital, to encourage its formation. But it should be emphasized that these taxes are not really changing the economics of things at all; they are just a reminder not to be stubborn. That if you persist in foregoing your opportunities and bargaining ~~seferely~~ and by

excessive holding out, you will get clipped.

A good dose of inflation now and then is healthy, too.

Rewriting first sentence below space, previous page: when it is expected that y-6, y-7, etc, will be higher than otherwise if y-1 to y-5 are foregone on basis of present costs and knowledge, land speculator will wait. He will wait out labor and investors and customers, that is, expecting them to bid more later. He may also expect a higher use to come along, etc, but let us recognize that much land speculation is based on bargaining: sometimes monopolistic, more usually awaiting general ec. developments. --for wages and materials costs to fall, or customers to offer more. And of course the various monopolies holding out against each other and the general public is involved, for each one of them knows that by holding out he has some effect in making others soften up, tho individual land speculator knows no such thing.

So, tho unemployment is "economic" in depression, it is only so if we accept certain existing institutions that we needn't except. There are two general approaches to the problem: subsidize unemployment, to make them happy; or penalize holding out.

I lean to the latter, but former has its points too. In fact, since at times unemployment is economic, it seems only wise to give people some kind of universal property interest.

The difficulty is, if we ever muster political strength to confiscate land, we will have also mustered strength to confiscate everything the rich have. And this will be the end of civilization.

Perhaps we can make people show more discrimination? Judging from those I have known, I doubt it. I suggest just lowering all hps by all methods, including taxing land, that are available. Give people a vested interest in the system by high wages, and opportunities to accumulate capital.

The main thing that should be changed is to get away from the widespread belief that govt should help people maintain high hps. Of course at present this reflects the way people feel. They would rather have it that way. They show no foresight about the national debt, cap. accumulation, production, etc. So all I can do is tell people I disagree with their attitudes, and think they show little foresight. But most of them don't care about foresight anyway, that is one of their attitudes, they live only for the present. This, incidentally, is a mark of decaying civilization. But they don't care. Live on capital and natural resources, soak the rich, breed profusely and let 'em starve: is this the inevitable outcome of democracy? By which I mean any system that lets laboring men have a say in government? Maybe Jefferson was right, only a nation of small farmers can keep democracy and progress. Or maybe we can educate them. Non-democracy being even worse, perhaps that is what we must try. Damn trouble is, they prefer things this way!

One could
condemn this
as a fault of
free contract
system, advocate
it as a
preventive.

for capital, i.e. money
If I sell land & consume proceeds, capital is destroyed.
If land not owned privately & I am forced to keep my assets
as capital, if I sell them & consume proceeds, no loss of cap, for
cap. is still held by buyer. But even so I have consumed the cap.
he gave, which he would not have presumably, so no difference.

Only time buying land ~~discourages~~ reduces cap. formation is
when people sell land to consume proceeds. Again, if they held
their assets as capital they could do same. But they might not be
so apt to do it, having fewer assets.

& to reduce assets involves confiscation, & I have suggested
inheritance tax as easiest means. By such we prevent
2d generation from living on capital, reducing it.

But how to keep old from squandering cap.? Old age
social security is the worst way, is reprehensible on that
account. The best way to make the old not squander is to
leave possibility of long, pleasant senility, which for many
will be broken by death long before capital is exhausted.

Insurance, social sec. contributory plan, & industry pension plans,
by spreading risk, make less cap. accumulation necessary, are:
of questionable social value.

Everyone would ~~like to~~, aside from maternal instincts, like to
consume everything he produces - & more if possible - in his
lifetime. He would like to leave absolutely nothing. If everyone
were able to do this we should have, in any generation, only the
capital it accumulated itself - plus natural resources, & every
generation would deplete these as much as it could, the i.e. being

very high.

In our country our famed cap. accumulation may be primarily conversion of hatch resources into cap.

A civilization that lives on its cap. & hatch resources is declining.

Present value = $\sum$ present values all future yields (gross)

(land will be worth less because not amortizable;
more " infinite time)

$$(V + Vi = \text{total you have at end of yr. 1}; \text{ So } V_0 = \frac{V_0 + y_1}{1+i_1} ?)$$

~~$$V = y_1 + y_2$$~~

$$\text{Present value of } y_1 \text{ is } y_1 - y_1 i_1 = y_1 (1 - i_1) \stackrel{?}{=} y_1 \frac{1}{1+i_1}$$
$$y_2 \quad y_2 - y_2 i_2 - y_2 i_1$$

$$\sum = y_1 - y_1 i_1 + y_2 - y_2 i_2 - y_2 i_1 - \dots$$

$$= y_1 + y_2 + y_3 - \dots + y_n - [y_1 i_1 + y_2 (i_1 + i_2) - \dots \text{etc}]$$

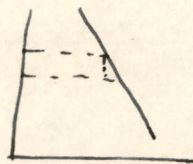
"

$$[i_1 (y_1 + y_2 \text{ etc}) + i_2 (y_2 + y_3 \text{ etc})$$

$$\text{if } i_1 = i_2 = i_3 \text{ etc}$$

$$= y_1 + y_2 - \dots \text{etc} - i(y_1 + y_2 + y_3 + \dots) + 2y_2 + 3y_3 - \dots \text{etc.}$$

Taxing capital may be worst thing labor can do to itself. even short run. For cap, new conversion, is highly compl. to labor. Suppose its mp curve looks so:



This means a reduction of supply reduces labor's returns much. If taxes cause this reduction, labor loses all dotted area

Besides this, the conversion cap. comes around 2-3 times a year. If stopped, it stops carrying 2-3 times its weight of labor per year.

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

$$1+i-i-i^2 \stackrel{?}{=} 1$$

$$1-i^2 \stackrel{?}{=} 1$$

$$-i^2 \stackrel{?}{=} 0$$

no

$$\text{or is it } C_i = \frac{y_i}{1+i} \quad ?$$

$$\cancel{C} C_i = y_i$$

$$\cancel{C} C = \frac{y_i}{\cancel{C} i}$$

$$C + C_i = y_i + C$$

$$C = \frac{y_i + C}{1+i}$$

$$C_i + C_i i \stackrel{?}{=} y_i$$

$$C_i = y_i - y_i i$$

or

$$C_i = y_i - C_i i$$

neither is correct. Because of finite time period.

You don't subtract $y_i i$ because you didn't have y_i all year. You subtract more y_i all year. You only get y_i in

than $C_i i$, because you had more than C_i . But, for convenience assume you only get y_i in

finite time intervals. Then $C_i = y_i - C_i i$

So:

$$C_1 = y_1 - C_1 i_1 ; \quad C_1 = \frac{y_1}{1+i_1}$$

~~$$C_2 i_2 = y_2 - C_2 (i_1 + i_2)$$~~

~~$$C_2 = \frac{y_2 + C_2 i_2}{1+i_2} - C_2 i_1 - (C_2 i_2 + C_2 i_1 i_2) = \frac{y_2}{1+i_2} - C_2 (i_1 + i_2 + i_1 i_2)$$~~

~~$$\text{if } i_1 = i_2, C_2 = \frac{y_2}{1+i_2^2}$$~~

~~$$C_2 (1+i_2^2) = y_2$$~~

~~$$C_2 = \frac{y_2}{1+i_2^2}$$~~

~~$$\& \sum C = \frac{y_1}{1+i_1} + \frac{y_2}{1+i_2} + \frac{y_3}{1+i_3}$$~~

A future yield is worth the sum, C , that will grow to same amt at ^{available alternative} ~~rate~~ i.r.

$$C_1 + C_1 i_1 = y_1$$

$$(C_2 + C_2 i_1)(1+i_2) = y_2 \quad \text{if } i_1 = i_2 \text{ this} = C_2 (1+i)^2$$

if not

$$\& C_2 = \frac{y_2}{(1+i)^2}$$

$$C_2 (1+i_1)(1+i_2) = y_2$$

$$C_2 = \frac{y_2}{(1+i_1)(1+i_2)}$$

$$\& \sum C = \frac{y_1}{1+i_1} + \frac{y_2}{(1+i_1)(1+i_2)} - \dots \text{etc}$$

All yields & interest rates are anticipated. i refers to alternatives uses of C ,
 y " " local situation.

We know that future is get higher, $\& = \infty$ before too long - otherwise all sites would have ∞ values, having ∞ yields. There is doubt about the yields who that is involved.

4

My strenon conversion & employment
differs from wage fund idea in that with
me it is rate of turnover of existing cap. that
limits, & this can be ad by speeding conversion
(as well as new S of course), which involves
physical change of cap. stock toward
immediately consumables.

Land as
cause of
excesses of
bus. cycle.

(With land, since no check on values by current production, & hence
forever, room for wild anticip. & those with wildest ones get land. If
you want to stay in business as other than tenant, or get in business, must
meet those prices. Hence wide swings, & excess subdiv. of bus. cycle
signific.

Land purchases mean small ΔP act as trigger values, to
start movement of mass of land values lying behind them.
So many extrapolate present prices, with land, it causes these wide
swings - affecting credit base, saving, capital creation, etc.)

4a When stock prices bid up, because of land expectations, new issues also sell easily, which tend to solidify more capital. Because public doesn't carefully distinguish land & capital elements in stocks.

5 { Well, suppose a pulse of dI, & some of it is cancelled by disinv. from inventories. Is it then from the net dI that mult. is supposed to proceed? No, for the disinv. from inventories is thought to be just temporary, and automatic replacement will fill them up, new inv. opp. being created. My criticism is that this process should be made more explicit. And, being made explicit, equimarginal effects on other vbles brought into picture: c.b. desires; effect of higher i.r. causing permanently lower inventories; higher inv. opp. causing more saving; etc.

4a

You might say that when we go thru an inv. boom, there will be a reaction to it, a refraining from saving. If, during boom, we profligately misinvest capital, when the reaction comes we will be w/o nec. circulating capital.

Contrast of construction & other forms of cap. formation strong pt. in explaining cycle, & role of land. High antic. of future means high i.r., low l.v., combination makes construction. When construction falls suddenly, cumulatively, we still get other kinds of inv. Much that is called cons. in depression is really inv: cars are made then to last longer -- cf. 30s cars with postwar stuff, or typewriters, houses, anything: built to get the maximum immediate consumables from the ~~minim~~ available capital, not waste it on far future. But in 30s, tho i.r. so low, & getting all kinds of inv. as result, couldn't get long term construction inv. High land values involved.

Whether ~~-dC~~ causes more or less inv. depends partly on what caused the ~~-dC~~. Can't just talk of it in abstract. If desire to dc.b., will reduce inv. If desire to invest, will increase inv. The ~~-dC~~ caused by my proposal to reduce non-cap. assets will cause more inv.

4a When production is for cons. in near future, intermed. gets his *resale*
~~inc.~~ in near future. But on other stuff, not for years. This
releases m to spend on hired resources. -- *immediately. But over time, $\rightarrow \Delta T$, need more*

dM, even at intermed. position, need not increase cap. formation.
Suppose it raised resource prices, w/o increasing production; and
then, next pd., caused more consumption, reducing inventories.

1 Which suggests must be careful about def. of Y, in Y-C. Probly
slide over this in article, but be careful to include intermediary's
incomes too, so if their gap falls, it doesn't mean income has risen.

la As i see it now, it will be very hard to get away from fact that primary effect of reducing assets is to make people save more, consume less. (also have lower hps as labor & land, thus increase cap. yields that way). To avoid head on collision with those who must see thing as investing more, must find arguments on that, that this will increase gross investing.

TM It would reduce "financial" T, thus freeing m for real investing. Would make people use assets more to get income, which means investing. Would unbalance asset portfolios, by reducing the non-liquid types.

On 2d thought, today the worry is over inflation, can stress the saving aspects all you want. But throw in other to show is long run good, too.

4

Saving may be regarded as a demand for securities, as the m is a security, an investment, an asset. If intermediaries expect little C this pd., this doesn't discourage them from gross investing. But they change their type of demand for more durable capital (which doesn't nec. reduce inventories, just builds up other capital).

Who comes into possession of the new capital? Not the intermediaries as such -- they have converted their cash into solid capital, but they also have the cash back again, since net savers are intermediaries, & so, even without explicit sale of securities, net savers have become capital owners, thru taking direct title to the new capital.

So there is no lack of demand in money for final products, just because consumption declines. Consumption could be zero and still production continue at same rate, just as long as resources were willing to produce for the sake of accumulating capital.

In K, saving process, which poses few problems, is identified erroneously with desire to increase c.b. Latter does create problems; in small part thru net sav., mainly thru disinvestment.

Only trouble from ^{oversav.} ~~high sav.~~ comes when is a sudden, unexpected fall in sav., rise in pc. Quickly draining off shot. tm. cap, cumulating downwards, etc. *Only in this sense is oversav. a problem.*

4a

Thus oversaving is part of the problem, but more in Hayek's than K's sense. It makes the capital supply inflexible, unable to meet sudden changes in situation. Which sudden changes are brought about by other associated forces.

If you have dim. ret. to cap., result of all this cap. acc. will sooner or later be to make people try to hold their assets more as money (& land) (& consume more), V & reinvestment will decline.

But is nothing inevitable about this dim. ret. Returns to cap. can be increased at any time by reduced costs of other resources. They can reduce their real costs at no net sacrifice, because fact of cap. accumulation has already increased these returns, so it is just a matter of not increasing their costs as fast as otherwise. This will keep investor's gap up. There is thus no limit to how much capital can be invested w/o dim. returns, except the willingness of resources to work. (& gross social maladjustments) Dim. ret. to cap. not an ec. necessity, but a fact of particular price constellation, can be changed.

4a

(Incidentally, "oversaving" is a problem only as it freezes much cap., then when suddenly is less saving, crisis)

dubious

In real terms, conversion is turning goods over to resources. In M terms, have a near analogy. For if they aren't sold from end of inventories, intermed. hesitate to, perhaps also lack the M+0, reinvest. to reim. in M is linked with actual goods passage. (Except ~~goods~~ reim. will persist despite lower com.)

4;4a
sav. det.
speed of com.,
(ass. we keep
full empl)

Cap. will go into shorter term forms when yields higher there. -- i.e. when com. higher now. Its doing so doesn't A empl. nec, but just compensates for a fall of saving.

4a
 How, compl.,
 turnover
 When we get unempl. then failure to save solution is 1 turnover of existing cap. Higher gap in sh. tm. cap. uses, encouraged by higher com, does this - as well as less demand for long term.

Trouble comes when, in time of hi S, inventories are actually reduced to help create solid capital. Then is shortage, & slow readjustment.

When intermediaries invest in shortlived things, they sell them soon, and then have m to reinvest. If longlived capital, they don't sell them soon, can't reinvest. In real terms it is clear, reinvestment is reduced.

But what becomes of the M? If it is saved, to correspond to the cap. creation, no problem. It goes to intermediary position via savings, is spent again on resources, just as tho it had ~~been~~ gotten to intermed. position by being spent for cons. goods.

4a
 Problem is when intermed. overestimate what net inc. receivers will save. (or rather, as they don't figure in those terms, when they invest in long term capital when demand is for more immediate consumption). Then no saving corresponds to the new capital.

So inventories are reduced, and retail prices rise. But this does not increase what is available to spend for reinvestment, for much of the gain is net income to inventory holders (they may figure it is non-recurring, too, not be stimulated to reinvest). If people are consuming net income, that also goes for gains to inventory holders. So we get a net decline of reinvestment, gross inv.

Higher goods prices will also encourage consumers holding onto m, but not encourage reinvestment. Fall of i.r. raises l.v., so that resource price rises, discouraging ~~xxxxxx~~ much production.- construction.

-AM
 (As inv. opp. fall, paying debts becomes a more profitable form of investment than others, hence dM gives way to -dM with a double effect. Paying debts, incidentally, increases assets w/o increasing real capital, is net bad. To be sure, it reduces assets of those who would have held the m, but they can hold them in other forms, and fall of M overshadows that)

This is rather confused, but it strongly suggests how lengthening structure of production beyond what savers want reduces gross inv. It gives a social explanation of what is clear for individual: if he invests in long term cap., he cannot reinvest as quickly as otherwise. So will be less sh. tm. cap. to carry current products.

4a

A stock mkt. crash is going to reduce a liq. substitute, cause scramble for M, reduce conversion.

In real terms, is no need for cons. to have continual production. Intermediary gives resources consumables if they want them; if not, he gives claims on product, and makes product a durable capital. As long as people are willing to work ~~for~~ under this condition, will have full empl. To keep of his gap, he may have to lower rewards to resources a little; but they will rise as compl. capital created.

If he pays them m, instead of goods, no problem when they save. They buy securities from him, for title, he has m to pay them.

Problem is when people wish to take title in form of m, rather than securities. For this, print the m for them -- not to allow cap. creation, which occurs anyway, but to allow further production.

When no cons., is less conversion because bus. lacks cash to reinvest, not because they don't want to. If they count on banks for it, & they fold, same story.

4a

(Note, & acquire some, data showing sav doesn't vary with inc.)

~~d(Y-C)~~ $d(Y-C)$ may come as dY , or $-dC$. If as dY , can say initiative that increased both S & I was dI ; v.v. if $-dC$. This doesn't lessen identity of S & I , based on consistent use of flow concepts.

8 When no changes are occurring, in Y , S & I are identical. When change occurs, if C is const. & I increases, this is distinguishable from when Y const. & C falls. This distinction assumes importance when we think in terms of gross inv. creating employment (or, less correctly, in K. aggregate demand terms). For an increase of net inv. caused by reduced cons. is not an increase of gross inv.; while the other kind is. However the best way to describe this is not thru contrasting changes in net sav. & inv. That is just a courtesy to a past terminology. In simul. terms, if get increased inv. while C is const., isn't correct to say in this case "the initiative" in increasing $Y-C$ comes from dI , contrasted to other case where it comes from $-dC$. For in either instance, it took initiative for net investors to invest over consumption.

Don't stress this terminological dispute. For those who wish it, can talk that way, observe in state. But for me, drop S & I as separate concepts. Just talk of S , & stress that it creates capital, & mention it is identical to I ; and that gross I is important.

I would like to encourage picture of gross inv. as something pretty independent of current consumption. Hence I'm wrong to say it takes just as much initiative for dI when C falls, as when I rises. It takes more when I rises, for sure, for this is increasing gross inv.

Net I is identical with S ; but gross I is not, & should be treated independently. Meaningless to distinguish rise of net I from net S ; but meaningful to consider at all times both what is happening to gross & net I .

5 (K's impasse might be described;: we must continually destroy cap. by consuming it to keep up inv., or we will be unemployed, and being so, unable to consume the cap., must wait til it wears out)

4a

Thru speculation & anticipation, a small retail price Δ may cause greater wholesale ΔP . & yet greater raw mat. $\therefore$ esp great in land, as it lasts forever. ~~Both~~ known swings of wholesale & retail. Farther from consumer, greater error possibility.

Land usually farther from cons. & even if residential, future users are also bought, which are far from present consumer (even if he doesn't sell)

so we get widest swings there -- which affect
credit base.

6

ΔM may $\Delta(Y-C)$ or $-\Delta$, depending on point of injection, & reception.

Same with $-\Delta M$, depending on pt. of ejection.

4a

In crisis, $-\Delta M$ from intermed. $-\Delta(Y-C)$, contributes to cap. shortage. While just before this, $-\Delta M$ from net sav. $\Delta(Y-C)$, helped cause wrong anticipation.

Wiping out bonds by infl, are not increasing the assets that MIGHT be bought; for, as the basic asset gains value, the bond loses it. So aren't throwing assets on mkt that way.

But possibly are increasing assets that ARE In FACT offered for sale.

AM held by intermed. to re-balance liquid vs solid assets. Infl. wipes out bonds, other M substitutes; thus making people wish to increase c.b. Thus dM makes a home for itself. Liquid assets having been reduced, people are ~~wikking~~ anxious to increase their liquidity -- which they do by turning assets into cash. Further reason why dM held by intermeds.

Hayek Hayek's fced svng idea is that dM competes for "goods & services", lumping the two indiscriminately. Mine is that dM competes for services, not goods -- roughly.

Two errors in him: a, that dM takes from current factors; b, that it creates capital. These are really the same, for if it did take from them it would create capital. Fact is, it takes from intermeds.

