

WEA Talk, Davis, 1970

Intro.

0. Collation incomplete. Never plan to collect on Warren's Lib Day

1. A word re dissonance, care and feeding
Shoup & Ralph. Now other extreme

I learned over years how to alienate dissonance. Before paper
night before. Too late to ~~start~~ react as one wd. like, but
early enough to spoil ~~the~~ a night out w. the boys

Never learned how to make myself get paper done on time.

2. Me & macro.

My first venture. I don't feel fluent w. trade lingo. But I
think macro needs integratⁿ w. some things I am more familiar
with. When I hear macro ecsts. allude to cap: output ratios,
demand for capt., waves of innovation, ^{bottlenecks of capacity,} techn. coeffs. of prodn., etc.
I have an impression they are out of their element. So
perhaps we can profit by getting together.

3. Excitement & puzzlement.

If my topic is as basic, simple, & vital as it seems to
me, why haven't others gotten excited?

Ed. approach timidly. Prefer to make strong statement,
draw fire, learn something. If ~~am~~ I am off base
please throw me out & save me from ~~future~~ greater
follies.

Requires someone brash & reckless to take this
approach. But these are qualities I possess abundantly
s. here goes.

Outline from which I took Davis notes.
Not all used. Salvage later.

I. Crises

Unempl. } Both, high rates, for some time.
Infln. }

Cap. shortage, unmet needs. (Plenty inv. opps.)

Excess cap. (as in oil) coupled w. scarcity

Liq. shortness

War -- Iron Mt. effect.

Environment. Prod. & cons. use too much resources, per unit output.

Pressure to develop new land to create jobs.

(Keep short --- cd. get lost here.)

II. Weakness of analyses. Inadequacy of macro to explain.

Depln. &

depln. glossed over

as irrelevant.

Enpl. responds to

sp.

~~Framework predicated on auth. of institutions. Socializing inv. res. shortage of inv. opps.~~
~~Choice, infln. or unempl.~~

Not even a choice any more. Get both.

Fear of 'overheating'

Environ. inv. opps. not tending towards full empl.

Low saving by bus. & indivs., not making full empl.

Wage-price spiral (as the labor only cost). Labor thry. of value.

Hayek... fixed cap/output.

Infl. the means of tricking labor into lower real w, and

landholder into lower real i.

Metaphor substitution.

Structural reform means anti-trust, & won't work.

III. Explanation: slowdown of replacement freq.

A. Evidence. Stretch-outs; fall's cash flow. unmet needs; bonds;
rise of corp. new stock issues; hi i. subsidy to S&Es; cap. piling up on a few sites, not enough to

B. Macro relevance.

Low inv. tip

Decline of $GDP \div NI \div (2.8)$

Less replacement inv. Reduces inc. - creating spending;
(bes. replmt. & outlays, exhaustion, harassment, consumption, & provision, inc. to buy it.)

simul. keeps goods off whet. Less to consume; less to replace, even tho

cap. stock const.

(Not meeting the nat. payroll.)

(Unempl. comp. etc. keeps inc. going, but not the goods)

Threat of disaster; hi i. eats up cap. recovery; stretch-outs stop

cap. recovery - cumulative problems, perverse.

2

C.B. Micro relevance.

Lower labor share. (no inc-creatg is less job-creatg)

Less use of labor per land & per capl.

Less land in use.

scope for changing mix & shares. (24a) Show how labor share falls for durable inv: trees. Stress great about Luddite fallacy (34).

IV. Solution: Δ & f. (Review of III. Achieves emph. by repetition) Basic Model

(13)(16)(29) A. Macro benefits. Reuss model. Capl. is metabolic, & metabolism rate

(32) B. Micro " " Staggering. (17) Cap. = output (19)(24) must Δ .

solving automation issue. (18)(24a) Real $q = K \cdot f(+S+S)$, Synch. w. q in M , by

~~V~~ How to Δ & f. replmt. inv.

A. Hangups to avoid

^{'Ricardo effect'}

1. Lower w . It wd. work, but is not only way, & isn't called for bcs. other distortions are much greater.

An ec. thermostat, but (15)

2. Higher i , via higher inv. opps. & less ready cap. from recoveries. great scope for this -- 24a.

This is happening, & it helps -- sucks cap. into shorter terms. (Hi i not a goal, but a means to prevent still higher i later.)

But also hurts -- note perverse effects, (149)

1s being subverted by salvage opns. for long loans, etc etc.

(3) Δ spending on I, regardless of free capl. The overweening
macro fallacy: idea you can Δ real turnover by Δ spending. Causation is other way.
a major block. (14) (35)

Δ must be 'autonomous', i.e. from causes other than spending.

(4) Planned obs, broken window, etc. --- not what is proposed.

B. ~~A~~ Tax policy.

(5) Time to take effect. a, Avoid (over)

1. General bias to long terms

2. Case study of ~~for~~ lumber indy. (distribute eqns.)

3. Forced draft or crisis measures to consider in pinch. Incentives to

pay debt, e.g. schedule end of deducting int. in 10 yrs.

~~B~~. C. Ease of manipulating relevant variables

1. ~~A~~. Impulse, great to some. Not to me -- shd.
get after what is wrong, not what is easy. Unbalanced
to correct only easy wrongs.

2. ~~B~~. Treas. discretion over tax laws.

.. .. valuation

Congr. .. def. of taxable inc.

3. ~~B~~. State discretion (adm.) over valuation.

D. Other factors making cap. turn slow. (26) (31)

⑨ (cont.) E.g. idea that Austrian thry. limited to trees. Point case is bldg. block of all cap. thry. Math. of func is summation of pt. cases. FISCOC showed how. (33)

gloom of say'g takes til 'long run.' b, ~~can't~~ Requires some lag, can't ~~change~~ change cap. stock overnight. Realistic, moderate timing.

Can stop all monuments incurred, & all new starts — salvage ^{incompleted} ~~old~~ capl. instd. that requires completion. -- (e.g. build things that require lots of existing raw mtl. like ripe timber.)

But I'm not talking crisis, mainly. Chronic problem, calls for permanent change. A basal metabolism of ec. by basic structural change. Peg pills can come on top of that if craved.

(6) Stagging problem. Analysts who can't Transit from one cycle to a sustained yield w/o conceptual problems. ((6))((17)) (My model of trees covers it.)

(7) Fixed factor propns. Is actually great scope for change. (24a)

(8) Crabbed skepticism that sees no wonders. Denies & limited possible output. Wentricks & const. labor share. Mill & fixed wages fund. Malthus & iron law. Always the crepe hangers who put iron laws on us. There is no iron limit. St. War proved that. ^{Am. frontiers, too.} Only limit is on our brains to figure why.

(9) Reflexes vs. Hays etc. (Top)

VI. Benefits of A.r.f. (& other effects)

A. Macro.

Turn a long, thin pipe into a short, broad one. Δ flow.
 Simul. Δ Gr. I & ripe goods -- S & D.

B. Micro.

Spread capt. out to compl. unused labor & land, &
 stranded capt.
 Δ share of labor