

Notes preliminary to paper on real
meaning of monetary phenomena, 1949.

Outline.

Investment. ^{factor rewards &} Relation to employment. Relation of both to money.
suggested policy.

I. Real terms.

To invest is to produce > cons.

Not the concept related to empl. Case where you invest in eg, after working for another

Conversion: paying existing eq. or land to factors for services. ^{How works with new inv.}
Equals rents of factors, ^{other factors} not nec. omit of empl., but pretty - since comm. is in original. But no necessity, is optional.

Changes in inv. gap ^{or justified antic.} change real returns to factors.

Appears to dispute Say, but since comm. is factor, doesn't. - also since anticipation changes may be correct. Can look at it as just a bunch of compl. factors, & forget terming.

This gives expl. of general changes in demand, without M. (mention will come to it, & sav & inv)

§§

When something with a ^{anticipated} yield can be produced (or acquired!) that couldn't before, converters, ^{& inv.} are willing to pay more for it than before. (This isn't a reduction in gap, but all better off) If thing is labor product, more goes to labor. If govt creates a yield by selling some taxing power (bonds), has same immediate effect - at least the part used to pay labor etc does. Buying land yields, too. But last 2 cases may not involve employing factors.

govt. creating yields.

To meet pressure of time have omitted much apology, elaboration, clarification, illustration, etc. ^{even then, only began to outline substance} To be regarded as an outline
Perhaps some errors, in enthusiasm of creation, hope reader will spot them.

To some extent am merely saying usual things in different way. Even here, is a more straight forward way, less esoteric, ~~but~~ & potentially more useful because simpler. Also many different real ideas, which terminology is more apt to present, but which could be presented in other words.

Intro

mr det.

1. Non monetary inv., effects on empl. Commission & turnover & MV is credit)
2. With m. (& credit), the inv. processes. (All occur thru credit, the capital same)
3. Changes initiated by Δ yield or time pref.: the total picture (total effect on empl., i.e.)
4. " " " $\Delta M, V, P, T$: total picture. (same for causes of changes, & maybe some of that)
5. Policy recommended. ($-\Delta P$ as vs ΔM etc)

4 $\frac{1}{2}$. - (but probly omit this, which would be another view of same material. Or, might
sub it for 3 & 4)
Adequacy of m supply; or, m as a limitational factor.

~~Get m~~ functions of m supply. Limitational - needed for credit, for turnover.

Get more by $-\Delta P$ or ΔM

Troubles of $-\Delta P$

ΔM : no troubles, new inv., etc.

Effects of $\pm \Delta M, V, P, T$, on adequacy.

1. When future goods go up, factors become more productive, the making maybe same things, R. Curve. In exch, this means nothing unless someone will pay more for goods. Investors will.

Does it matter if Prises? Is ΔM nec. Δinv ?
Go thru & check the non-essential passages?

With ΔM

Assessing process to be concluded when first M action thru, further shifts are with $inv.$ depends still on what you consume what you buy, 1st fall. const. M
Those whose balances I have $inv.$ in m . How to tell whose did.

If corr., they haven't $inv.$ (excludes other assets - bonds, land, etc.)
If factors they have $inv.$ ΔM usually held by factors, for corr. Don't want to disinv. after ΔM .

~~This inv. is good despite substitution of goods~~ ΔM usually held by factors, for corr. Don't want to disinv. after ΔM .
Net effect depends on what recipients do. If they have no oblig, they must have invested in ~~signif.~~ sense, unless are govt. If no oblig, (govt), probly no repay.

govt. inv., if govt. probly no extra repayment, if just mortgaging existing oblig.
1st effect is determined. After, govt. reduce their oblig. by ΔV , not shake off $inv.$, exploit better only.
Effect on empl. from commission, not $inv.$ $inv.$ may be ΔM only.
 ΔM may reduce Δ empl, depends on how spent, etc. Many possible effects, cross effects.

Conv.

ΔM ~~not~~ increases corr. right off, like ΔV - it won't make goods price rise when just paid to factors - provided P don't rise, which they won't if either factors or consumers accept ΔM with no ΔP . If not, no Δ corr, same ΔM as most control of goods from cb.ers; may Δ ~~empl~~ ~~but~~ corr, but may reduce, if spend for goods.