In this, is no force. Force enters where dP, M holders exploited. But they not explted to create cap; but to rew'd current producers. Cap creation, Y-C, another question.

Robertson Fellner. If one held above error about forced saving, one would be thinking imprecisely. Accordingly, can expect imprecision in derived ideas. So accept the vague idea about when dM is not forced: when people want to save anyway. But if ~~they~~ -dP due to increased productivity, this no indication people want to save, dM is still forced saving, for consumers should command all the extra goods.

Their idea: if people have voluntarily reduced their cons., then making them hold dM is ok, just a means of investing. But if they haven't, then they are forced to invest -- they have no concept of dM held by intermeds (related to later overstress of net inc. position, ignoring intermed. position, by Keynes etc) This vaguely related, in addition, to idea of exploiting M holders -- which is only real truth in it.

Intermed. hold AM by A chain net Y--? Forced saving people think if intermed. takes in dM, it is as inc. receiver -- because he gets windfall incomes. Keynes thinks same. They see intermed. mopping up dM because his inc. rises, not because he disinvests. They see a windfall inc. which is saved, some do. I suspect supply of investment more ~~in~~ elastic than other resources, windfalls go elsewhere -- are speak around. & result from exploiting M holders, not -- as windfall to just investors might be -- from exploiting one hired resource ~~xxxxxx~~ for gain of another current resource, investors.

High i.r. means high "mp2", incentive to produce. This might be disputed, that possibility of getting good yields encourages prdctn.

But is one asset whose "corpus" value is entirely determined by yields: land. High i.r. means cheap land, to own -- & the residential satisfaction is muchly in owning, not renting.

But high rews don't mean much work. If you think high rews are just temporary, that causes much work, & much saving. -- hence anticipated insecurity good incentive. If we could have antic. inse., but have it never come, would be ideal, for inse. itself involves less work, & dissaving. As we cannot fool people, & depressions have other bad features, better forget this. But it meliorates condemnation of bus. cycles. They destroy cap -- but antic. of cycles may have created the cap. Difficulty is where security so antic. people stop saving, shortage of short term capital.

Supply
elasticity

Fellner, Nov. 26

Harrod says some more than need inv. to offset saving. Brings in acceleration principle, Fellner likes.

Lack of circulating capital is problem in Europe right now, cause of unemployment in w. Gy., & smaller countries. In present situation there, saving would create capital, is no need for dM to fructify it, inflation is the problem. (Hence my article need not stress too much that lower assets will also increase V; except it should stress that it will increase conversion, turnover of existing capital)

Fellner agrees that the circulating capital to go with new employment may come from faster turnover of existing capital, as well as new saving.

Thinks in some U.S. depressions shortage of circulating capital was problem. But not since 1929, and probably not then. This aspect of Hayek is not dead as Dodo, by any means.

Criticizes Keynes for not considering shortage of capital, thinks highly of Robertson's stress on it. In present European situation, would get inflation with men still unemployed, because of bottlenecks of capital, including circulating capital. Criticizes Keynes for thinking just of aggregates, not considering also structure of production. The dM will to some extent create the nec. capital by forced saving, but this process cannot be carried to far.

My article could be oriented toward "fighting inflation" -- we l, cap. creation is main theme, but bring in fighting inflation attitude to combat deflationary fears. "The investing that might fructify saving has been done; now we need the saving".

Important reason why one should not subsume gross movements in net is because important ~~arg~~ argument for lowering costs reason behavior of gross ~~ex~~ inv. in response to Δ agric. yields.

~~You should~~ Macro thy is battleground between those who wd Δ wages, & those who would $-\Delta W$ to Δ mec. Latter view easily seen correct when big effect on exist'g balance seen. Y analysis obscures this. --- altho K is Inv. does depend on mec. It is just completely circular reasoning that obscures

Money going into a big stock (or
land?) boom is not net γ money, but
intermed. m -- thus reducing conversion.

Many will even disinvest to buy
stock, [making mkt a liq. trap, as well]
reducing capital. ~~If~~ if they buy new issues
they misallocate cap., old issues decay it,
even worse.

Writing exam, be very compromising & tolerant,
conciliatory, as on good exam for Dorfman.

Also, even if you have a killing point,
calling for complete denial of some position,
just say 'a weakness of --- is: ---' etc.

It is positivism, belligerency, that scares them
-- &, knowing Levin. counterwhy, can understand
why profs. of mediocre I. Q., are so defensive.

NB

Hayek's 'over consumption' explanation of crash is not same as mine, but only small part of it. For it only involves net sav. -- doesn't stress lack of RE investment, as I do.

High short term rates, & low long term, in recession,
~~is~~ explained by shortage of long term cap,
overabundance of long. -- general pessimism
explains high risk premium on long presently,
& low antici. of lenders -- hence no
long term inv.

'Acceleration' is word for a trigger effect.

But is undercom. viewpoint on it -- cons. demand the indep. vble.

Is some truth in it -- anticipatory investing, ~~then~~ extrapolation of present retail demand. Misconceives originating force, but correctly describes part of cumulation.

Very strong article possibility.

Heart of modern controversy
over depression policy is
whether to Δ empl by
 Δ wages & thus demand; or
 Δ investor's gap, & thus
 Δ inv.

Expressed in more or
less 'topical' form ... give eg.

Obvious answer is Δ mec.
But many not satisfied with
prescription to $-\Delta$ wages for this
end. They bring up fantastic
arguments.

But there is a good one:
 $-\Delta$ Wage may simply give
more profit to a monopolist; or
landowner; w/o stimulating

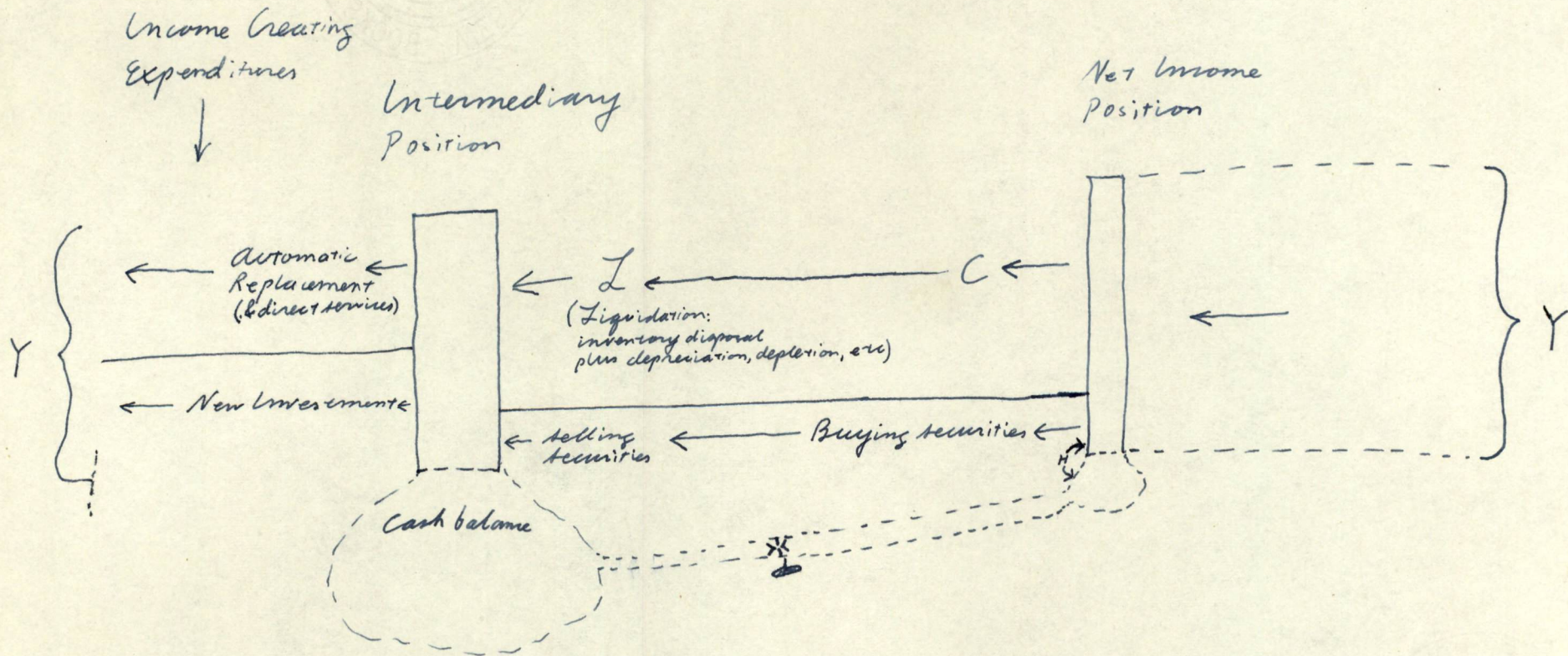
inv.

No real remedy is lower costs ~~where expense~~ ~~to~~ to potential investors; not nec. to existg prop owners

Battle lines falsely drawn.
Not labor vs cap. Privilege vs
prod'n. expand on this at
length. One is drawn from
one view to other, in showing on
present basis, Republican vs Democrat
But draw line, privilege vs
production, & issue clear.

Let production try to increase, & people want more c.b. K-ians say they try to replenish them by saving more -- they don't put it that way to be sure.--- i.e. by consuming less. But I say more likely they do it by investing less. -- i.e. by disinvesting. For it is easier to change one kind of asset into another, than to increase total of assets. i.e. C is inelastic to i.r., cf to inv. (with which a Kian would agree, putting it that way)

✓ My contention -- & Robertson's -- is that saving per se is not bad, but rather trying to increase c.b., or hoarding. R's presumption was that saving would normally be fructified in investment -- I agree. But I have reasons. Cons not an income creating expenditure. Let cons fall & gross inv not going to fall automatically, but be redirected to more durable goods. -- i.e. net inv automatically increases, because gross inv is automatically constant. It is easier to conceive of gross inv remaining const, than of net inv increasing.



To improve, show many intermed. steps -- thus explaining why intermed. hold more c.b.

Summary of ideas on Keynes worth writing for article.

1. Model of money circuit emphasizing reinvestment, replacement decisions. Justification: confusion over whether disinv. should be called fall of pc. Pernicious results apt to flow from assuming reinvestment is automatic, people won't disinvest.

Distinction of net γ from intermed. position nec. for K. He didn't object to saving at net γ position -- that is nec. to allow net γ -- but to disinv. from intermed. position. v. 16 At least in lucid moments he doesn't condemn net S. But later forgets, v. 16 at bottom of my p. 7

Helps with pd. problem -- combining simul. & pd. -- have pd., then ask how events of sh. pd. will affect events of net γ .

2. The income approach, as a method of analysis.

2. Pc, or mpc, derived from studying dY of individuals, not applicable to social spending. For society's c.b. don't rise, like individual's. Social pc ~~is~~ subsumes dis-saving, etc.; Haberler's 'cautological' mpc.

3. Dim. ret. a wrong ass.^{p. 286-9; p. 214; p. 117; p. 40, 41, 42} Increasing returns more likely, as economy revives. Which explains much cumulation -- along with myriad other explanations of cumulation.

So he has increased empl. due to lowering real wages. While I would stress increased productivity, thru complementarity, various cumulative processes, real ones.

He recanted, said M real wages move together. But didn't stress this meant other resources brought into empl., too.

4. Inv. Investment is a resource, very complementary. Because of this, rather than that employment responds directly to aggregate demand changes, we get m affecting employment. Also because m is a factor of production, & credit. As vs. K's aggregate demand.

3. ~~4~~ K's upswing starts with a rise of real wages. ^{p. 42} But how is this possible, when no increased productivity? In reality it is possible, because of Δ conversion.th But in K., is inconsistent with dim. ret. ans., & later idea that lower wages cause boom.

& the surer it is that we will never get there, something else will happen first.

2. ~~1~~ th The higher m pc, the farther away is eq. toward which we are supposed to tend. If m pc = 1, e.g., no good. & K. sometimes forgot his mult. not simul., saying prices might tend as if m pc = 1. ^{p. 117} When, in fact, system is just not determinate, by his analysis. & in fact, V is limited by payment habits. Where m pc is, never get beyond circular stage.

2. ~~1~~ th M pc varies -- makes complex formula for γ det. (but it still can be done.) & perhaps But can't subsume autonomous ΔC under m pc, C as $f(Y)$ unless get quadratics

Keynes summary, 2

phrased in terms of
determining things
spending of next pd.,
when really it
is inv. opp.

✓ M. K. cumulation is based on ass. of increased inv. opp. (or dM -- and a subsidiary criticism is the two should be separately treated)

5. K's cumulative process -- (not his method of description, but the process itself) But such increased opp. evokes, equimarginally, other reactions than desire to reduce c.b. Will reduce cons; reduce inventories; reduce other investments. ^{He considers this formally only p. 119} K. assumed all these unaffected, by higher i.r. Or he assumed no rise of i.r., a perfectly elastic supply of loanable funds, due to large c.b. But in fact, get adjustments in others, limits multiplier. *Reduced investor's spread, due to higher resource prices.*

Also, since much replacement not automatic -- i.e., not all dC does increase inv. opp. -- don't have as much incentive in primo as might think. Showing this is reason for having separated intermediary position.

K. ass. of infinite l.g. pref. is least compatible with an. of automatic replacement. It is desire to avoid accumulation of c.b. that prevents disinv. of inventories, inter alia.

1. Assumption of automatic replacement; that C causes inc. directly. Formally prevented by allowing disinv., but this takes enough stress from it that those who use mechanism can forget it. As shown by their -- & Keynes' -- use of mult., assuming automatic replacement of all inventories (cf. last pp., above)

5. a. & b. Many other cumulative processes, more important.

5. Criticisms of K's cumulative process are also criticisms of his income determination process.

2. a. The simul.-pd. confusion. K sometimes avoided it. But elsewhere, esp. when saying mpc of one causes infinite P, he evidently treated mult. as simultaneous. Also, didn't realize enough that mult. requires a pd., too. -- requires several pds. ^{p. 117} Where has simul. inf. series, can call it: The method I use: get d depending in pd; then ask, why will 'circulation' this increase spending in next pd? Brings in other influences than γ of last pd -- avoids semblance or possibility of circularity.

Simul. & pd. analysis not alternative, but complementary.

2. ~~Are~~ Are many influences on S & C other than inc. Best described as desires re c.b. If you don't want to reduce c.b., dI means dS , to fill them up again. ~~He~~ He has subsumed all these under p_c , then looked for p_c of individuals with rising incomes, transferred it.

✓ 5. ~~the~~ dS tends to rise when dI : to fill up c.b.; because higher inv. opp. mean lower asset values, increased saving desire; cons. plans not quickly changed; pay off debts; any dP or dT makes desire to increase c.b.; ~~(and Ad share to prop. -- windfalls partly accumulating to prop. owners, then to cap. gains, & they not so likely to consume. On other hand, this dS their assets, reduces S -- ... dP doesn't appear to app. exactly d assets, but does take up the dI into dS , or disinv.)~~ (But no long run dI share to prop., for get dI emp. of it, too. This in high boom, may, thru cap. gain exp.); but dI may cause arrival of more dI , reduce S -- can't say mechanically.

K, p. 110, analyzing this, gets i.r. as cost mixed up with i.r. as inv. opp.

✓ 5. ~~the~~ K. doesn't consider effects of dP on desire to hold c.b. He does, in wages chapter, say that fall of wages is same as dM . But, re mult., doesn't mention that P would rise, this would increase S. Even that he does seem to have a slight dP , as mult. progresses. -- due to decreasing ret. -- p. 122 off. When hypothesizing ∞ dP , he certainly is overlooking effect of dP on c.b.

3 ~~13~~. Sometimes K. seems to assume lower real wages ~~xxxxxxxxxxxx~~ go with mult., thru higher P, same m wage. Elsewhere, ~~xxxxxxx~~ mentions higher real wage, in sense of paying same m to less efficient labor. Neither is correct, I think. You get no nec. change in real wage, but probly a rise, thru compl. -- which he doesn't consider. He would have fall of real wages, thru dim. ret., as empl. rises, increased share going to prop. -- thus incidentally helping explain increased S.

If he assumes lower real wages, thru higher P, this of course increases investors gap, increases inv. & also use of other resources, explains cumulation, by my reflector.

~~xxx~~

5 ~~14~~. Leakages K considered: imports; reduced spending of those who were supporting unemployed; retarding other inv. by higher i.r.; dT requires higher balances; loss of confidence. Of these, first two so important that considering them lowers mult. from 5 to $2\frac{1}{2}$. i.e. increases mps from $1/5$ to $1/2\frac{1}{2}$. *(indicating he underestimated disinv. as leakage.)*

✓ 2 ~~15~~. "Leakages" may cover both reduced mpc, and disinvestment. Both diminish responding, are same in that way. Tendency has become to subsume disinv., not as a reduction of inv., but of mpc. And then to virtually ignore it by studying mpc alone, proceeding as tho this were whole story, dI was net. Check this thru -- if true, a good criticism.

2 ~~16~~. Should look on this as way of expressing what can be expressed in other ways. Takes it as only way. e.g. p. 122. & could get other quotes like "There is no other possible explanation ..."

✓ 6 ~~17~~. *Capital formation.* p. 117, says tax. nec. for ^{inv.} ~~inv.~~ p. 242, says ~~tax~~ ^{inv.} ~~inv.~~ ^{pref. prev. is (but is distinction -- lig. if have to waste it?)} Says wasteful dI increases real cap. formation. But this theory only says it will increase inc. & cons., not real cap. formation. You will get the dS to go with it, which will just ~~increase~~ make the pyramids possible, not any more capital. And the rise of i.r. will reduce other investment. *He might get somewhere saying ΔC would Δ cap. formation, & he probly has that in mind here. But that dubious, too -- cf. 46 below.*

5 ~~18~~. K, p. 130, sees no int. analogy to c.b., falling m.u. Says it doesn't fall. Thus he explicitly denies equimarginal idea. & he can believe that increased c.b. to infinity might be desired.

Effect of 7 ~~19~~. *anti-cum. on output & cap. formation.* He might get somewhere with idea that dC would increase spontaneous inv. But not that wasteful inv. will do so. & even the dC idea is dubious, until you get to extremes. *But work on this. Does low pc reduce spontaneous inv.?*

4 ~~20~~. Is nothing very mysterious about idea of inv. as a resource. It is just that, for production to occur, someone must give labor, someone existing capital, someone land, and someone must carry the product as it is being produced. Gross investment (in my sense, not the limited one which only thinks of fixed capital) is supplying this resource. So, as gross inv. increases, draw in more labor etc. --

Some being conversion (K's Consumption & replacement); some being net new inv. A limitational complementary factor of production.

Agg. demand view wrong, various reasons: 1, it fails to stress that you need additional supply of a resource; hence makes dC look as good as anything, even tho this in itself will just reduce inventories. What you must have is re-investment. 2, conceals fact that it is a form of inv. that must be encouraged, underplays need for giving good returns etc to investors. 3, tends to require ass. of money illusion, while real explanation gives real reason. Makes dI analogous to other resources, thus giving parallel treatment, taking exclusive focus from dI -- e.g., you can encourage dI by supplying other factors too, just as v.v. 4, counters argument that increased m demand will just cause inflation. I never feel comfortable with idea that you can make people work more just by increased m demand. Seems that whatever keeps them from working at a lower P level should very soon do the same at a higher one. But if it means more real productivity, no such tendency. K's argument, after all, was that real wages were lowered. With this real resource argument, get a rise of real wages, this causing increased employment, not the fall. the dI being a willingness to accept lower intermed. spread; or else the equivalent, caused by higher expectations.

5, Agg. demand idea means all you need to do is dM to increase employment. Whereas there may be other causes -- inv. may not be the compl resource missing most, but maybe land e.g. (altho K. avoided this idea, with infinite liq. pref.)(which came to saying, you cannot increase aggregate demand past some point) But he never faced problem, what if you can increase agg. demand, but still have unempl?

6. Curious contradiction. With agg. demand idea, tends to make empl. problem seem like a very simple problem in monetary management. But then when discussing determinants of agg. demand, got into sav, inv., etc., & emerged virtually with idea that monetary management is almost impossible.

7. NB, it was not K who introduced idea that income is demand. For that was Say's Law: supply creates own demand. & K's idea was that income is not entirely demand.

(K. never said that his system determined employment, but only that, assuming rigid wages, it did. He later says that letting wages fall is equivalent to dM, and just favors the one way of lowering real wages over another, for general anti-deflationary reasons. Which tells us that K. definitely did assume rigid wages, for the determinant part of his system.)

6 ^{- a vignette.} ~~7~~. Supply does create its own demand, except when abstracting is at net inc. position, & is not matched by movement of m to intermed. reservoir. i.e., only time S doesn't create own demand is when we have involuntary inventory accumulation, ~~plus~~ .. well, cap. acc. of any kind, due to net S. Failure of ~~extra~~ supply to "create own demand" is cause of cap. creation. & if it creates an investment demand, which it tends to - in fact it has to, the inv. comes first -- it has created its own demand all the way around.

5,6 ✓ ~~7~~. di.r. will increase sav. from given inc., K to contrary. & he admits it re "windfall gains", p. 94 *But doesn't see they are from A.r., p. 57*

1. Not cons., but reinv. & inv. are income creating expenditures. Hence K. wrong to say it is better to have depreciation reckoned as income instead. It is nearer to creating inc. in intermed. position.

Irrelevant

~~14.~~ Is no good reason for distinguishing inventory replacement from replacement of fixed cap. Reasons Fellner gave are no good. He said machinery is almost as good as new until scrapped. Not so -- consider auto, get lower mileage, higher maintenance, etc, until worthless, scrap it. etc.

~~17.~~ K says high pc nec. to keep production going, since cons. demand is end & aim. Is something to it. But I take off on this to show what would happen if no cons. demand -- is social question, those who still do want to consume need complementary resources.

~~4.~~ K. in effect lumps effects of dC and dreinvestment together. But the reinv. is a resource; the C is a consumer choice to take something, not a resource.

~~15.~~ 1. re having 2 reservoirs: if we unite them, then C & I become direct alternatives. If we separate them, then dS lowers the intermed c.b., so S & I are ~~alternatives~~ linked -- making C & I still alternatives. Conclusion: C & I are alternatives.

8. *Sav. determines inv.*

~~20.~~ ~~16.~~ Sav. determines inv. more than v.v. Even an independent dI will be offset by disinv., where people not will ing to save. K. said reinv. is automatic, get dY until this causes enough S to allow the dI. But, in fact, get disinv., not just temporary but a level of it to match the dI, so that dS determines how much of the dI is allowed. This is limited, tho, by need to replace -- & truth is halfway between, then, that S & I are both determined by the balance of forces, neither can be said to determine the other.

~~2.~~ Net inc. not so important in determining what you do with c.b. next pd. This shown by its being pretty hard, according to K., even to know what is net inc. He attaches importance to conventions determining how fast cap. is depreciated on books, cf. to its physical depreciation (in fact, he even ~~xxxxxxx~~ implies there is no objective physical standard, is just matter of whim). These are supposed to affect responding. But, in fact, these whimsical conventions doubtless are determined by how fast people wish to respond, for other reasons -- regardless of whether the stuff is net inc. or not. Fact that it is so hard to find out what is net inc. suggests that it doesn't matter -- net inc. not the budgetary limitation.

~~20.~~ If reinv. were completely automatic, could be no dissaving, K, would be right, inv. would determine S. If disinv. were automatic, S would determine I. But is in between.

Land effect on cap. formation. & cf. 5th P. p. 6

~~21.~~ K says land used to serve as liquidity trap. ^{p 241, 242} But it is not liquid. Its effect is in being a substitute asset. It still has this effect -- & K., by his failing to take account of effect of i.r. on asset values, missed this. Of all assets, land's value is by far most sensitive to i.r.

Analogy of this reasoning to reasoning re c.b., where you try to reduce it but can't. With land, you try to buy more, can't, just raise

value, which has same effect, but w/o creatin any more land. (same as changing value of M w/o changing amt of it. Society should use both these drives to cap. formation by a. supplying more m when it tends to fall; b. taxing land.)

2. In discussing falling wages, he speaks as tho they were only source of demand -- as tho to lower them would lower demand. Not considering that returns to others will increase.

2a ~~key~~

And where he does concede that lower wages is same as dM, he lets it act only thru needle's eye of i.r.. (so that if it doesn't ~~increase~~ succeed in lowering i.r., due to infinite liq. pref., won't do any good, either dM or -dW) (but it will sm. e.c. by lower costs -- does he see this?)

2a. (2)(5)

2a. He ignores effects of $\Delta c.b.$, whether from ΔP or ΔM

Obscures basic point that -dP causes dV. Formally admits it discussing wage policies, but obscures it. &, with his underemployment equilibrium idea, in effect denies it. -- using idea that am't of m only affects inv. thru i.r., and doesn't affect C at all -- neither of which is true. His infinite liq. pref. idea lets him ~~ignore~~ assume size of c.b. has no effect on spending. His Y approach helps him get away with this.

3a. Another weakness in simple idea that antic. inflation will increase inv. opp. True, will cause people to turn cash into assets, important. But many lenders are forced, institutionally, to give loans fixed in m. But still, banks, tho their loans are

- 5a so fixed, so are their obligations, they don't lose. They gain increased security by antic. inflation, lose nothing, so they will lend. No weakness. Cumulates. & K. takes no heed of this effect of ΔM in $\Delta m.e.c.$

- 5 K's idea of i.r., & m.e.c. Thinks of i.r. as pure number, no idea of credit rationing, or security behind loans. Inadequate appreciation of how antic. infl. will increase lending. Both the bank & the borrower gain by infl. Only m holder loses, & only effect of that is to speed V, which stimulates more.

& confuses i.r. as supply & demand, then plumping for low i.r.

6, Land

Might mention that m is only asset not taxed. ~~Which~~ Fact that land is taxed doesn't matter, is still a net return to hold (but maybe it does matter. Could work this in with criticism of identifying land as liquidity trap, thus work in effects of land taxation). But fact that other assets taxed does matter, for as their supply not fixed, some burden of taxation -- all burden, probly -- hits m investors in form of lower returns -- which also means land net returns will be capitalized lower. Anyway, if taxes shifted to land, means higher yields from investments, m moves into assets. Increase of land taxes does not discourage movement of m into anything, for it doesn't lower yields from holding land, due to fall of cap. values. & this fall of values encourages investment, besides -- and Saving.

2a

His objection to dM as remedy (and also its equivalent, -dW) is that "a little would have no effect; and too much would disturb confidence." But how about a medium am't, just enough? It is like saying you shouldn't eat, because a little food won't ~~taxxxxxxxx~~ ~~xxxxxxx~~ keep you alive, and too much will kill you.

& in a fente, he says M loses liquidity when future infl. expected

2 ~~the~~ Other things besides inc. affect C. K concedes this in various places, but then subsumes them in pc, describing them as affecting pc. So pc becomes, not a functional relationship, where inc. determines cons. But a means of describing the ratio of C/Y, nothing more. Then, ~~textbook~~ followers make calculations of pc as F(Y), and fit it into eqns., draw conclusions uncritically - I think.

This is what Haberler was talking about. The ex post pc is determined by ratio of inc. to cons. Ex ante pc -- a functional relationship -- then determines nothing. But people take it & talk as tho it determined ~~inc~~ C from Y, etc.

Not only were autonomous dC subsumed, but also disinvestment often subsumed -- it affecting in opposite direction of course.

Some of the other things:

dP, dT, affecting desire to hold c.b.

Changed liq. pref., due to changed outlook on future security. Fear of war, as Rob. says; or prospect of future job.

Desire to save more, due to di.r.

Splurging psychology, as at war end.

Am't of M -- in same way as dP.

6, 7 ~~16~~. K. implies high pc means high inv., high cap. creation. But this follows ass. of automatic replacement. W/o that, & using equimarginal idea, are other leakages than S, non-capital creating. i.e., disinvestment. So a high psave helps create capital, by avoiding those leakages.

As to effect on inv., is dubious that low pc will retard inv. -- can lean on Fellner here, or work out own ideas. A low pc today certainly doesn't imply one tomorrow, anyway -- & tomorrow, due to today's cap. creation, much higher incomes, means more cons. despite possible lower pc, and more inv. too, anticipating still higher incomes -- & the antic. are correct. Besides, have desire to own assets for own sake, demand from that source. Besides, those who do not wish to consume will not produce either, their low cons. will be matched by their low incomes, they won't save much. May very well dissave -- a tendency of many rich, live on capital. etc.

6 ~~16~~. K. sometimes said was not sav. that created cap; ~~inv~~ well, he said int. was not reward for saving, but for not hoarding. ^{p. 174} (Ignoring the int. analogy in liquidity, incidentally). p. 185, he suggests that saving doesn't increase inv., but reduces employment.

178, he objects to classics saying that acts of saving cause acts of inv. -- evidently not seeing that this is just what he says himself.

178, he concedes again that di.r. may increase am't saved from a given income. Which means it lowers pc, a rise of i.r. does.

p. 189, says there would be no interest in a non-monetary economy like Marshall's. Which is very close to saying sav. doesn't create capital.

(K. is right, of course, that a fall of antic. yields, cannot be compensated by a fall of i.r. Because costs of cap. mkt's don't fall proportionately, and inv. opp. to lenders fall off. It's a good pt., which no talk of credit rationing will quite undo. I would stress, too, that it worsens allocation of land by increasing % difference of mrs.

(5) 6 Chap. 16 is where he really takes off against saving. Specifically denies that it increases inv. -- tho (p. 211) what he evidently has in mind is the pulse of dI, is not thinking of disinv estment -- but he should be of course.

But the only way saving discourages further investment is by actually being investment itself; and by deflation. Saving reduces C, thus releasing resources from that kind of production to inv. production. So inv. has lower costs, to match the lower antic. C. Only net loss is that inventories are filled up by the S -- i.e. the inv. itself lowers alternatives.

Work this over.

p. 212 "The mere act of saving by one individual forces some other individual to transfer to him some article of wealth old or new. These transfers of wealth do not require the creation of new wealth ... they may be actively inimical to it. The creation of new wealth wholly depends on the prospective yield of the new wealth reaching the standard set by the current rate of interest. "

xx p. 211: " ... the fallacy ... that an increased desire to hold wealth, being much the same thing as an increased desire to hold investments, must, by increasing the demand for investments, provide a stimulus to their production; so that current investment is promoted by individual saving to the same extent as present consumption is diminished."

✓ Here he is evidently reverting to the stock concept of saving. (& re tendency of Keynesians to do this, cf. Harris, "Foreign Aid & Our Economy", p. 37, "The excess of savings over domestic outlets for investments ..")

✓ His implication clearly is in these pages that saving, to fructify, must be matched by investment -- the old stock concept.

7 p. 211: says a lower pc will nec. always discourage employment. But is wrong -- it is a matter of balance. Suppose pc so high that was no reinvestment, all demand was for cons. Would be no employment at all, and any reduction of pc would increase empl.-- esp. if it was reinv., not just ~~maxim~~ refraining from cons -- but, to lower pc, would have to invest, to create some inc., as long as is no inc., pc is inf. Then we come a long way down from this value of pc before getting to area where it had better be higher.

6 212, bottom, again, says that merely accumulating m doesn't increase capital. Must have active investment besides.

213 Capital "is kept scarce because of the competition of the rate of interest on money." By which he evidently means because i.r. is finite, limiting inv.

3. ~~214~~ Incidentally, he has very strange idea that is no dim. ret. to capital, when there is more, its yield falls just because it is less scarce. Ridic. -- if no dim. ret., abundance won't lower yields. & he has dim. returns to labor.

9. Policy
Conclusion

22. Altho he seems to be on right side when he advocates increasing inv., rather than cons., he goes wild. For advocates having investments with negative returns, to keep up employment. Here, obviously, dC would be better, even limiting ourselves to the few degrees of freedom he allows -- & of course actually many things better -- continuous dM instead of taxes, e.g.

3 22. He conceives of contribution of capital almost exclusively in terms of making production roundabout. Not a serious error, but interesting -- & maybe serious in other connections.

6a 22. Considers possibility of i.r. eq. zero. ~~xxx~~ 216. Here I bring in land, to show it cannot eq. zero, people will buy land, this will reduce saving. & even if people were willing to hold assets at neg. int., they would never have to, hence never would.

3 217, he has mec fall to zero too, stop investing, even tho i.r. zero. So he didn't really mean it about no dim. ret. to cap.

6 218, recognizes that there is "an am't of wealth sufficiently great to satiate to the full the aggregate desire on the part of the public to make provision for the future..." Thus in effect he recognizes that as assets rise, saving falls -- but doesn't integrate with theory, as should.

9 220, advocates wasteful consumption. Not considering it takes comple. resources from other uses.

9 221. But would rather have the state take over inv., reduce mec to zero, which would be easy. End interest.

8 ~~xx~~ It is only after you reach eq., in K system, that I determines S. Until you get there, S determines I. And if pc is high, you never get there, S always determines I. And if have disinv., you could say that this means I is reduced, so you have less I, which determines S; but what happened was that refusal to S lowered I.

5. Cap. formation

how does it -- to why say lowp. ~~but~~ prevents it? & wasteful I As it, p. 129
By $\Delta V \rightarrow \Delta S$

how det. inv, not v.v.

Object to idea it is not S that creates cap

6. Circularity -- as a simul. prop, is circular.

As a pd. proposition, must explain why $C = f(r)$ alone.

With high pc, eq. is so far away, never get close -- never get out of circular stage.

7. Inv. as factor of production, rather than an incident in V?

8. The mechanistic determination thru net γ influences misses much of dynamic.

- a. Other kinds of cumulation -- e.g. desire to - Ac. b. as security of future γ Δs ; & recurrent desire, an anti-c. yields rise.
- complementarity
- Rise of i.r., fall of asset values, ~~recurrent~~
- Filling in missing links in circle of credit.

9. Simul. analysis not an alternative to pd. -- it requires pd. too.

1. P_C -- is it lowered by disinv.? It shouldn't be -- for disinv. lowers inv. He identifies leakage with induced disinv. [p. 120] 128, 98-104
p. 91, effects of Δw on P_C ??
Tendency to focus on net γ decision, shown by calling disinv. a reduction in P_C .
should distinguish -- different effects on cap. creations; & if it is disinv, can't say net γ cannot improve.
2. Dim. net. -- why an. just labor is unempl?
Find quotation. -- p. 114

He has wages rise, thru paying same for less eff labor?

p. 114 ?

He says Δ empl. due to lower real wages. But how about Δ productivity thru complementarity?

3. Other things than γ affect C . Not γ , but c.b. is budgetary limitation.
 - a. As $\Delta P \& \Delta T$, desire to hold more c.b.
 - b. Fall of asset values, due to Δr , ΔS
 - c. Can C by disinvesting.
 - d. Anit of M -- in K , affects only I , thru i.r. But would affect C , too. So would ΔP affect C , as well as I .

4. ΔI has equimarginal effects on many things.

- a. Reduce inventories; & reduce other inv. Not all ΔI drawn from ~~idle~~ idle c.b.
- b. If no recurrent desire to Δ c.b., try to stop reducing. Esp. when i.r. high, must consider this margin.
- c. Reduce C , ΔS , to finance ΔI . (C is from c.b.)
- d. Inventory replacement not automatic. -- as K himself stresses.
Some disinv. is automatic.
- e. Higher resource prices, lower inv. opp.

Could describe it better in terms of desire to Δ c.b. Can subsume net γ concepts here. But hard to subsume c.b. motives in net γ concepts -- e.g. effect of ΔP

When lots of land is being sold to consumers, -- e.g. farm land, an asset of intermediaries, subdivided & sold -- this means C does not create automatic replacement inv. opp, as when inventories sold.

4a It is because saving doesn't provide the nec. complementary capital that sht. tm. i.r. soars, & long term ~~inv.~~ cap. doesn't pay off. (also because fabulous expectations send capital into long terms very much, prices bid up, keeps it out of short term. And if expectations are so high, why doesn't long term inv. persist, why does capital go into buying existing assets? Because in large part the expectations are of land incomes, which cannot be duplicated by new investment. A period of capital creation raises land values, then the choking of real opportunities & fall of i.r. raises them still further, get fabulous expectations, diversion of capital,, what capital there is, and reduced saving & capital creation.)

9 Returning to anticipations. Anticipated demand, then, creates real demand. So is problem (in some small part) of just increasing anticipations, to increase conversion. By & large, tho, should assume anticipations will be fairly accurate, should work on increasing real returns, to get more conversion, *not try to make economy work by fooling people.*

9 It has been suggested to tax money, to increase V. Why not untax other assets instead? Same effect, surely. *Not only raise i.a. & lower asset values by untaxing cap., but also further lower by shifting taxes to land.*

2 K's attitude toward disinvestment is pretty clearly, I think, that it is just temporary. Given a pulse of dI, immediate response might be to reduce inventories, but this would be just temporary, they would return to original level automatically. p. 124, he definitely says so. The reduction of inventories is only temporary, just as the postponed consumption is. ☒ So, in effect, he allows no disinvestment at all, ever, save as a temporary measure. (Except from the 3 causes he mentions on p. 119-20: a, higher i.r. & lower m.e.c., due to the dI's competition; b, Loss of confidence; c, Imports. Nothing about depletion, or depreciation, other leakages. But why do I stress these? They would occur anyway. But point is, exhausting them creates no new inv. opp., hence this C doesn't cause income creating expenditures as K. assumes. So that, of a given increase of C, only say 2/3 causes further income creating expenditures. The other 1/3 takes things off shelves, out of ground, & in wear & tear, that weren't going to be replaced anyway.)

1 1. From net inc. view, is easy to regard disinv. as temporary. On my diagram, it is clear that dC only increases inc. creating expenditures by creating new inv. opp., and that not all dC does so, as above. Tendency to regard disinv. as temporary, and all the restorin of capital as caused by C. But that portion of it which is not caused by cons. would have occurred anyway, can't be attributed to cons.

5 Of course, even things which were not profitable, their wearing out or being sold will cause replacement, not of identical things, but they do make a niche for something, in some sense. So maybe this diversion isn't too great. Depletion still important. It not only doesn't create replacement opp., it probly reduces inv. opp. in general. -- tho is some increase due to substitution, but of course complementation is greater.

1. W/o diagram, you would say that depletion just as likely to cause respending as any other sale. For it takes diagram to show that it is increased inv. opp. to intermediaries that increases spending, & not an automatic reaction, circular, from dI.

2. As K denies disinv. in general, he is in effect saying that any pulse of dI, or rather recurrent dI, will have all the cumulative effects, determined by pc at net inc. position. But as, in fact, some disinv. is automatic, not so that pc tells all.

5. Re assertion that the disinv. that isn't replaced would have happened anyway, not so. The bulk of it would have happened anyway, but the part we are interested in is the extra, due to the extra consumption. Call it the marginal propensity to disinvest, if you will. By speeding up depletion, e.g., we do not increase any investment tendency.

2. If K. says, fact that intermediaries have taken in m will make them reinvest, this is counter to all his ideas. For inv. is supposed to be independent of c.b. ~~receipts~~ Which is correct in a way. If intermed. take in m faster, is just because they paid it out faster, so their balances don't rise. Only thing that might make them spend faster is anticipation of higher receipts caused by higher receipts.

1. In K's analysis, get impression that m is held by those who just received it for services, and they spend it directly to those who render services. While in fact it is held by those who just sold inventories, and who are going to buy them again. Thus in K. we are not focussing on chief source of variability in economy.

Complementarity of the inv. cap. 4a
When goods start being produced & sold in one link of a long chain of vertical production, may allow all the others to go on. Thus cumulation, thru this kind of complementarity, & credit circle.

7a. K. says, in effect, production cannot increase because net inc. receivers increase their c.b., i.e. save. But if in fact they tend to respend all, and leakage is from disinvestment, which can be rectified by investment, isn't ~~an~~ an impasse of this kind.

11. International. Importing should not be treated just as parallel to either mpc or disinv. For it reduces m in country, and increases goods, new vbles, not handled in either category adequately. A new subject.

4a. 7. Resid. construction is a huge piling up of inventories for resale to consumers. When sold, tremendous disinvestment, paying debts to banks, etc. ~~and~~ I have said capital can all be resold to consumers because its existence makes them have higher incomes. Not so with residences, not complementary. By taking land from production, choking production expansion, very anti-complementary.

If people borrowed from banks to buy, these are inventories they are reselling to themselves, -dM.

And it is not lack of consumption that bothers, but disinvestment. & -dM

5 When a market is badly overstocked, consumption expenditures
7 for it create no reinvestment opportunities at all. With all
long term capital, investment is pretty independent of current
consumption. E.g. residences. Broad cycles, but consumption is
continuous. All during 30s, consumption of houses caused no
replacement at all, and during 20s, they were being replaced &
added to, regardless of consumption. And all during 30s this
consumption of existing capital was a persistent deflationary
force. So definitely can say there is this leakage at intermed.
position. *& this stoppage of inv. occurred when pc rose to 1.*

4, 4a Also, indicentally, such disinvestment increases real
conversion by lowering goods prices, is good that way.

4a When you buy land, on credit, you borrow from bank, dM.
When you pay for it, by paying off bank debt, -dM. If
land sales were steady, no problem. But, for reasons independent
of banking, they are unsteady. Then bank fluctuations
aggravate the unsteadiness. Banking acts to magnify any fluctuations
that might occur, and magnify cumulations.

6a It is as tho some intermediary -- the bank -- had bought the
land and sold it to you -- or rather was selling it to you
slowly over years, to replenish its c.b. With the difference
that when it bought the land it wasn't creating net income for
anyone, nor creating a resource. So when it sells, it isn't
converting either....

9 Besides, we know that the longer term the assets are, the
greater the chances for misjudgement of future, & erroneous
investments. Since banks magnify things, they should be limited
to dealing in short term assets.

6a dM from land is purely inflationary, then, it cannot be
credit creating, can't lure resources into production, save by
inflation. (tho when land seller spends it, he may be intermed.)
Add to this its instability, get condemnation.

1
1
1 Anyway, when people use income to buy land, there is no
automatic replacement. And if they are paying off debts incurred
to buy land, is also magnification of -dM.

11

International: K reasoning is that nation suffers from money outflow. Probly can be shown that any suffering is from worsening of terms of trade -- i.e. when V revives in one country & m jumps out. For, tho it loses m, it gains real capital. True, the m would circulate several times a year, while the capital is sold once & is gone. So the first time conversion is not reduced by imports, their lower prices compensating for loss of m. But if you lose m, what of next time? Less m means less V. Work this out ... important.
an excuse for import barriers.

6a

4a

Land sales are neither net inc. payments; nor are they disinvestment, inventory reduction or re-investment stimulating type. They are like saving, then. --land buying is, i.e. So when land buying spree is on, get much capital creation from this source -- helping cause overestimation of society's desire to save, leading to shortage of short term capital, when land sales stop. Of course this applies not just to land sales. but all security sales, all diversion of m from buying things for consumption. Buying existing assets not for exhaustion, but for other reasons, doesn't stimulate reinvestment, but does create capital by having people accept m at net inc. position.

*Method of
 insinuation*

(A good way to develop a theory like this ina thesis would be, not to go about it directly, but make a study of a certain depression, find things in there proving the theory, and present them for their own sakes to reader, then tie them together with the theory, just as tho it sprang from the facts)

2 Is definitely in Keynes ass. of automatic replacement. For if pc is very high, then net I would be very small, because S is small. So mult. would have very little to work from. But if replacement is automatic, disinv. is made up next time, thus get cumulation.

2 Incidentally, how can you speak of the "propensity to consume" as a causative thing, when the cons. occurs simul. with the income. Income might affect subsequent expenditures, but not current ones. But K., by conceding thing takes time & may not work out immediately, probly got away from this criticism.

~~Disinvestment is not properly handled in pc concept.~~
Disinvestment lowers net I , and when it is large enough reduces it to zero or negative am'ts. ~~By~~ It also lowers net S , thus. And the more it lowers net S , the higher is pc . When it gets to zero S & I , pc is one, & by K's assertions, system tends to an

equilibrium with infinite prices. But, in fact, it means nothing of the kind. It means that people are turning assets into cash, and tendency of system is deflationary. --no, wrong, K ~~wouldn't say were tending to infinity if had no net I. Forget it.~~

1. Diagram might be ~~defam~~ advanced on grounds that decisions at intermed. & net inc. positions must jibe, are price & intermed. gap adjustments bringing this about, which diagram shows.

8, (6). In mult., I determines S only after infinite rounds have been run thru. But if pc very high, so we never reach the equilibrium; & then just have S simultaneously determining I, each pd., and that is only determination that ever counts.

This also gives us many more times to run around circle and have disinv. at intermed. position -- the more times we do this, the more the original dI is cut down, and the original pulse of dI will be dissipated by disinv. before much of it can be saved. And it becomes even less correct to say that I determines S.

Now in Keynes, even, we have simultaneously, each pd., S determines I -- & he's right. After mult. runs thru, I determines S -- & here, in fact, determination is mutual & thru other things too. So is sometimes correct (simultaneously) to say S determines I; and never correct to say I determines S.

4a
6a
When land is bought from net saving, this is capital creating. But when bought from intermediaries balances, is not, but rather stops conversion. And how do we distinguish. What creates the capital is the net saving, not the land buying. If land is bought as an alternative to consuming, is like saving; if it is bought as alternative to reinvesting, reduces income creating expenditures

When funds go into security & land mkts., therefore, since primarily this is not an al ----- in residential housing boom, land purchases are an alternative to consumption, hence are capital creating; but in later stock mkt boom, where people are turning ~~xxxxxx~~ money into existing assets instead of new assets, are alternative to reinvestment, not capital creating, but reducing conversion. (Magnified, again, by banking system, diversion of bank loans to stocks takes them from production)

Both processes lower values, reduce saving.

4a
(7)
When antic. yields fall, people also start consuming goods from intermed. c.b., which also reduces conversion. Check over some depression stat -- probly find that consumer demand held up all right, but reinvestment fell off -- people started to live on existing assets. It was certainly true of long term inv., and probably true of inventories. But fact that it was true of long term inv. means a lot in itself, of same nature. We know that depression was a time of disinvestment. Which proves point -- consumption held up ok, it was reinvestment that failed. People consumed all their net incomes, was no saving from net income. This was one thing that prevented retail prices from falling as fast as rewards offered to resources -- which are represented by wholesale prices, roughly. So this reinforces two other factors which kept conversion from being great: money conversion payments fell off, was one; then goods prices couldn't fall to keep real conversion up because, 1, was so little short term capital on hand,

40
(6) &2, intermediaries were consuming from their c.b. All 3 of which were result of low antic. yields. Well, the small inventories weren't that, but their bad effect could have been countered by net saving, whose lack was due to low antic. yields. (Lack of net sav. & consuming from c.b. are same thing of course)
(1) Nothing could be less true than Keynes idea that antic. yields don't affect saving. When antic. yields are low, c.b. that might have been reinvested are spent for consumption, lowering saving both by lowering income and increasing consumption. Or even if they are not spent for consumption, but just not spent, they lower saving by lowering income (while consumption, in that pd. at least, remains constant. Nor can you say they lower cons. next pd. by not having been spent the preceding pd., for they haven't gone out of existence, are still in hands of people, just as they would be had they been spent -- tho not quite same people, to be sure, which will have some effect.

(6) But, as shot. tm. cap. is needed, there is an inv. opp. why doesn't that make people save? Only explanation I can see is that there is a tremendous resistance to saving. Possible reasons: assets are very high, & incomes fall, seems little point in increasing assets when current consumption is being choked below accustomed standards. ; also, rigid resource prices, with general deflation they don't fall enough, so inv. opp. don't increase so much.

4 ~~RAM~~ Incidentally, is great reality in this idea that it takes real conversion, not just money conversion, to employ resources. For goods have to be carried clear thru to retail stage. If retail prices high, due to inventory shortage, takes more m to carry things thru -- this even true if high retail price due to high spread, for every spread receipt except that of the last instant must also be carried. So it is not just a question of factors demandin the same real wages. Even if they do accept lower real returns, a mere increase of m spent for factors won't increase production if goods prices rise, for goods have to be carried up to those higher prices. To carry goods, you have to turn over to resources goods of the same value. Either that or have savin. We ordinarily assume that the carriers also save as they go along, not taking their daily returns. But no reason to assume this, & in a time of general refusal to save, this would be important. Thus, having neither existing goods, nor new savin., you just couldn't carry as much.

(6) Short term inv. opp. won't encourage S the way long term will, for you don't know if they will last. As you are already loaded with assets, you will, rather, try to turn them into shr. inv. as they amortize -- which takes time.

5
(2) There is something, after all, to idea that K doesn't handle disinv. properly, & this gives false predictions. For pc & F are not independent, due to disinv. If intermed want to disinvest a lot, this raises pc. Implication of K -- who regarded disinv. as just

5, 2 temporary -- is that if you then had pulses of F , p_c being so
 hi, would get hi Mult. But in fact pulses of F , if not offset by
 dis F , would mean a lower p_c (more S) (at least in one pd. of net inc.
 receivers not willing to Δ c.b., a true example hi p_c , would get K. process. over
 When intermed. wish to disinvest, they probly have no lower retail P .
 This makes consumers spend faster -- raising p_c .

Are the adjustment between conflicting desires of
 intermed. & net inc. receivers. If are no price adjustments, get
 much ΔV . E.g., if both wish to reduce c.b. simul.

Assumption of automatic replacement involves also ass. of
 dim returns to capital. Since ass. of automatic
 replacement is ass. that reducing am't of cap. increases inv. opp.
 (concrete example of where short term capital is compl. to
 other. If ~~max~~ am't of goods falls, goods in stores, then you need
 fewer stores, so investing in stores comes to halt.)

K says that less saving makes people anticipate higher future
 demand. But consider that less savin. means smaller inventories,
 which require less labor to handle them, so income payments are
 smaller. A higher ~~xxx~~ % of Y may be consumed, but Y is smaller.

4a Short term capital complements labor in 2 ways: carrying its
 product; and giving it something to work on, the products of others
 which labor works up.

K. correctly described process from everyone wanting to
- $\Delta c.b.$ But erroneously applied it to all situations -- in particular
to one where Δm^{tic} yields, which makes people more willing to S.

7, According to Keynes, a high pc causes lots of investment, because of antic. consumption. So, from this, we should expect that high pc means high inv., both work in same direction to increase income. But in fact we find that when pc is high, investment is very small. Which Keynes discussed, incidentally, when saying that communities primitive had high pc and little investing -- which is just contradictory to his later assertion that high pc causes high investment. Fact is of course that a high pc FORCES inv. to be low, because reinvestment is not automatic as K assumed, and dI gets squelched by disinv. quickly if pc not low. It is not just accidental that in primitive economies have high pc and low investment.

5 12 What K. had in mind of course by a high pc & high I was situation in which intermediaries wished to increase their real assets -- which means reduce their c.b. -- but net inc. receivers weren't willing to increase their c.b. (in spite of fact that they are in main same as intermediaries, & would just be replenishing, not increasing. So in effect we have a situation in which people want to reduce c.b., in general). So got a rapid increase of V. &, in this increase, the net income receivers made all the adjustment, increasing their saving. No other equimarginal adjustments were made.

'Surprise' inventory accumulation probly is quickly transferred into other kinds of capital -- Reinvestors put M into other kinds of cap., as opp. temporarily decline in inventories.

This implies great resource mobility, fact that production shifts between inventories & other things so regularly.

When people buy land, or other existing assets (such as gold, jewels, other hoarding items for which underdeveloped countries notorious), ~~like~~ as an alternative to consumption from net income, they are saving in effect, allow capital creation. If unanticipated, this ~~xxxxxx~~ makes immediately consumabl inventories pile up. But this is not the common thing. It will be anticipated. So gross investors will invest. Thus saving, of this or any other kind, doesn't cause capital creation just by surprise, as Fellner implied. a certain am't of consumption demand is anticipated, and other investments are also considered, if antic. look good.

Now consider when increased residential demand for land occurs. Land supply cannot be increased in one sense, but in another sense it can, by building public works that add to land value, as in subdividing, municipal improvements, etc. So this sort of thingx gets big boost. The capital made available by this "saving", perhaps, goes into "creating land". So when inv. opp. begin to fall, this raises l.v., thus makes profitable those investments which create land, thus keeps up inv. opp. in part.

When land bought as alternative to reinvestment, even worse. Stimulates investment in creating land, but doesn't create the capital, so cap. taken from other things.

For various reasons, land calculations more subject to error than any other. It is possible to think Chicago will grow forever, hence invest in an excess subdivision. Not possible to miscalculate any asset of finite future life so fabulously. ~~Whatxxxxxx~~ Finite life & present production costs and competition. Whatever the causes, miscalculations by land purchasers are a basic fact of life, of which we may just take judicial notice. So there goes lots of capital, helping explain cycle.

Summary of ideas developed from thinking on Keynes, & worth writing up perhaps.

1. My model of money circuit flow.

Reasons for preferring it.

2. The income approach as a method of analysis, & criticism

2a. He ignored effects of c.b. on spending, hence dm & dp

3. Diminishing returns assumption in Keynes, & objections to it

4. Investment (or conversion) as a resource. Advantages over aggregate demand concept. Used in analyzing cause of crisis: shortage of short term capital.

4a. *My theory of economic fluctuations*

5. K's cumulative process; and income determination by it. Criticism of the process (not of his method of analysis of it, but the process itself -- i.e., of what he said the process was, cf. ed to what it really is)

5a: Other cumulative processes.

6. Capital formation. His self-contradictions. Actual influences -- stressing effect of land assets, and working in effects of land taxation.--in an offhand way.

6a Effects of land on cap. formation, & lvt.

7. The alleged need for consumption to allow current production and capital formation.

7a K's impasse, alleged. (opposite to mine, which blames under-saving)

8. Saving not entirely determined by investment. Mutual determination. (This depends on showing reinv. not automatic, for which v. 5)

9. Policy conclusions

10. Book credit (back of p. 32, p 43, 44, 49)

11. International

12. I. r. determination.

Cap. fmtn:

See JLPUE, Nov '53,

Land Reform^{& Industrial Development} in Meiji Japan,

Irving T. Kramer, for some
ideas, & fallacies.

Some goods, like alcohol, should be discouraged because of their discomplementarity.

Generally, capital goods are more compl. than cons.?

Yes - so cap. formation should be extra encouraged. - by helping future generations we help ourselves more than we see thru mkt, at times.

If Keynesians complain
that but will
cause too much saving,
point out will cause more
spending, too, because,
with no cap value of
land, ~~no~~ fewer financial
transactions.

&, of course, more inv.
opp.

"Accumulated savings"

is often taken to mean accumulated hoards of M ; & from this is deduced that if people 'dig into savings', will be infl.

Most savings are put into some asset other than M . & if anyone wishes to convert it to M --- even if it is very liquid to him, like sav. acct --- he must exchange it for M , taking the M from someone else.

So if people decide to 'disinvest' in sense of disposing of assets in general, not inflationary, perhaps defl --- they dump assets on mkt for M , & spend M for cons.

~~But~~ To have infl., must have
flight from M in particular.

Hence superiority of Robertson.
 K , for K always identified saving
with hoarding --- not formally, but in
spirit. & public is confused by
using 'saving' --- which fails,
explicitly, to distinguish monetary
from saving decisions.

Cap. fmen.

Those who have
ability to create cap.
lack incentive; & v.v.

LVT helps.

Govt shd never issue bonds.

They subst. for private cap.

& shd tax instead. &

tax so as to reduce, eliminate
capital values not incentive to
production: i.e. rents.

My attitude.

Due to index no. problem, even
stable P is dubious criterion of
M policy.

Full empl guarantee bad, if means
infl; if by mon. policy.

Robertson aims better... max. cap.
fm. en. & anti-cyclical goals.
Mixture of objectives.

In simplest terms:

inv. opp. can be created by
redistribution in favor of
investors

Stimulation from inflation:

M is an asset, with yields, & in existence. Like Land.

If people are going to acquire it, is cap subst. To be sure, they must create cap. to acquire it.

But, antic. infl., & it is less asset, people create more cap.

Also, helps overcome costs of cap. mkt, as is cost of not lending or acquiring real assets.

Bonds have place ---
meeting extraord. expenditures
from fixed revenues.

But this different from
present policy of maintaining
bonds.

Find this Ohlin reference, quote

Ohlin says speed of psych. reactions is governing factor in determining course of cumulation, stresses this, thinks sav-inv analysis focusses on psych. better than V does. But gives no reason that I see to show it.

✓ Saving may be unexpected, but is not involuntary, says Ohlin, even when dM. By which he probly means they could have increased their C to prevent dS. (But if C is an alternative to S, then S does not precede C but is parallel to it, and is just I.)

He has a point. People are compelled by dM to increase their ~~xxxx~~ liquid assets, but not all their assets. They could compensate for the dM by consuming other assets, disinvesting. The saving is not forced. They could have consumed instead of investing, thus reducing the saving from that source to compensate for the increase from the dM.

So keep M, like land values, at a minimum, to stimulate other kinds of investing.

✓ Ohlin rightly objects to "forced saving" as describing plight of those on fixed incomes when dM. It is "forced levy".

Ohlin is probably my favorite economist now. With reservations of course.

→ Great advantage of c.b. analysis of causes of changes in v is it allows treatment of effects of dP, so can say that -dP & -dWages encourages spending, not reverse. Ohlin misses this, he thinks -dWages won't increase spending. He even disagrees with K that real wages must fall to increase employment.

K's prop. cons. implies that C is determined by Y. But in his formulation, Y is determined by C. For purely definitional purposes the equalities expressed two ways are all right, but for causal analysis you must make up your mind. I say C not determined by Y, is influenced by it but by no means determined by it.

2 eqns,
2 unknowns,
ok, both
det.
v. p. 22

→ If we say that C is f(Y) in the same pd. that Y is determined by C plus I, it follows that Y will be infinite if the function makes C as f(Y) large -- a circular process will be taking place inside the period, conceptually. For a higher Y causes more C which causes more Y etc., all simultaneously. The reductio ad absurdum is shown in this eqn: $\Delta Y = -\Delta C$ eq 4I; $\Delta Y = \Delta Yk$ eq 4I, where k is "prop cons"; $\Delta Y(1-k)$ eq 4I; ΔY eq 4I/(1-k). As k approaches 1, Y approaches infinity. This obviously refers to the infinite series of turnovers of money, not to anything instantaneous. If prop.cons. is to mean anything causal, dC/dY are not in the same instant; it is the dC resulting from a dY, and the dY must have been in the preceding period.

This is an instantaneous derivation of Mlt.!

This integrates Mlt. & aggregate analysis.

Top. 22

→ Check that $C \neq Yk$, but $C = Y \cdot \frac{C}{Y}$, $\frac{C}{Y}$ being apc, & not $=$ to $\frac{dC}{dY}$, because of odd K an. that $C = a + bY$, a being your expenditure from c.b. when $Y=0$

"Period analysis" is not a distinctive name. K's approach can be broken down by periods just as well, and contrasts between periods.

The main artificiality in Rob. is that it implies that one is customarily faced with disposing just of inc of last pd, and that deviations from this are something special. While actually you are always faced with your entire cash assets to dispose of, and variations in rate are to be expected. A good analysis should stress the constancy of M, and that we are dealing with shifting it around. The other analysis is too similar to individual calculations, where c.b. can be changed, & obscures the main forces at work I think. With pd. analysis you say people decided to dishoard and spend -- implying m brought from nowhere and sent to nowhere, causing a flurry. With conversion analysis, say people decided to shift their assets from m to goods, or some people did, & thereby raised V, caused production, etc *No. over*

What good is the Stockholm theory? It says people plan to save one amount and invest another, but when it is all over they were forced to save as much as was invested. But what role does the planned saving play then, anyway? People who don't know what their incomes are to be have indefinite plans about saving anyway, and, if these plans have no effect on what happens, what difference does it ever make what they are? Just a means of indicating profits were larger than expected, and this will cause further expansion?

"Period analysis gives no causal clue, is just a means of describing changes in V. Except that it gives a special means of describing dV as dH oards. But most analysis contains periods anyway, so can have hoarding def. in any analysis. Distinctive thing about Rob. is def. of saving, and that has no particular usefulness that I see.)

It is customary to be discontent with V analysis. But I think the potentialities of that analysis are untapped. What has been done may be wanting, but what might be done is limitless, as I began to show in my Ellis paper.

✓ In Stockholm & K, inv. is active, determines saving.

✓ Wicksell, in his analysis of S & I, tried to break from classic idea that supply & demand are only relative ideas, show existence of aggregate demand, which could change. I think he had a point, since inv. changes so, which is proximate demand for factors. Is same idea as in wages fund theory, which was perhaps too thoroughly discarded. He did not express the idea very well, nor really develop it very well. One cannot reject Say's law, but only amend it. Supply creates its own demand, but there are time lags and mechanical intricacies.

✓ Ohlin calls his method a period analysis. He also defines $sav.eq.inv.$. Focus on individuals' actions, not on currency movements -- too bad. Uses time periods for analysis because processes over time are what is to be analyzed. Ex post shows no causes, just shows what happened. Ex ante shows causes. Experience of immediate past main determinant of present plans. Uses a gross inv. concept but, for some reason, adds it to C, to get X, total expenditure, whose usefulness I do not see. In "period", no one changes plans -- an important and limiting assumption, allowing him to say expenditure not affected in pd. by

*Thus, by artificial assumption, avoiding infinity problem.
But whether you thus duck it, or fall into it like Keynes, it
is an outstanding weakness of this form of analysis,
is part of its circularity.*

unexpected receipts, and thus that saving is increased but C not by dI . But perhaps this does not rest on this ass., for if C did increase, this would dY more, balance that way. However they should mention that it might be C that increased, too.

When Ohlin says people will try to reduce their savings in a period he is saying they will try to reduce their cash balances. Here is causative meaning of ex ante concepts; is just the same as saying people will try to reduce their c.b., only not as good a way of saying it I think; and will succeed only in increasing V --or, as he says it, income. People plan to reduce their c.b. in a period, but fail to do so. Or, as Ohlin says, they plan to invest or consume more and save less -- thus relating it to income flows which my analysis just assumes tacitly --- but their income hence their saving is increased. Thus Ohlin gives a picture of causes, in terms of attempted sav. & inv., & w/o reference to hoards.

Ohlin ass. if ~~excesses in excess~~ inventories reduced in one pd., more inv. next. Probly so. From original $-dS$ -- i.e., "cashing in" money & consuming more, which is disinvestment too. (But whatever caused original disinv. may cause further)

Thus I judge Ohlin gets cumulation. Induced inv.

But I insist dC is not an alternative to S , but to I . In sum, in any period, net saving is impossible (w/o dM) If people C more, they I less. People receive their incomes from C & S I , & dispose of them into C & I , not C & S . If they disposed of them into S & S they would be $dc.b.$, which is impossible (w/o dM) C & S are not parallel concepts. S is not a social concept anyway, only an individual one. Not aggregate, I mean. Well, saving has a definite negative meaning, a not disposing of income. A meaning of lack of action, rather than a meaning of quantity. One has 3 alternatives with c.b.: I , C , S . S might be called not a disposal of Y , but a failure to dispose of it, as far as circular flow of M is concerned.

If people decide to dC at expense of savings, it is expense of s as a fund, not a flow; i.e. they try to reduce their c.b., or fund of savings. If dC were tried at expense of I it would be different. No dV would result, just reduced I .

I am too extreme in saying there is no act of saving in instantaneous analysis. Y received minus C is saving. It has a meaning, independent from inv. The two are so closely identical it would be idle to distinguish except for historical emphasis on word.

When planned inv. exceed planned S , i.e. people plan to reduce their c.b., Y increases. Ohlin sees this as starting cumulation, ass. that 1, the windfall gains will make investors think similar ones are coming and invest more, $2x$ (which isn't nec. so) (as other things affect anticipations) and 2, it cut into inventories and thus increases inv. opp. to fill them up, that isn't nec. so either, it might have been a dI rather than dC , and the dI would increase rather than reduce capital in system, have opposite effect -- indeed, this probly often happens, explaining cycle.

Ohlin also says expectation of higher Y next time will dS a little, but dI more. Just opposite from K , who assumes it will dS more than dI , have underempl. eq.

The motor of expansion, to Ohlin, is discrepancy of planned sav & inv., which means urge to enlarge or ensmall c.b.

See 'Inheritance'

Institutions discouraging cap. formation cause
depletion, end of cap. form, corrupt individuals, &
thus society decays. - & also encourage bottom breeding.

Theme of French investigations, & others.

Von Mises quotes Bastiat ~~that~~ thus, & says it answers for all time the broken window fallacy. "If it is good to break one, why not break them all? Why not destroy all the houses, all the capital?"

This unfortunately does not consider that there may be an optimum amount of window breaking, optimum in quantity & quality. Just as there is for a monopoly an optimum restriction of output.

Thus introduce ~~make~~ some analysis.

So if M & credit is reduced, or V slowed, simul. with increase of capital held, is no suffering. Trouble is that in practice it works just the other way: when cap. is being increased, credit is expanded, and v.v.

Think on this, maybe the key to smooth monetary policy.

I shouldn't say that attempts to increase saving always correspond with reducing inventories. Frequently I think reduced consumer demand for goods results in increased inventories for a while, just as it should.

When you shift taxes to improvements, you lower i.r., with all its harmful effects:

reduce V ; raise l.v. -- so is a net rise of asset values,
-- lower yields (almost) compensated by lower tax, & a lower
i.r. on this (almost) same net return raising l.v.

Thus have more assets, lower marginal returns,
discourages cap. creation.

Who benefited from Eng
free trade but Eng
landowners. -- because
lower prices in Eng,
Eng 'consumer' not exploited.

Is maybe Gm trusts
Ad cap. ~~form~~ formation
in Gy, by keeping ~~the~~ inc. from
landowners.

~~Klein~~, Jewkes, John 'Socialism's Legacy to Churchill', Fortune,
Dec '51, pp 79-ff.

1950, gross inv./cap. GB was \$11, cf. \$330 US. --- this includes
maintenance of existing equipment. -- are no figures on real net new inv.

'38, was 15% -- but may have been less depr. than, new net just as hi.

& only $\frac{1}{4}$ postwar inv. went to mfr. -- much more to housing, education.

~~Sp~~ A sales tax hits those who are
living off capital, an income tax
does not. A big difference. Income
tax encourages depleting your capital,
sales tax doesn't.

Attitude of rich makes wonderful difference
toward nat. development. If they are ~~are~~
aristo, they invest in land, luxuries, & liquidity.
Keep land from labor. If start investing, their
higher ~~or~~ ~~rather~~ lowers land price; their investing
raises wages.

To make a country create capital, one essential is to have good institutions to get inv. from savers to users. Give individuals outlets for inv. Inflation destroys confidence in money savings, probly discourages thrift. Land tenure gives an ideal place to put savings.

Tooke, p. 313

Land spec. taking cap out of
productive use.

Times of great pessimism are a wonderful opportunity for society to create capital. For people give low values to their assets, hence seek to create more -- by accumulating cash, first.

Take advantage of this by money creation.

Increasing life span is itself a prime cause of cap. acc. For when one has an old age of uncertain duration ahead, when he will have to look after himself, he wants capital. Also, longer life gives him more time in most productive years, to create cap.

For undeveloped countries to create capital, they must break family system where oldtimers are looked after so well -- & not replace it with old age pensions. They will probly not choose to do so --

maybe the price of material progress is too high? ..
& progress will occur elsewhere.

Δ i.r. would encourage capital accumulation
by process of lowering all existing capital
values.

To get max. cap. accumulation:

Deprive people of all kinds of private prop.
save what they create themselves. &
give that all to them. No unions, no
private land, no special privilege save to
own what you have created.

How much a man works doesn't depend so much on the absolute returns, but the relation of marginal to total returns over time.

One of the greatest marginal incentives is. $\Rightarrow$ The hope of getting ahead, or fear of getting behind. Small farmers accumulating cap. cf. to tenants, examples. Cap. accumulation a big part of getting ahead. (so "interest product", i.e. the possibility of investing safely &/or profitably, is a big factor (over)

in incentives to get income.

So to Δ production, do not simply give high wages, but also investment opp. -- as by home & business ownership, & good cap. markets, & opportunities to go into every profession & business.

& maybe subsidize cap. mkts -- as we subsidize transportation. Add to the allocation argument this new, cap. creation argument.

When society takes care of old people
it not only wastes the m. spent on them,
but also encourages them to be extravagant
during their working lives, thus loses
valuable source of cap. formation,
which would have made all better off

Regional Survey of NY, 29,
observes how S.I., with, lowered land
values.

Very high ^{mn} i.r. reported

from France, '52.

S. F. Chronicle, Jan 19 '52
e.g. 10%, long term loans
-- & even at this figure, is
rationed.

Capital shortage,
result of govt borrowing?

See clipping in
'Maintaining Comp.', titled
'Europe's Production'

The Formation of Cap, Moulton, Br. '35, Wash.

p. 141 - 1929, 17.7 b\$ saved by indiv. & families, 2.2 by caps. This misses much non-security investment.

p. 143 - 'A substantial portion of the funds raised from security flotations was used for purposes other than financing the construction of cap goods' e.g. 'acquiring securities or properties of other co.s'.

Spec. inv. lowers p cap, discourages real investment. Cons. exp. reduce real inv. but lower real hrs, encourage investment

Mention in quoting Moulton you recognize inadequacy of his explanation of effect.

Tanzer stresses inelastic demand for petrol causing it not to decline in depr., says ~~oil~~ price fall not tremendous. Agrees that comp. pumping helped - though ^{with} undesirable byproducts of course.

Says 500 billion bbls known reserves in middle east, enough for 250 yrs for world! So even oil not in danger. Production costs lower there.

Error to think, as in cap exp & stab p 295, that effect of taxes in discouraging investment is unimportant because already too much available for inv. - obviously. p. 296, shows how they ~~en~~ discourage inv. with income tax figures. v p 304, 339, 344

Meaninglessness of 'income' shown by spec. incomes in boom.

Oil pools are analogy of how production can be maintained despite monop. - not an example, an analogy.

Bots will look for typst.

The Formation of Capital, HG Moulton, Wash, Brookings, '35

p. 69-70: New industries don't usually bring us out of trough, but get under weigh when boom is going, keep it going longer.

p. 144, ff. 1922-31, net productive financing stayed fairly constant, ~~2a7b~~ around 3b\$. Other financing changed greatly, went up to 6b\$, 1929.

p. 146: after 1924, outstanding securities started to rise, too. Hence it is not saving exceeding investment, but exceeding productive investment.

Funds available for investment were 8-9b\$, 1923-4, 15-16b\$, 1928-9. Volume of new corp issues for productive purposes, including mortgages, stationary at c. 5b\$. This was used to buy materials or hire labor (or buy land---making effect figure maybe even smaller)

p. 147 p. 147 investment trusts and p.u.h.c.s issued in '29 4b securities.

Funds were used to buy outstanding securities. (then what was done with them?) Multiplied the number of claims to same prop, they were spec. in, took m. (How much?) This would have reduced value of all stocks in m by increasing number, but it increased m bidding for them still more.

p. 148 Securities on NY Stock Exchange are roughly half of all. Prices of sums: ~~1022~~ stocks: 1925, 27b; '29, 89b; '34, 33b. ~~11~~ Bonds varied in same pattern, less extreme.

Rise of stock values, esp '27-9, no relation to real growth of national wealth and income.

So the so-called new issues of later boom were just buying outstanding stocks, mostly. This m might as well have been hoarded. p. 149, it was mostly put back to further speculating.

In later years of boom, expansion in new lines of business, Aviation, radio, chemical, natural gas, motion picture. Great overinvestment in them.

So, p. 151, excess m savings were dissipated in spec. So? All of them?

Banks increased loans, too, despite fact that there were more savings looking for outlets than outlets.

Also at this time wild foreign investments, most of which never repaid--152.

Hoyt seems to have stuck closely to commercial and residential construction. How about manuf?

~~10345~~ Ellis, Exchange Control in Central Europe, p. 161, describes how administered prices weren't lowered in deflation, Gy. Cambridge, Harvard U. Press, 1941

Keynes, The General Theory of Employment, Interest, and Money, NY, Harcourt Brace and Co

p. 135, defines marg eff of cap. It is the rate of return expected on a current investment. He specifically mentions supply price, (later seems to forget that increases in supply price will lower the marg eff, by definition---unless they increase anticipated yield as much, in which case they aren't real increases), for economy as a whole)

Make it explicit somewhere that an increase of demand in general can only mean in money demand and that means reduction of real hps as prices rise. Or else acceptance of more ~~sp~~ investing in money, a fall of hp of investors.

Ch. 12, p. 147-164, describes how spec. may diverge from value in production. But he does not distinguish productive investment from other. /

p. 164, looks to see state directly organize investment.

p. 191, extremes to which he carries. Not only is employment dependent on investment, but investment depends on explicit money investment, so that "to every banking policy there corresponds a different long-period level of employment." (not real inv, i.e., but m)

p. 245, says that his analysis takes as constant "the existing quality and quantity of available equipment", by which he includes land evidently. Actually changes in availability of such equipment are vital to cycle. "the existing technique" also constant. Yet changes in it, as shown by Schumpeter et al., vital factors. "degree of competition"---yet mid-boom growth of nat. res. monops important. "existing skill and quantity of available labor", yet real hp of labor changes greatly in cycle, esp with infl and defl. He doesn't think of them as constant, but parametric here--evidently thinks of them as long run vbles, on p. 247.

p. 248: "...an increase (or decrease) in the rate of investment will have to carry with it an increase (or decrease) in the rate of consumption." in money i.e., tho he evidently thinks of it in real terms. This describes the circle I discuss.

p. 248: "...assume (as a first approximation) that the employment multiplier is equal to the investment multiplier..."

p. 248: "An increment (or decrement) of employment is liable, however, to raise (or lower) the schedule of liquidity-preference;..." With this I diametrically disagree, in section on can hps change, e.g.

Ch. 19, Changes in money wages, he says real hp of labor in general sometimes cannot be lowered--not in so many words, but by saying it reduces "demand" pari passu. p. 269 he sees that this is what it means and says / if labor lowered its m hp "this would not, as a rule, have the effect of reducing real wages and might even have the effect of increasing them..."

p. 358: "...there have been times when it was probably the craving for the ownership of land, independently of its yield, which served to keep up the rate of interest;..."

New inv. opp. may cause new inv.
as much by lowering value of existing
assets [than A.I.R.] as by simply the lure of
higher returns. The combination is what
does it.

Noted in Korea.

"The land is still there"

Peasants are planting.

House ruined, animals gone, etc.

Thus, in insecure countries, the tendency to invest in land rather than capital, esp. fixed, destructible cap.

Hence a major way to reform land system is international cooperation, to prevent the wars.

Moulton, Harold G., "Controlling Factors in Economic Development", Brookings Inst., Washington, 1949

Postwar, savings as % NI was 8%, '46; 6%, '47;
cf. 12%, 1941. Attributes it to high inc. taxes --
not their incentive effect, but distribution.

1929, "capital expansion", \$7.4b; '41, 8.5b;
'46, 14b; '47, \$19b.

} These must be
from def. by which
I ≠ F

Moulton goes for broadening distribution of NI to
combat oversaving, with inc. tax as method.

Harrod

In K, if get enough Inv, will offset ΔY ... in one instant.

'Growth ec.' addresses self to whether this can continue over time. For each ΔY means more productive capacity & more ~~growth~~ Y , hence more S , requiring more inv. to offset it.

In my scheme, if ~~the~~ ^{antic. yields} falls a little, this can be compensated by a fall of non-interest costs, thus keep'g up inv, both now, & in anticipations.

(By $-\Delta$ non-int. costs, you may (but probly won't, if land monopoly included) slightly depress mpc; ~~you can~~ by redistrib. ; you undoubtedly will vastly Δ investor's gap, now.

Δ more leverage to Δ gap --- by redistrib. prospective Y more to investors, you cause spending of exist'g balances at much higher rate

Note I do not say simply 'lower wages'. This perverts the argument. Lower money exactions, lower material costs. (which cumulate, as Δn .)

add that many investors are small, many wage earners rich. & destroy usual presupposition about mpc effect. Profession has lost perspective here. [lost feel of relative importance of the 2 effects]

As Y rises, C does too, perhaps proportionately --- at any rate, enough to higher Y , relative to higher C , is as ~~understandable~~ ^{believable} as ever. & if $\frac{C}{Y}$ falls gradually, if it has any depressing effect on antic. yields, can be countered by fall of costs.

& thus cd work to pt. where most Y was saved. & it wd be generally understood, probly, motive of savers was to acquire assets, this being something of an end in itself. (as stressed by those who say int. is all rent.)

Harrod's contribution: $C \equiv \frac{Y}{\Delta Y}$. Y is induced by ΔY thru acc. principle in part. --- but not carefully dated. Anyway, higher ~~same~~ Y level requires more cap, is idea, hence inv. opp. Is a rate of growth at which ΔY induces just enough Y to offset S . But if ΔY gets a little too high, then it induces too much Y , meaning more ΔY , explodes --- thus small departure from ~~the~~ C_n means going way off --- using both acceleration & mult. principles.

~~to~~ ΔY det. Y thru acceleration; but from Y we get ΔY , thru productivity.

Thus it works both ways. -- ΔY comes from I , & determines it --- in next pd, a pd
analysis being implied.



Good I.r. theories, 7
Stuff, for article.

Will infinite land values prevent the i.r.'s becoming zero?

Yes, for no one need ever invest in an asset that will yield nothing when he can buy land that will yield something. But how will mechanism work? I mean, how will it draw investible funds away from real investment? He who sells the land still has that sum to invest.

How buying
land thru
cap. formation
is another
cumulative
process too.

Part of mechanism is that rise of l.v. gives people the capital they want in form of higher land value, their incentive to get it in other forms is reduced. Another is that cash will buy less, of land, so people will somewhat increase their money balances, invest a little in this disguise.

(note, incidentally, the tremendous fallacy in saying that lower yields on inv., may make people invest more due to income effect. For this overlooks the fact that existing assets are increased in value -- at least a good many of them, depending on exact ~~xxxxx~~ situation -- & this makes people invest less by itself, the effect of the lower yields on present incomes won't make itself felt for years) (& when it does, it probly more than cancels self by lowering ability to invest)

A basic fact is that if individuals with money to invest do not buy new assets with it, capital formation will cease. They may increase consumption, may increase c.b., may increase financial transactions, but so long as they do not buy new assets, no cap. formation, & this is mechanism of stopping formation. Infinite land values come into picture first in that no one will invest in other assets of no yields, because of the rent alternative; ~~xxx~~ 2d, those who sell land will not do so to invest in ~~xxxx~~ new assets -- why sell something that yields something for something that yields nothing? --- sellers will either sell to get liquidity, to consume, to invest in pleasure goods.

It is probably fair to assume a desire to have capital of a certain constant am't, at least temporarily. Put that way, sounds silly. But may we not say that people plan to keep so many resources invested, independent of capital gains & losses etc -- at least very roughly. People at any time have liquid assets they intend to invest -- that is how above analysis starts. They find productive inv. opp. blocked, so they buy land. As land rises in value, society finds it has the capital security it wanted from this source. It doesn't have the income, to be sure, but it has the capital value -- silly to say a constant income is demanded, for the security of a high capital position is substitutable for that of a high income from cap. Thus the desire to invest is satisfied. Those who had funds to invest feel they have solved their problem ok.

NOTE HOW ABOVE CAN BE EXPANDED INTO ARTICLE ON THE EFFECTS OF LOW INV. OPP. ---- A SUBJECT THAT HAS BEEN MUCH WRITTEN ON, FROM KEYNESIAN VIEW, BUT ABOVE POINTS NOT BROUGHT OUT.

drains
cap.

160 ... represents a drain of a significant amt of cap. to a nonproductive purpose. This diversion in turn probably affects & i.r.s which productive enterprises must pay.

543

Criticize von Mises'
&c. that sales tax
helps cap. formen. --- &
stimul. that it is
regressive.

Because value of savings
also cut.

Effect of sales tax, like inc. tax,
to encourage non-mkt. economy.
Discourage production & cap. formen.

~~III B~~

Possibility of mnp
reduces cap. form, by guiding
cap. into buying existing
assets.

(cumulates)

Pinkes say inv. opp. are disappearing; but 'profits' are higher than ever. Seeming contradiction. But reconciled by my solution: rents for those already est. are hi, but new opp. choked off.

Fellner, Chap 5,

Suggests lowering elastic demand
P esp.

Might follow this thru ---
means lower P where main effect
wd not be redistrib, but Δ inv.
opp.

Also distinguish free mkt wage
from others, don't treat same.

Cap Formation
cf us with Russ, we run & do better. Dramatize this, get interest from start.

I Intro { is important. Question: how to maximize it.
All agree is excess of Y over C , in p.d. Beyond this, divided counsel
To maximize, ~~AY & lower C~~. max $Y-C$. But how go about this? ~~Forced attachment~~
If $Y \rightarrow S$, $p_c \rightarrow I$; so, within limits of rigid P and high p_c better.
Also wasteful ΔF - various irresponsible statements
If says to lower C will lower Y by still more. Analyze & dispose - for while this
is important, nothing can be done.

Anti-Keynes

(R. says ΔM . Dubious.) (Says for incentive effects)

III Reducing assets

So is problem in lowering p_c ; (& clarity in preventing - Against I , this infl. condition
of modern times make this much less urgent)
Here meet another fallacy, that Δ yields don't rec. Δ inv. or S , thru 'inc. effect'.
This done by a, Δ ing yields, which reduce disinv, thru $\Delta I, P - \Delta p_c$.
'a' does both.
'b' may also be done by 1st Lowering asset values. Land, privileges, gov. bonds (save where they create cap. even
there cases better)
Keynes off. said land as lig. subst. hindered cap. creation. It is as cap. subst. As lig. subst. it helps cap. creation.

IV

Conclusion

Reforms like these nec. to justify our society; ultimately, to make it survive.
Should make it outperform Russ., now war nec. But also best war prep. Hi i.e., flexible
cap. higher GNP possible in war.

Cons. worshippers wrong -- hi com. Won't win, but much & flexible cap.

While measures advocated above may be 'difficult' to engineers, in some people
don't favor them, are not difficult in some they would be hard to do if people
for them. Also other, is business of prof. ec. -ists to look ahead to
what are ultimate goals, not just ~~follow unexamined opinion~~. If are just high
priests giving learned sanction to popular fallacies, are only serving selves, &
that not very well.

Cap. creation cannot be significantly Δ d by superficial measures like ΔM . Calls for reversal
of trend toward welfare & consumption in state, ~~again~~ emphasis on security. (& will soon result in more
welfare, cons. & sec) (Like France behind Maginot line, our vain search for sec. opens us for destruction.) For
over

Russia not a welfare state, but a cap. creating state. To prove viable in same world, we must outdo them at that, not ~~with~~ ~~at~~ rest content to sneer that they are less familiar than we with mink coats, roadhouses, perfumed soap & indoor plumbing. We would not be the first luxury loving society to be overwhelmed by hardy barbarians.

- II A1 theories have in common: say $\Delta M \rightarrow$ more ΔY than ΔC .
- 1/2 a. ΔM issuers must create cap. with it to begin. If it consumes, is doubly bad, for it gives people assets, ΔP reduces debt of borrowers, Δ repayments, discourages saving.
- a. Impact makes diff. ΔM goes to support people in idleness, won't Δ incentives to resources or innovations, but opposite.
- K wrong to ignore impact, just mention i.r. effect; R wrong too. But impact only important if adjustment lag -- if $\Delta E \rightarrow \Delta C$ induced, doesn't matter. ΔC all consume not likely to $\rightarrow \Delta E$, so there is com. possibility. ΔM are whole cause of ΔM having any effect anyway. So consider impact.
- b. K's theory of influence thru i.r. He said more liq. assets meant lower i.r., more lending. But also means more cons., perhaps more so. & if ΔP , means neither, but just nothing. p. 2005, 6

- using equivocal argument; & also asserts $\rightarrow$ cons. argument.
- K's theory of com. P. Here, likely to be some. But even here, disinv. likely to take M, big flaw in argument.
- c. Rob's theory of preventing imposed disinvestment. No good, because is also imposed gross inv., when $-\Delta P$. & he says ΔM all saved. Partly may spring from his pd. analysis, tending to make S residual. Partly an. people intended to save more all along. But in fact, Fisher Survey shows, $\Delta Y \rightarrow \Delta C$

- 1/2. 'Forced saving': is expropriation, but not nec. sav.
- d. Conclusion: Always good to avoid $-\Delta P$. But as aggressive policy to create cap: ΔM takes cap. by exploiting M holders. (No 'forced saving', just expropriation)
- They may give it up by consuming less, then get cap. creation. Or more likely to give it up by creating less cap. privately.
- Not as good as ΔV (which do by ding yields) that lowers assets

- Except insofar as Δ production. ΔM may do that in many ways, which gross inv.
- list.
- Δ comp. in lending: institutionally, probly lowers i.r. -- esp if $\Delta M \rightarrow \Delta I$
 - Δ ratio of incentives to existing assets. Incentive to sell goods as well as to work. p. 2028
 - Δ inv. opp. by cheating bondholders, freeing borrower from debt. (If real ΔM wanted, good. (If real ΔP rigid, resources flexible, would get Δ gross inv.)
 - Rigid P. But much overworked. But if real ΔM wanted, good. (If real ΔP rigid, resources flexible, would get Δ gross inv.)
 - Stimulate inv., because past inv. pay off better, to equity holder, because lender exploited over
 - allow Δ real c.b., where that desired, & maybe $-\Delta P$ won't do it, but break banks; otherwise attempt to Δ real c.b. $\rightarrow$ continual disinv.

None of these ways are just, when call a spade a spade. Not effective as opportunities get saturated after a while -- pensions are all lowered, bonds all exploited, etc.

permanent policies. ΔM like dope. When body in good health otherwise, & not accustomed to it, stimulates to great heights. Results: addiction, loss of effect, of morality, of freedom. It stimulates effects of good habits, but only by exploiting developed parts, which can't go on.

Rob. quote on what ΔP does to contract.

Except is also good as means of allowing Δ real M, when $-\Delta V$ can't do it, thru private banking. Good to lower costs of making M, & when people want to Δ c.b., they do it mainly by disinv., ΔM speeds process, thus lessens disinvesting [ΔM speeds it esp when impossible to Δ real M by $-\Delta P$]

- n. Strengthen marginal firms & debtors, improve comp, discourage consolid. Puts γ in hands of those in position to inv. by passing cap. mkt. is --- which also makes cap. mkt. more solvent, & inv. exp. cheaper to others
- g. Makes banks &c. cap. mkt. people more solvent, improves cap. mkt. & inv. exp.
- p. 2025 Throwing 'old goods' on mkt. -- semifinished -- requires production. (fact that goods are thrown on mkt follows from fact that ΔM held by intermedi. -- helps prove it -- in fact. p. 2042)
- o. Pensioners, who would spend higher % for C , expropriated.
 than other M holders, including intermedi.

— Mention Fisher on real ΔM i.e., related, but doesn't begin to cover possibilities or explain much.

- e. & anti. future infl. stimulates equity holders to inv. & banks to lend to them, as an extra element added to anti. yield in exploitation of real lenders, M holders. But they can do nothing about it, for they must accept M . (But they can cons. more, & buy no bonds) M holders stimulated to ΔV , much of which is Δd reinv. by anti. fall of M value. People stim. to borrow for all kinds of purposes. & banks to lend, for is much more security.
- Infl. even probly encourages bond lenders alike, for bond loans become so much more secure -- in deflation, bondholders don't gain, because of moratoria, & that sort of repudiation is even worse than inflation losses.
- Creates air of confidence, like $\Delta I.v.$ May lower i.r., Δ assets, too -- lower it from S ^{high} ~~high~~
- g. Reduce claims of pensioners etc on current product, & % of total going as incentives. Reduce rates on prod. (if rates are so collected -- if are on rents, infl. less stim.)
- h. Δ confidence in future γ , thus reduce C ? Or ΔC ? Lower artificial costs or rents from res. reg. etc.
- i. When ΔM initiative from banks, aggressive comp, lowers costs of cap. mkt., Δ comp. Cf. to ΔP . (which only works when banks don't create M anyway), borrowers don't need so much M because of lower P , banks may be aggressive to lend rest of funds, but less sure.
- k. Δ sureness of future γ , $\rightarrow \Delta V$ (both less S & lend. sim. -- well, more C & E)
- l. Some middlemen, tending toward monop, are usually financing end men, infl. weakens middlemen, encourages comp.
- m. Lowers returns of rigid P , who are often monopolists. p. 2003
- n. Intermed. throw goods on mkt. to get cash to reinvest; old cap. thrown on mkt. as old M claims are destroyed, like mortgages. p. 2028, & parim, before. 2015, 2016. 2029, on how this makes current goods dearer in terms of old ones.

1. Conclude ΔM always better than $-\Delta P$, many reasons. But ΔM as an aggressive policy to Δ cap. formation not so good. Reason exploitation of bond & on holders takes confidence from there, worsens cap. mkt, ^{maybe stop} ~~stop~~ saving; but ΔM always has good effect of Δ ing competition in lending.
2. $S \& I$ tend to vary together, both Δ by Δ yields. / He would even Δ wasteful I , very bad.
3. Mention Δ yields also lowers cost of stock resources, ^{& vacant loan} by lowering future value, thus lowers costs, further Δ yields.
 $S \& I$ ~~vary~~ both Δ by Δ yields, good in any system.

Retracting to higher cons. margin means going to lower margins in other uses of assets.
 For it indicates saturation with com., a lower margin there than before.

Paying debts becomes more profitable form of reinv.
 Assuming gross low. in Δ Net is bad, misleading, but not entirely wrong. Calling $-\Delta V$ due to net sec. is absolutely wrong.

III

to ~~the~~ problem ~~is~~ is solved by a, ~~the~~ Reducing p_c b, Keeping up yields (w/o worrying that $-A_{pc}$ will affect them); & keeping l_{ig} pref. down.

Have shown $-A_{pc}$ won't $\rightarrow -\Delta y_{ields}$, for ~~the~~ given cap. Have suggested how yields may be kept up, will summarize later.

A] to with clear conscience can concentrate on $-A_{pc}$. ~~the~~
 Lower assets. Δy_{ields} good... effects of Δy_{ields} largely thru this way (also $\rightarrow \Delta V$, lower real M)
 Re land, note it's error that it was l_{ig} subst. It was, & is, a cap. subst. Good way to work it in, giving impression emphasis is on it. Discuss how land purchases ~~to~~ prevent cap. creation ^{over}
 ΔT . Play up govt bonds, danger that we saturate our desire for assets holding them, while govt shows away proceeds. Cuss Hamilton, Hansen

B] As to keeping up yields, same measures that lower assets will do that. By tax shift, by lowering h_p ; by improving allocation -- etc. Lowering h_p is permanent source of keeping up yields; as well as equilibrators of output & empl, which ~~is~~ missed, but which should be stressed, so full empl. won't seem like such a haphazard piece of ^{by $\Delta i.e.$; & by ΔV}
 (the higher yields will in turn further lower assets) their influence on stock resources not duplicated by taxes, either)

Aside from special features, merely lowering assets will lower h_p s. over
 Unemployment insurance is an asset, very important one; for. sec. in general, knowledge that someone will take care of you if in need. Voluntary insurance bad enough; compulsory is unconscionable. These ~~both~~ lower both sav $\Delta i.e.$, by Δh_p , & $\Delta assets$.

C] Lowering assets will ^{lower l_{ig} pref.} ΔV , serve for bonds. Unbalance assets; Δ ^{equilibrium} $i.e.$ yielding use of assets; reduce 'financial' T ; lower $Com.$, & $com. T$;

With fewer existing assets to buy, need lower 'financial' balances; & also in flow, fewer expenditures for existing assets, which are alternative to reinv.

because altern. to reinv, not to cons. How they further raise assets, Δ ing com., cap gain taken as inc.
How in primitive countries this is seen, that land purchase ~~to~~ prevents cap. creation. But also true here
now. It is not that ~~net sav. is limited~~, but that net ~~s~~ doesn't occur. people use savings to buy land, that
would still create cap. But that they don't save.

III B Mnp means lower yield to inv, & drives cap. into existing assets. So anti-mnp. called for
High yields mean old goods thrown on mkt, to consumers, so holders can reinv. Cons. satisfied
from old goods, reduces demand for new, Δ cap. creation -- dubious for the cap. thrown on
mkt is destroyed. p. 2029

II A 1 d

Orig.

Temptation to say ΔM like issuing sec., where people want to hold inv. in that form.

But could also do it by $-AP$ --- essential problem is just that net γ people consume less than they produce; or disinvest.

So to show ΔM creates cap, must show it causes process to involve less com, less disinv. Which can be shown, & will. But stress is not automatic result of ΔM , by any technical necessity. Hence depends on having certain precedent conditions -- & what they are I will show also incidentally means is no 'forced saving'. Is an expropriation, but doesn't nec. reduce com., maybe just reduces private cap formation.

ΔM doesn't nec $\Delta(\gamma-c)$, as assumed. Desire to ΔM may not be assoc. with desire to Δ assets, as an. May disinv.

Tendency to assume ΔM automatically means more cap. creation than $-\Delta V$, mechanistic necessity. Not so.

I. Introduction

Free ec. institutions on trial, challenged.

✓ Over years, most important thing is cap. creation, rather than current cons. we overstress. Will determine living standards & nat. power in not so distant future.

Is not entirely matter of getting ahead, partly matter of just keeping up with depletion. Cap. creation, rather than non-use, is answer to conservation problem.

Russ have been outperforming us, in cap. creation. Which may mean their institutions have more survival value than ours. We must not rest content, but change ours to encourage cap. creation. Wrong to judge simply by relative cons. standards, as some tend to.

Ec. ~~sciences~~ ists ~~divix~~ give no unanimous counsel on how to increase cap. formation. Most agree simul. Y-C is it. How to maximize Y-C is moot. Some would dM, some dI, some -dC, some dC. This paper will a, advocate -dC; b, suggest measures for doing it.

Process involves criticizing much in K. Tho few now take as bible, many ~~x~~ peculiar assumptions have become common thru him, will rebut.

II

A. Consider possibilities of dY, more than dC.

1. By dM

II A1 c

Robertson on imposed saving & imposed dislacking (or fructifying spontaneous?)

Forced saving.

The alleged process.

$\Delta M \rightarrow \Delta P$. Those paid by ΔM produce cap. goods. They are paid by laying on M holders -- thus what they might have consumed is converted to capital.
(The less ΔP , the less forced S.)
Then people will save to replenish c.b. after ΔP has reduced -- dead wrong.

Criticism

Inadequate statement, the dealing with real process.
Can't just assume new disp. means less C, must prove. Besides, it will involve more production, too -- for real, not just illusion reasons -- & this adds to $\Delta(Y-C)$, not subtracts as R says.

Real process corresponding

p. 2009 et seq.

Is def. a 'forced loan' if ΔP . But need not $\rightarrow \Delta(Y-C)$. Will encourage production, due to + elast. resource supply. (& part of effect is continuous) Thus probly Δ real S.
 Δ yields, for above & other reasons (refer fund), makes more Y, less C
Current producers get more of current product, & also of old products.
This implies no fall of yields. Thus get Δ yields, fall of assets, more S. p. 2016
Reduce C, probly, for pensioners consume, mostly.

Fructifying spont. S.

alleged process.

Unfructified S

Due to S, P fall, real C doesn't fall. Gross I falls.

Perhaps exploiting desire to ~~hold~~ Δ c.b., using it to Δ cap, making people give cap. in return for ΔM , is idea -- maybe I just infer what he doesn't imply but worth comment, is a easy, 'natural' idea. p. 2008

Role of ΔM

It keeps up gross I, so resources diverted into producing cap goods, as intended.
No fall of P, no unintended C.
Is all saved.

Criticism

If people intend to Δ assets, they will do so. ²⁰⁰⁷ Should dist. desire to Δ assets from desire to Δ c.b.
really disim. / C would fall some anyway, as given M im. continues at lower P / Doubt that ΔM would all be saved, as he assumes. -- definitionally, or because people looking for ΔM . May ~~not~~
 $\Delta C > \Delta Y$, by Δ ing sureness of future. p. 2007

Real process corresponding.

Is really describing general liq. flight into M; otherwise gross I wouldn't fall. p. 2006

8/11

**SCANNED
AS
FOUND**

II Alder

In one trade, if demand falls, marginal firms lose value, are easily acquired by richer. They may have large capital value still, but this mortgaged to bonds, fixed charges which do not fall.

Deflation would have same effect, as far as bonds go.

Inflation would strengthen marginals, improve competition.

III A

Infl. destroys bonds,
thus As assets.

But this only applies to
bonds to be paid from
future taxes on production.

If bonds are to be paid by
unconditional payments --

land taxes, corp. annual

payments -- just transfers
assets. But a tax on

production not a tax on

assets -- tho it, too, may
reduce them.

(Infl. doesn't Δ real M
nec, if $\Delta P \propto \Delta M$)

partly because Manners not Ad
When dI comes from dM, is likely to be matched by dC; while, when comes from existing balances, is alternative to C, not so likely to be matched. Hence dM different from other dI -- cuss K. & can't assume it will increase Y-C.

A-1: Always preferable to have dV rather than dM, for it lowers assets, encourages saving. Besides, dM likely to dC just as much as dI, but dV means dI at expense of C, probly.

A / Another drawback to govt. issuing M to fructify cap. is that it is govt. that gets the cap. If it just uses it for current expenses, no cap. formation. And it acts as capital substitute, letting people invest in m, hold assets in that form. So the more M there is for people to hoard, the less saving. Brodez.

I or IV

Impoverished nobility, spendthrift rich heirs, high cons. standards for certain social groups, shirtsleeves to shirtsleeves in 3, etc., all reveal that within our society are plenty who live on capital. *Farm depletion* So is quite possible that whole society should deplete its cap. Is not a remote possibility only.

Also have farmers who deplete farms, move on w/o capital.

Cap. formation is also answer to depletion problem. Problem not solvable, as many vaguely imply, by ceasing to use resources -- save by taking more inc. as liesure rather than material cons; but by cap. creation, which allows ~~more~~ us to use resources harder & harder to let at, with no limit on future. -- sturctural materials can be reclaimed, & energy is always coming from sun, atoms, etc.

We should not be deceived by our seemingly high cap. creation in past. For much of it has not been net creation, but balanced by depletion of natural resources. ~~If the~~ Tendency to look on returns from depleting as net inc., consider it cap. creation if not consumed. But is not net creation, is just transferring natural resource to capital. If the balance could ever be taken, we might discover we had contributed little to ec. resources of America, but just changed their form.

Use above in intro, to point up importance of cap. creation;

6a

As i.r. falls & l.v. rise, assets increase, reducing desire to acquire more assets. Which means a, less saving; b, less income producing uses of existing assets. (except that seeming increased "liquidity" of land would cause more investment of m)

You might say that increased assets mean more income, which means more saving. But in this case the rise of assets not due to higher income, but fall of i.r. (except as cap. gain is itself income)

K. says real cap. formation from saving -- I agree. Later says that low mpc prevents cap. formation -- probly on grounds that it reduces investment. But the inv. it reduces is just the reinv. to replace higher cons. Whatever the mpc, increased real cap. formation in K's system will equal the Δ dI, because S equals it. A high mpc means more income, but not more cap. formation. But possibly he had in mind induced investment in that passage.--check that.

III B

All forms of taxing explicit m incomes discourage inv; because
are alternatives: holding m, int. analogy inc. not taxed; consume,
int. analogy not taxed; buy land for pleasure, inc not taxed; buy
land for cap. gains, inc not taxed so much; ~~investing~~
Also encourage investments with hi implicit incomes -- residences,
businesses in more pleasant areas, etc.

III B

of how non cap. assets & hi hps
go together

"E.g. when the right to do certain kinds of work is limited, acquires a value, & becomes private prop., an asset is created, but no cap.

& simul., supply of resources compl. to cap. is ~~less~~ reduced, & their ability to lower their demands to Δ empl. is limited -- that of outsiders is destroyed."

To be sure, security of exclusion is reduced, but so is inc.; so unionists get inc., but sec; others get inc & sec, no inc. to no cap. formation. Hi inc. &

6a

Above doesn't imply that existence of land values encourages saving -- for whatever asset they bought with saving, it would increase cap. formation. But it does imply that ~~it doesn't~~ investing in land doesn't hurt cap. formation, except as it reduces S by increasing asset values, etc. It doesn't matter as what people do buy with their m; but just that they don't buy consumption goods. That is what causes capital creation.

A1

6a

When banks dM for customers to buy land, that doesn't nec. increase saving.-- by lowering i.r., discourages it. Work this out.

II A1
8, 2

Idea of saving as residual. Simul. analysis. Only holds if pd. so short that cons. plans can't be changed in light of known changes in Y. To choose a pd. so short would serve little useful purpose. Would perhaps just be a hangover from pd. analysis, where pd. had to be short so you could spend out of previous income.

So, having pd. long enough to sav. not an automatic definitional residual, can ask if it behaves as one in fact. Probly not. For Likert results show that increases in inc. ~~xxx~~ cause even greater increases in C. (better get that thing, see if they did a good job. Cause-effect relationships shouldn't be fouled up.)(It might be the increased C that caused dY)

There is certainly no presumption that dY is saved. For saving usually involves expenditures, is more customary & institutionalized than cons. Insurance premiums, budgeted savings ("Spend what is left after you save, don't save what is left after you spend"), debt retirement instalments, instalment plan payments, etc. Many when they get an unexpected dividend consider it pure gravy, go on a spree -- especially in this day of taxing capital.

II A1

"Rigid price" explanation ~~xxxxx~~ of why infl. better than $-dP$ has been much overworked. Other factors neglected. Making it seem that trouble ~~was~~ with monop.s is just inflexible m prices; while it really is that at any p level they raise P & restrict output. So in fact dM won't solve that, rigid P explanation makes it seem that it would.

~~The rigid P~~ are not nec. monop. ones, but are customary ones, or contractual ones. over

II A1

In summing effects, can probly say: by ΔM , govt can abstract cap. from economy, a ~~net~~ gain to cap. creation. In reaction, people ~~can~~ will probly reduce both com. & cap. formation. Only if reaction of private is taken out entirely in cap. formation, if they do not $-dC$ at all, is there no net gain.

Is still something to my old idea of cons. & inv. expenditures as rivals, paralleling each other. So dM causes more conversion, takes resources from producing for consumption. My old "ratio effect". Certainly is ok for resources producing directly for cons., no intermed. *i.e. dM takes up such resources. - by lowering investment gap?*

II A1 To think of dM as automatically increasing Y-C is to either think of I as parallel to C, or in K terms of I determining S, i.e. inc. rising until S equals I. Or to think of resource prices as stickier than retail, so get increased production, but no increased cons. In fact, might just as well get no increased production, but increased ^{consumption} production, retail prices being stickier than resource prices.

The "ratio effect" is shot if cons. increases prop. to inv., or greater. -- including the swiping resources from direct services effect. Viewing things in parallel makes no difference.

But the exploitation of m holders effect is good any time. Issuer of dM takes from holders of existing M. Which, however, may not increase cap. formation. dM issuers may consume; others in reaction may increase cons. *Business, because assets are lowered, they will consume less.*

But if a govt. consciously uses dM to increase cap., it uses dM just to buy cap. goods itself, or for others. Is then likely to reduce cons. of m holders, by inflation, & not reduce production. But limited. As soon as infl. generally anticip., m users will discount in advance, demand higher returns from start. Disruption of m system makes all social accounting harder, security issues difficult, etc.

II A1
d
K. also had a dM proposal for dY. dM would lower i.r., thus dI, dY. This assumes it would increase real assets, which assumes P wouldn't rise, which assumes real Y would rise. I.e. it is same as assuming dM yields dY, real. Also involves ass. that mpc less than 1, not nec. so.

If dM spent on ~~inv~~ cap. formation, i.e. for resources, raises their prices relative to cons. goods, lowers investor's gap.

(But govt. might buy more final goods for cap. formation -- the dubious.)

This is IF original tendency is not to consume more because govt. ~~investing~~ dM. Thus if there is such tendency at first, it is immediately self destroying.

Conclusion to 'd' { Possibly in particular circumstances, taking advantage of various short run habits & inflexibilities, dM may be used to create cap. -- tho I suspect usually the uncreated private cap., which there is no way of estimating, is great, & what is really being done is creating it for govt. use rather than private --- or, of dM from private banks for private people, in one way rather than another --- . So for long run, or general short run policy, dM no good.

Not all of loss to m holders & bondholders is gain to dM issuers; much is redistrib. among other groups. Equity holders e.g. gain. So dM causes redistrib. of wealth which is incidental to main object. Result of this may be to temporarily increase inv. opp.; but over time, destroying faith in m, will lower them.

$\frac{1}{2}$ a (As between private & public dM, private is surer to result in cap. creation, for borrower must repay. This even true for cons. loans. Borrower must produce more than he consumes in future.)

Govt. takes the resources for its cap. formation. Will others react by consuming less? For if not, is no net cap. creation. They must either consume less, or

(assuming dM doesn't increase production. Under certain circumstances it may do so, but after a while whatever effects it may have will be exhausted. This is not, incidentally, nec. the point where resources are fully used. Many things besides a deficiency of "aggregate demand", or gross inv., as you wish, stand in the way of full use of resources. One of most pernicious results of K etc. was the exclusive importance attached to monetary demand in determining resource use, detracting attention from ~~more important~~ other requisites of a sound economy. In a world of interdependent, limitational ec. resources, foolish to say that ~~only~~ production may be controlled by just one of them)

...or create less capital privately. Why should they consume less? It is resource prices govt. bids up, not consumer prices. C.b. are larger in respect to consumer goods (due to dM, & since it is received at net inc. position, likely to be consumed); smaller in respect to resources. Inv's gap smaller. Equimarginally, consumption uses of capital offer more than inv. So private inv. likely to be curtailed, not cons.

A 2

Is a relief to find S & I are identical, for, in real terms, one inverts by accepting M. & they should be identical.

"Indirectly, of course,
the opp. to sell land at
hi P or to borrow on it at
relatively low rates may
well encourage extravagant
cons. & thus raise i.r. &
retard the growth of
wealth. . . ."

Rob., Mr. K & i.r.,
fence. p 451, in RTID

When you consider C as γ -creator,
 then $-\Delta C$ seems to pose great problem, to ΔF .
 But when gross I seen as γ creator, not affected by
 C, is no problem. Real inv. follow automatically
 from $-\Delta C$.

6

If C falls, K would say Y falls
automatically, no ΔI or ΔS .

You I in M when you $\Delta c-b$, i.e. have. So are same.

A 2

— K. never followed thru implications of simul. analysis for cap. creation: he stuck to some stock concepts, about how needing l_{mv} to fructify it. As for cap. creation, it is l_{mv} that requires h_{mv} to make it real, while h_{mv} is good any time. Only re γ is I more determinant. Simul analysis makes I & C

II

B 2

direct alternatives. — but only in 'single' sense, that $-AC \rightarrow \Delta E$ ~~atom~~ (is also a 'double' sense, in not spent on C is spent on E, so $-AC \rightarrow 2\Delta E$, & no $-\Delta \gamma$. This quite likely) (is probly normal)

6.5 Gross I indep. from cons.

Is tremendous inertia to keep capital formation going, from those who own partially finished cap. -- goods in flow like inventories, & also 'fixed' cap, which is also a good in flow.

Like water at head of flume. It will go all the way. Those who begin to carry it have to finish doing so.

Also, as fixed cap. is there, have to keep water coming, to use

it.

So when com. demand changes, immediate effects on int. payments are negligible. Consider, e.g., all the fixed int. bondholders.

But when conversion Δ s, immediate effect on C .

(But if com. can change much for any reason, why not in response to ΔC ? Must stress point that int. C not cause of production.

II B 2

Keynes has schooled us to always think in these terms: we consume "out of income"; we invest "out of c.b.". Which is nonsense, they are parallel, either could be conceived either way. But better to conceive of both as "out of c.b.". They are alternatives. -- not 100%, for is 3d alternative, to hold. They are also alternatives in another sense, that same motives that make us invest make us save. But that is extra.

II B 2

Object of this ~~xxxxxx~~ section to dispute widely held idea that I & C tend to vary together, show opposite. Both in real & M terms. Consumption is always disinvestment, from viewpoint of the one consuming, he is reducing his assets. Is wrong to say this will encourage reinvestment. If capital were simply destroyed, that would; but more consumption indicates more desire to reduce assets, on part of society. & conversely with less cons. This is the thing K has entirely balled up. Where motive force is desire to increase assets, less cons. goes with more inv., not less.

Price effect also important. The more cons., the less gross inv. in real terms, for goods taken to consume by holders of c.b. can't be taken by current inc. receivers, can't be claimed by them.

Exposition: start by picturing ~~disinv~~ cons. from c.b. received for selling goods. This reduces m inv.; reduces real inv. by raising retail P, in addition; indicates a desire to reduce assets, the cons. isn't going to cause more inv. To make pt. clear, for those who discount small price effects, suppose all m spent on C.

IB2

Stress, in simple terms, that in real terms what is demand for resources to produce is capital which is not consumed, but is converted. And the more we consume, the less is available for that.

So in this way also, cons. not only prevents cap. creation directly, but reduces production, thus further reducing cap. creation.

K. had it just wrong. In fact, is likely that dY causes equivalent dC , as c.b. of net inc. receivers not big nor vble; but not at all likely that dC causes dY , for inventories very vble; & C is alternative to I , while -- well, dY , being caused by dI , not likely to be matched by increased C , for same reason. Unless dI is from dM .

II B 2

II B 4

A desire to save is also desire not to disinvest, for is desire to Assets.
& much disinv. is to consume. So not consuming goes with not disinv., i.e. investing. (But is this guess E?)
So sav. & inv. go together. In slump, opposite, desire to reduce & liquify
assets go together.

II B2

A decision to consume less is, following equimarginalism, and concentrating on fact that expenditures are on decision what to spend from c.b. at one time, a decision to invest more -- ~~not~~ both in m, and by lowering retail P. If can follow this thru, result of reducing assets in reducing C is, per se, to increase both M & real conversion. *K. overdid independence of C & I idea.*

(Habit of subsuming reinvestment, & thinking of C as inc. creating expenditure, has conditioned our minds against ~~this~~ idea that less C means more gross I. But if all c.b. conceived as one pool, it follows immediately) But what more natural than that the saver, having created capital, immediately puts it to use by converting it?

People consume from c.b. They invest from c.b. K's unparallel treatment has no excuse, that I see. You make these expenditures independently from income -- which, presumably, is paid at end of pd. (which incidentally is a good pd. to choose -- *pd. at end of which inc. payments made*)

1, 2 →

~~B2~~
We have c.b., & 3 alternative uses: hold, consume, invest. Equimarginal. If we decide to hold less, we will increase both C & I. But for other motives, C & I move inversely. If we decide to increase our assets, we consume less & invest more. If we just decide to consume less, we invest more, for equimarginal reason: don't do it all at expense of one alternative, holding, but both alternatives.

II B2 —

deciding to ΔC is deciding to Δ assets, & that means ΔI too

5

II

B 2

When C rises, it means c.b. have been spent on it, c.b. that might have been spent on I. Even if they were just going to be held, conversion falls, for some of goods are taken by those who already held cash. Conversion is maximized when C is minimized, goods all go to those getting m for current services.

II B3

When $-\Delta P$, if people spent same, would get more. But in fact they spend more, because c.b. higher.

When ΔP , v.v., they spend less, to replenish c.b.

So $\pm \Delta P$ are not only equilibrating, they are doubly so.

7. II B 3

- 3 reasons Comps won't discourage:
1. Can sell over long future, string out as long as wish
 2. Most cap. not for resale, permanent. Never a resale problem unless get less sav. in future, i.e. disinvesting
 3. Higher γ , more com in future.
 4. Sell more sec.

Disinv. causes replacement by lowering assets, increasing saving.
Rather than by increasing gross inv., to replace.

Bon Mot

that lower p_c reduces inv.

Keynes' prediction rests on ass. that every businessman is a confirmed Keynesian, than which nothing could be less true.

(Re this, mention Fellner's remarks as favorably as possible, butter him up.)

K., observing business attitudes on conservative finance, has made it clear he does not think

bus. community shares his theories. Their confidence in future not going to be increased by cons. policies, but by policies favorable to Capital. (Which, I hasten to add, does not include many policies often associated with Right Wing -- is not to be interpreted as 'Conservative' stereotype -- might broaden)

7

K's undercons.
involves ass. that
all capital is for
reuse -- implying no
automatic replacement.

Mult. means automatic
replacement.

Inconsistent.

II B 3

Red sheet, star:

In enthusiasm to pursue worthy object of showing dM preferable to -dP, K-ians etc. claimed to show ec. has no equilibrators, spread nonsense about, still persists. That free ec. doesn't tend to full empl. In fact, -dP is equilibrating; & inv. opp. kept up by fall of resource prices. They scared us with idea of inv. & sav. decisions made by different people. But they tend to ether; & full empl. is always possible, anyway.

III A Cf.ing taxes to govt. bonds. When you finance govt. by borrowing, might say, since this obviates that much taxation, it helps cap. creation that way. But taxes would partly reduce cons of payors, ~~xxxxxx~~. While selling bonds is entirely at expense of cap. formation. ~~This true~~

Incentive effect of taxes no argument. For antic. future taxes caused by large debt just as bad. ~~And~~ So at any time is matter of using types of taxes that don't penalize production & cap. formation.

II B 3

7

If high pc is cause of inv., is remarkable that in underdev. countries is so little inv., either ex post - which is natch -- or ex ante -- ex ante, get hoarding, very low V.

Is not nec. better to have cap. formation go with higher income. For higher production means more depletion. The more of our income we take as liesure, the less depletion -- conspicuous consumption as a means of keeping up income is a false God. For the less depletion, the easier to earn living in future.

My cap. formation concept is net of depletion. I doubt that others are. The higher income, higher is depletion, tho not by as much. I don't hold with extreme alarmism on this pt., but it must surely be considered, & unrestricted worship of cons. will surely lead to trouble.

JB3...
Red star

"Once we rid our minds of the bogey of downward cumulation resulting from lower resource prices, a whole new world opens up. The economy becomes once again perfectly viable, and the means to making it so perfectly clear."

"But it is absurd to think lower resource prices are anything but equilibrating force. They do not lower m incomes, primo; by increasing investor's gap, and increasing real c.b., they cause faster spending. [True, they delay the receipt of intermediary's income, but this just frees M to hire more hired factors.]

Even if current inc. were lowered, this would not discourage cap. formation, for that not ~~azfzazfzaz~~ adversely influenced by smaller current consumption. As to antic. future ~~infx~~ deflation, that is moot, while lower costs are real.

K likens lower costs to lowering i.r. by increasing real m; but it is more like raising m.e.c. K says, why not lower i.r. "directly"

by dM; but if lower costs result in higher m.e.c., which dM can't do, this breaks impasse, stagnation.

Since much of doesn't cause automatic reinvestment anyway, not only is income creating expenditure, but fall of doesn't reduce gross inv. by its full amt, even after a while, ; for a pretty high % of gross inv. is new inv. all the time anyway.

7. Div. vt.
to corp.

IB3 7 -dC reduces profitability of investing in short term inventories. Is this same as reducing ~~xxxxxxx~~ inv. opp. in general? It certainly doesn't reduce future prospects, as K. alleges. It will turn inv. toward future more -- just opposite of what K implies.

Besides, it mainly just reduces the flow thru inventories, not their size so much. *It may ↓ size, because of greater cap. supply.*

So problem is not one of using greater supply of cap. on smaller opp., but on substantially same opp.

Is there anything about -dC that will make gross inv. be less? Not if it doesn't reduce inv. opp. Because gross inv. occurs to make profits. If you can make just as much by investing in longer term assets, gross inv. continues on.

i Difficulty is when long term inv. opp. fall. Question is, what makes them. Not antic. lack of C. But other things might: antic. confiscation thru unions; high l.v.; antic. taxes.

4, 4a

Equilibration
from - resource
prices.

II B 3

It seems a haphazard arrangement that speed of conversion is
det. by inv. opp. But not so. For there inv. opp. can be created or
destroyed by gap ^{resources} ~~labor~~ allows to cap. To match result of
unemployed resources is to create more inv. opp.

Hence is no dim. ret. to cap; no saturation, no inevitable
stagnation from this cause. A strong point.

II B 3

(Real impasse: where future polit. stability in doubt, long term inv. very risky. So when C falls, cap. can't go into those forms. Here is a real limitation on inv.)

Dim. ret. to
cap.

(High current cons. doesn't make long tm. cap. more, but less productive -- for it reduces inventories, the complement)

II B3

7

K very wrong to say is no demand for assets for own sake. Simple observation of human behavior shows many people collecting assets far beyond what they can ever consume, just to have them. Is perhaps fortunate for rest of us that this is so.

As to his idea that assets must always be amortized, if so, no one would ever buy land.

Equimarginally, when C falls, both holdings & inv. tend to rise in result.

III A

Land ~~seller~~ owner
consumes more because he
has an asset.

Land seller -- after Δ to value --
consumes some of proceeds, as
they are Υ to him.

Land buyer buys land as
alternative to reinvesting
-- not to cons. -- thus
lowering reinv., -- tho this
is monetary, not inevitable, as it
would be if he ΔC .

Fear of war inspires
liquidity in sense that
people turn assets into
m. dissave. But not in

sense they save more --
opposite, rather. For
they tend to consume
in anticipation of destruct-
ion.

The 2 kinds of
liquidity trap are to
be carefully distinguished,
not subsumed together.

Saving creates capital,
dissaving destroys it.

~~But~~ They don't go
together. When people

B 4

Anticipated war has two contradictory effects on liq. pref. Antic. inflation causes flight from \$; but antic. destruction of physical values causes flight from them, too -- esp. more vulnerable ones, not land so much (Korean quote). Depending on which stronger, get net influence toward inf. or defl. *Rob. mentioned just flight to liquidity, fear of physical destruction.*

(A country farthest removed from war will therefore have much better land allocation, incidentally.)

III re K. on
Land

II B 4

If motive is simply to increase saving, and not to dc.b., people will as net inc. receivers spend as much as they receive, or expect to receive, in pd. No problem. Problem only arises when they wish to dc.b. But if they wish that, they will also increase them by disinvesting from inventories. This lowers Y. So problem will not manifest self as high saving. Savin, as such, no problem; it is desire to increase c.b. that is problem.

Problem is often stated thus: net inc. receivers save, do not invest, hence is nothing with which to pay resources next time. But if resources want to work, they will lower demands until gap large enough to call forth the m that was saved into ~~re~~-investment. Chanc³s are it will come forth anyway.

B4 Where net sav. occurs, the cap. creation increases productivity, so if fall of costs of other resources necessary to call forth sav. into gross inv., is balanced by rise allowed by productivity. But where the liq. trap is disinvestment, as when people wish to increase c.b., (& incidentally the atmosphere that inspires disinv. is not likely to inspire net sav., in crashes disinv. will be exclusive liq. trap) cap destroyed, productivity lowered, ; besides, gross inv. is more immediately checked.

Moral of above is that saving no problem, will not cause lower responding, given, not downward wage flexibility, but a reasonable check on aggressive upward pressure. That the problems often described as due to oversaving are due to disinvestment.

In showing above, will in process show that price falls, or failure of them to rise (resource prices) is an equilibrating, not a cumulative downward process.

And that disinv., result of low inv. opp., which discourage net saving. So the typical recession problem is not oversaving, but disinv. not associated with saving. (even tho desire to dc.b. would seem to cause both; but desire comes from low inv. opp., which discourages sav)

Changing turnover speed.
cause of unemployment. - ΔW

IB4

We Δ empl. by Δ speed of turnover of cap. (turning it to shorter forms)
(We just adjust to Δ supply of resources this way too, that may be
initiating cause); & by Δ d tax. If get neither, can't Δ empl (save a
(Disinv. might help Δ conversion by keeping prices down?)
Nonrecurring.

Not oversawing
but desire to
Ac.b.

● II B4

Oversawing alarmists conceive sit. where net saw. hoards up c.b. But
in reality sit. producing effects they describe is ass. with little net saw,
much disinv. & is inspired by desire to Ac.b. -- rather than to use M as
vehicle for new inv.

Security

IV

People need security,
true. Emotional security.

But what insecurity is
worse than inner knowledge
that one's outward security
rests on [exploitation of
one's fellow men] anything
but one's own merits.

What feeling more secure
than to know that in one's
own head & hands lives
the ability to do productive
labor; that in one's
character is the ability
to ~~save~~ save. So that
no matter what may

be fall, what party take
office, what laws be passed
or repealed, one can
earn his keep by serving
his fellow humans.

The one who relies on
inheritance, political
favor, ~~or~~ license or quota,

...
suffers the worst sort of
torment. He can
never rationalize
completely away the
sure knowledge that

his social position, & inc.,
rests on some thing besides
his personal usefulness.

He is the worst sort of
reactionary, for he
fears that any social
change may disrupt his
source of advantage.

Not only would he
suffer materially, but
he would suffer the
humiliation of standing
revealed as a parasite,
when in competing on an
equal footing with
others, he failed to excel

as he seemed to be doing before.

As he more fully compares himself with the unprivileged competitor who has done it the hard way, he must shudder as he wonders where he would be today had he faced the world like an honest man.

8 the illness
cumulates. For the

more restricted opp.
become, the greater the
pressure to stay shielded
behind one's own racket,
rather than face the
free, competitive world.

Is not a question of
rich vs poor, big vs small,
labor vs. capital - - -

but of parasites vs producers,
of moral cowards vs
free & brave men.

of city folks vs farmers
of money vs
competition; of
thieves vs honest
men.

thieves & moral
cowards vs honest, brave
men.

Not is it completely a
some of us vs some others.

But of the bad in each of us
vs the good. For few of us
have never erred, few never
done good. Is a conflict
within each one of us, as well
as among us.

IV

A country, like Italy, may enjoy almost continuous inflation, but still suffer from unemployment, because other problems are unsolved.

Conclusion

The higher i.e., the more flexible our cap., the readier to convert for war. -- & in any war, it is ~~the~~ current production, more than previous preparation, that wins. ^{of G.M. concept.} (assuming it is long term cap. most limited by high i.e., not completely so.)

We boast of our higher com over Soviets.

American com. makes this satisfy many. But it is our cap. & ^{& building} toughness, not luxury & com., that will win

IV

Raushenbush, like Harris, in bold new program series, assume w/o question that oversaving is cause of trouble -- R. even says we must increase cons. in underdeveloped areas to make them progress. So my projected article on Keynes & capital creation not knocking down a straw man. People still think this way. R., erring on p. 56, really is thinking pretty straight, as he shows on 57 when he says must not consume too much. He just doesn't dare knock down that shibboleth "consume" -- what he really means in talking of it is that there must be competitive pricing, to widen markets.

and/or

in conclusion, to cuss consumptionism. "Consumption: progressive wasting of the body -- Funk & Wagnalls". "Consumption", so defined, is a disease of modern ~~wzxExxxzxx~~ western society: wasting of the body by "progressives".

TV
"Some people, calling themselves "progressives", advocate consumption, even to the point of sheer waste, ... This does correspond closely with the dictionary definition Consumption: [tuberculosis of the lungs, or] progressive wasting of the body. As a conscious social therapy is about on level with old remedy of bloodletting. --similar to. True, it stimulates body to produce more blood, but it robs it of the capacity to do so, or perhaps even to live. As the body needs blood, society needs circulating capital..."

"Consumptionism" is to society what consumption is to individual, a progressive wasting of the body.

Bon Mot

"My critic has simply ~~brought~~ asserted some copybook Keynesism, w/o in any way meeting the criticism of K. explicit & implicit in paper." He taxes me for diverging from his party line. But as I do not claim to be a party member, - I do not feel chastened. Go ahead & excommunicate -- I am a Protestant already.

II A Purpose of this section to show futility of anything but fall of cons. Concede to both R & K that where all mixture of requirements present except M demand, they're ok. But this very unusual situation, not GT.

A 2, do not get into question of whether pc affects inv., save by alluding to future ~~xxxxxx~~ paragraph. But do say that inv. doesn't determine sav., is mutual det.

A3 K etc don't use inc. effect argument, they agree that higher yields mean higher inv., or V. But some others have said it, answer them. Point to asset effect, hint that lowering assets can be done w/o increasing yields.

1 V Concluding, allude to viewpoint that society must not ~~take~~ lower assets by raising yields. Society under no obligation to destroy itself to protect some fancied legit. vested interest of asset owners in low i.r. Is one of most fantastic hallucinations of modern times, & obviously springs from pressures created by those interests. The income will remain, & society isn't even obliged to protect that.

But can be conciliatory after mentioning lowering assets.
Point out it tends to both dI, & dS, so even if one not
convinced by above discussion, can accede to lowering assets.
Unless, i.e., he thinks antic. cons. ONLY influence on mec, in
which case hopeless, must collide.

Org.
The only way I see to avoid head on collision with undercons-
umptionists is to stress effect of lvt, avoid discussing Keynes etc.
But if I did that, wouldn't get published, save maybe in Am Jnl.
Object now is not primarily to advocate lvt, but to get published,
established. After I have a name I can advocate what I like.
So, for present, head-on collision with K-ians not to be avoided;
it makes main subject matter for discussion. Just bring in other
where it will help me.

~~A2~~ When C falls, why does it? Say because assets fall. Why
would they? Because of higher yields, likely case. In which case
higher inv. goes with less C. & even if not higher yields, lower
assets cause more inv. (inc. effect") This answers K., is one way.
Or should I just deal with lower C, w/o asking what caused it?

IV

We have really two diametrically opposed proposals for increasing cap. formation. K says increase pc; others say decrease it. & this is more than just a quirk in K: large following echoes. In underdeveloped countries they will say "First problem is to increase C" -- even tho pc may be already. X

IV

"We hear a good deal about the need for security. Individuals claim to find security in owning privileges which benefit them at the expense of their neighbors. Such security is an illusion. But the security acquired by real capital creation is genuine social security. It requires no greater effort for individuals; but it creates useful social instruments of production, instead of dividing society into competing privilege pressure groups."

IV

My policies have been called Draconian. But is it such a hardship to Δ real income, cap. formation, to Δ what people can produce with given output of labor?

Is it Draconism to stop preventing people from ~~comp~~ directing their resources as they see fit?

en. I do not propose to Δ regulation, but

reduce it; not to enslave people, but free them; not to deprive anyone of rights, but only of privilege to exploit others.

IV

My proposals may be called
conservative; but are opposite,
to destroy vested interests.
A comp., etc.

IV

Sum up points of disagreement with commonly held views.

1. That is impossible to get much revenue from tax on ~~rent~~ "capacities". Land capacities are great, & measurable.

2. That to prevent slump, should keep up consumption

3 That dim ret to cap are inevitable; *or technological.*

4 That antic. cons. determines or affects mec

5 That lower costs don't increase inv. & empl.; *that free ex. doesn't end to full empl. eg. Free ex. not viable.*

6 That cap. formation is increased by higher pc

7. " Cons is not an altern. to inv.

8. " ΔM no different from other ΔI , or works only thru i.r.

9. " ~~not~~ *not* cons. causes slump

10. " only inc. affects desire to spend. From 2 views, is arrow. Lower assets, not lower inc,

cause ΔS ; & c.b. disposal, not Δ , determines spending.

11. " higher, rather than lower, resource? ~~cause~~ will stimulate more inv.

Brodey

K has $I \Rightarrow S$; & $C \rightarrow I$ (thru pc). So high μ means more cap. formation, & at higher γ .

III 4
~~III 4~~

Begin to single out land ^{same other external & growing privileges.} when discussing ~~the~~ effect of $\Delta \gamma$ yields in ΔS , then lowering asset values.

Can propose - ~~Answers to ΔF , not just ΔS , then avoid head on collision with K. item?~~
~~At $I=S$, same. Except ΔF means excess ans. with ΔV (& $\Delta \gamma$), & ~~for~~ ΔS with $-\Delta V$. For those~~
who value ΔV , point out result of lowering assets is ΔV , very much.

II^A ~~AS~~

— Must have long tm. inv. opp to encourage S.

Re 6a
transition
effect, from
changing assets
cap
gains

Effect of cap. gains often said to increase saving, by increasing % of inc. going to rich. But truth is opposite. Whatever the source of the gains, -di.r. or increased real productivity or anticipated productivity, they raise assets, reduce S. In K terms, could say people consider this income, even tho it isn't m income, therefore increase consumption --& since their m income isn't increased much, this reduces m S.

IV

Privileges that keep up asset values are often same things which keep down yields. So destroying them does 2 things simul.

7a Of all assets, land is probably the least liquid. Its market is small, it cannot be disposed of quickly. Its market is least perfect of any. Each area is unique, unlike any other. It cannot be dissociated from the improvements on it. it cannot be quickly subdivided -- not fungible. It cannot be depreciated -- with cap., can get your m back that way. & Valuation very individualized -- differe n t individual preferences & mrs. etc etc. So must be another explanation of why land holding reduces cap. formation... asset substitute.

5, 6a

→ From p. 43: when people consume by buying land, not only does this create no re-inv. opp., but it reduces inv. opp. For they are buying it for cons., thus raising price to those who would buy it for production. *might call this tax & inv.*
Is like tax, also, in that it allows real cap. creation.

→ Another leakage would be buying existing assets of all sorts, e.g. houses, where no incentive to replace is thereby created.

6 He gives impression at times of seeing a point clearly, but later denies it. e.g. he definitely says it is saving, not inv., that allows cap. creation, p. 117: "An increment of investment in terms of wage units cannot occur unless the public are prepared to increase their savings in terms of wage-units." That's what that seems to mean, but check def. of wage units. But, on p. 242: "That the world after several millennia of steady individual saving, is so poor as it is in accumulated capital assets, is to be explained, in my opinion, neither by the improvident propensities of mankind, nor even by the destruction of war, but by the high liquidity-premiums formerly attaching to the ~~ownership~~ ^{over} ~~ownership~~ of land and now attaching to money." (he may be right about the land -- but that is current, not just formerly. Can take off from this, show how land is a capital substitute in people's portfolios, reduces cap. acc. Whereas receiving m is investing in real goods. (when received at net inc. position) p. 241, he says land is like m in having high liquidity. But land is a very non-liquid investment. Its security from war destruction more important.

6a K's mention of land gives opp. to bring in my explanation of why investing in land reduces cap. acc.

6a

When intermediary buys land instead of other cap. (at first this reduces real conversion)

his cap is truly 'tied up' in it, for it is never amortized. - - - -

III Land seller -- suppose Ad funds going into mkt --
counts part of price as cap. gain, income, consumes some,
thus reducing conversion. Buyer does no more
converting at all, ever, for he never gets m out.

III

"In our society are many ~~assets~~ privately held assets other than capital, whose existence helps saturate the desire of individuals to hold assets. We know that capital formation in the ante-bellum south was inhibited by slavery: because some southerners owned other southerners, their desire to hold assets was satisfied without any real capital creation. Modern society has moved some ways from this degradation, with the result that **We have created mechanical slaves** to help with our work. But as a rough guess, over $\frac{1}{4}$ $\frac{1}{2}$ our assets are still things other than capital. The largest item in this, of course, is land. Others are special privileges of all description: licenses, quotas, *professional degrees*, union ^{*cards*} ~~membership~~, franchises, patents, etc. Govt. bonds are a 3d large category" *social security, tax moratoria & debt moratoria am. i.*

III

Dim. ret. to capital not a technological fact, but det. by cost of producing the cap., which cost is the alternatives resources have in producing goods for consumption. If is no cons. demand, resources are available to produce capital goods, at lower cost, thus making the investment profitable.

or in being idle. Unemployment compensation, to labor or land, very bad.

III

Reducing govt. bonds, a cap. substitute, will increase saving. But as they are close to liquidity substitutes too, not so clear this will increase V as in case of other assets.

If bond prices not supported, would lower asset values, and simul. reduce liquidity of bonds, thus encouraging saving, discouraging spending, have strong deflationary effects plus capital creating effects.

III

~~"Key process is lowering assets."~~ ~~So why not lower assets by~~
"Key process is raising yields, and lowering assets. So why not
accomplish this by conscious govt. policy? Changes in the tax
structure could make a large difference. Taxes which are conditioned
on production or capital creation could be replaced by taxes
on non-capital assets, like land. This could be accomplished by
the very simple device of shifting general property taxes from
improvements to land values. (or rather shifting them back...)
The value of the non-capital asset, land, would be lowered; the
yields from creating capital would be increased. Both forces would
tend to increase capital formation. .."

....be replaced by taxes not so conditioned.

III A, B 2
Concentration on "income" has led to undue consideration of e.g. "income effect", w/o regard to other important vbles like am't of assets. In determining am't of investment. So Musgrave can say higher security yields don't increase inv., because of "income effect".

My thinking at time of reading that Musgrave thing was dominated by idea that inv. was independent determining decision. Hence I could be satisfied with saying that higher yields cause more investment, thru lowering asset values as well as higher marginal returns, and thus increase cap. formation. -- not considering necessity to reduce C, too.

But now, that train of thought may help show that reducing assets will increase inv., which is wanted now. Higher yields will increase inv., partly by lowering assets.

III B 8, 1
(By this time I hope it is clear that "investing" is important concept only as to gross inv., conversion; net inv. is determined by saving mainly, is not an independent decision) Important to distinguish these two very different meanings of "investment")

Musgrave was really probly assuming K. idea, that I determines S.

III B, C
→ Lower assets mean a "higher m.u. of additional income", hence more income producing use of existin assets. Money, e.g., will be used less for liquidity, less for consumption, more for investment in income producing assets. This line of thought also stresses Inv. & Cons. as alternatives. Also, more net sav., with immediate use of cap. created for conversion.

Is distinction between saying C falls, while motives to choose between C & I are const.; to saying those motives change. Former is K, latter me. If motives change, get both more I, less C.

III A, B, C In sum, have pretty good argument that lowering assets will increase conversion. It is illiquid assets that are lowered, creating unbalance, desire to reduce liquidity. M.U. of further income increased; new savings added to conversion immediately; existing consumption assets amortized & turned to productive use; real income increased by more capital; more savin itself of course increases turnover; greater demand for new assets, for their own sake (not future cons.) etc.

Most purchases of existing assets, with possible exception of residence & reind. land, are alternative to gross inv, not com. They - ΔI , not - ΔC .

Baseball contracts, another.

III A

"Right to lay bricks, once common prop, is now exclusive privilege of a few old men. Right to supply milk in most areas, once open to all comers, now exclusive prerogative of those with quotas. ~~There~~ Public property has been made private property [much as the federal domain was, ~~but~~ with even less reason] ^{Private ownership of right to lay bricks} These new forms of private ~~prop~~ ^{many} often pass in inheritance -- untaxed, ~~or are bought & sold~~ privately held milk quotas with ~~the~~ values sometimes as high as the farms involved, ^{& free of ST tax} are bought & sold like real wealth capital.

K agreed ~~in~~ -AC causes more cap. creation if keep full empl. (he brought in
i.e. in quotes but soft-pedal) My work is to refute idea that -AC will reduce
empl., or Y.

Show C not Y creating, but gross I. Show gross I little affected by C,
either currently or over time. Only ass. on which it would be is
limited inv. opp. (saying C 'creates inv. opp' is not right; it reduces supply of
capital, only 'makes opp' in that limited sense) If this ass. right, no point in
trying to ~~limit~~ cap. creation, is social waste. But is wrong -- gen. compl.,
no dim. ret. to cap.

Have a top for those not convinced that -APC is way to A cap.
fmr. Show ~~with~~ ~~the~~ reducing assets with ΔF (main pt. of paper is, after all,
to advocate -savers. subordinate other points to this) (altho simul.
I do not want that to appear the main point -- make it in)
Because people now have unbalanced assets, too much cash relative to other.
L Ad desire for Y causes putting assets to more Y producing uses.

K off on relation of land purchase to cap. form. He reverts to stock concept,
thinks land buying, by reducing inv, stops cap. creation. But the not consuming
created cap. (to have invested might have created more, to be sure)

III
Land

Plushner farm bldgs in Vt.
Probably more outright
ownership - w/o mortgages,
etc.

If no i.r., no economizing
on cap., & all cap
might be used for any one
operation, no cost.

For much or little
cap. can be embodied
in machine to do
same fn.

Elast. of subst.: relative change in ratio of factor Q over relative price changes.

$$\frac{\frac{\Delta Q_c}{Q_c}}{\frac{\Delta P_c}{P_c}}$$

$$\frac{\Delta r_a}{r_a} \text{ where } r_a = \frac{Q_c}{Q_l}$$

$$\frac{\Delta r_p}{r_p}$$

$$r_p = \frac{P_c}{P_l}$$

This formulation lets Δ total sales affect Q_c , hence only changes in ratios are considered.

Elasticity of demand for labor, alone, considers both Δ sales of product; & subst. for cap.

Elast. of subst. better, from g.e. viewpoint, for there may be no total change in demand.

Beware false inference. Looks as tho. lower labor price means less room for cap. But in fact, it means cap. cheaper to produce; & when produced, has cheaper complements. (Also cheaper competitors?) Labor will tend to be subst. for cap. only because cap. now earns more (how about fact labor earns less?) & cap. continues to have higher yields.

When dS , spont., Ellis prefers Robertson's analysis,
- dP causes splashing, saving not fructified. Reconcile with
my idea that - $di.r.$ raises asset values, lowers saving.
Where is conflict?

Keynesians concede
that in open economy,
is good to lower wages, as
'demand' flows in. But in
fact all economies are
'open' -- & $-\Delta W$ means
 Δ inv. opp. at home, cap.
inflow.

"The Sole purpose of
production is consumption"

- A. Smith

Wrong. Accumulation is
often an end in itself ---
& legit. so.

'Redistributive effect' of AW
is also between org vs other
labor, not just labor vs prop.

An interesting study would be what caused past civilizations to decline. Seems to me it was, inter alia, end of conditions that encourage capital formation. This means existing capital, including soils etc, will be allowed to deteriorate.

We may condemn private landownership on grounds that it discourages capital formation. And how does it do that? For one, by giving people the security of landownership and thereby making it unnecessary for them to find security in capital ownership. Govt bonds open to same objection I guess.

One might add that inheritance taxation may encourage capital formation more than it prevents it, by keeping sons from living on their capital. But dubious.

Discussion of Russia brings out following thoughts:

Success of a p. v. depends largely on its ability to create capital. Our own civilization, pre-welfare state, is probly the most effective one yet devised for creating capital and still providing some human happiness, for in it human happiness and creating capital are made coordinate with one another.

Another aspect of successful civilization is its creation of human beings, in quantity and quality.

Russians are creating much capital and people. Quality not so hot. Some question, too, as to whether this is being done at expense of natural resource depletion, hence if it is a net creation.

Our own civilization is tending to degenerate into the welfare state, in which low birth rates, consumption are emphasized, creation of capital and population neglected. Fortunately this is not true at the fringes so much. But the failure of democracy to act intelligently in the matter of capital creation probably means, undoubtedly means if it remains true, that democracy is not the type of social organization that will survive. Thruout history capital creation has occurred when the masses have had little to say about government. When they get in they begin to impose capital levies, graduated income taxes, labor unions, restrictive legislation, etc ad nauseam. Everything for the current generation, nothing for the future. In countries where a large enough % of the masses are prop. owners themselves, democracy can work for a time, the propertyless masses will have no real power. But when they do, the end has come.

Now the shift from local prop. taxes to state sales taxes etc at present going on is a change from taxes on capital (and land) to taxes on consumption. Taxes on consumption may reduce consumption and thus aid capital formation.

Gambling spirit a big thing in cap. formation.
Society that instills it will form much
more cap.

Patinkin, QER, Sept '48;
& EJ Sept '49
on 'Pigeon Effect'

Merzler, JPE, LIX, '51,
p. 96

QER, Sept '48, Dornay,
Problem of Cap. Fmen.

AER, Dec '48, Domar, Problem of Cap. Acc.

Assumes const ratio of cap. to production, "s", $\equiv \frac{NI}{Cap}$

(wrong)

Admits that if s can be anything, is no problem, as Knight & Simons said.

(My answer integrates general empl. question & this one. Is possible to have continuous cap form, if S, if $-\Delta P$ of costs, this makes the cap. profitable.