~~if govt. take goods out of circ.~~ temp. or always, ~~it~~ has reducing effect. Or if they are returned as general gifts from govt, not incentives.

Turnover: When gets it, it Δ turnover right off, unless P rise.

If P never rise, have permanently more monetized cap to finance turnover!
If ΔT is what keeps P down, actually have more credit used; if ΔV , no signif. Δ in monetized cap used.

Effects of ΔP (ΔP being probable result of ΔM)

The new element introduced by m : changes in value of c.b. white held.

ΔP means expl, same cap. can be converted again.

$-\Delta P$ " windfall, some cap. ~~was~~ made unavailable for corr.

The Influence of ΔM & ΔV : New oblig. created (maybe). If not, no diff. (for this) assures thing will be put back on mkt.

Adequacy of M supply to perform its functions.

turnover, which includes all
if too small to allow enough commission, can be Δ by $-\Delta P$, which also ΔV , by Δ deb. & Δ credit $inv.$ raising funds in foreign market
Problems: P won't fall; fall unevenly, helping monop. most, hard on $inv.$ opp.; ~~and fall to~~

~~cb holders reducing corr.~~ lenders long, some $inv.$, also long $inv.$ of M
~~no good anything~~ anti-r. of $-\Delta P$ lowers corr. & M . makes M an $inv.$, lowers V , hence corr. (But does reduce liq. Δ)
~~debtors - but Δ of nothing~~ falling $inv.$ P raises real current gap; indiv. can't distinguish Δ M from real Δ demand right off, usual supply Δ m only.

Do not judge by $-\Delta P$ we've had, P has been dep. vble.

More encouraging generally to ΔM : P won't rise; least m get best deal; m only, if M affected right

explicit cb holders, use things for corr. twice; anti-r. ΔP raises corr. & M ; Δ

rising $inv.$ P lowers current gap; indiv. supply elastic (makes it a real Δ supply & demand)

done by social, not Σ indiv. actions; makes borrowers better credit risks;

ΔV another possibility.

But real ΔM is from Δ factor supply, so do not neglect other's, use jointly.

~~Overtime $\frac{1}{2}$~~

Bridge.

Thus far have discussed only claims that were absolute title - have treated new inv. as taking title.

In practice have claims, superimposed on title or nominal ownership.
M is one.

Securities another. (bought with M in practice, no complicity.)

The basic real processes occur with claims superimposed on titles. Describe them.

With given on supply.

2. Conversion

✓ M paid to factors, at given P.

Not nec. goods ^{bright} ~~flaw~~.

Not nec. goods ^{bought} ~~flow~~ ^{ΔC_B} - factors may hold in or otherwise inv., or disinv. M₁ not goods, ^{goods movement} counts ^(it is in sign of source) ^{ad) but goods movement}

~~M as increaser of cap. - repl. gold. MV as credit.~~

-- non-monotized cap. not used, so $\frac{MC}{p}$ is signif. item. (should cover this under turnover)

Not always Δ by ΔV , just by Δv by context; Δv by conv. - Δ conv., & v. v.

3. Inv.

Just holding goods bought.

Shift of M to factors, net.

They can then part with it for other claims.

Differences from usual concepts. Sav. is automatically inv., ~~causes empl.~~ but not conr., & inv. doesn't cause empl. (Most 'insanity' is not by factors but constructs). (- inv. will cause unempl., by taking in from use.)

Not connected with compl.

1. Turner

M paid for existing cap.

Replaces cap. - gold - or else separate ^{no} credit instrument.

No inter firm ec. process can occur w/o turnover, it requires credit or M.V. or barter.

$\frac{M}{P} V$ is it. $\Delta M, \Delta V, -\Delta P$, directly Δ turnover. (Liq net vs gross)

over

irr.

~~E~~ suggests that Commune stat. on inv. are wrong, I might criticize.

5th field.

stat. req. - unsettled. Can't lose by learning 40.
Relationship. - on bull board, left of door, take it.

What inv. is. Relation to employment. (& to Say's Law) (view of c+i)
" has to do with M, & inv.

Relation to Say's Law

Who gets robbed by ΔM .

How sav $\rightarrow$ inv.

Effects of $\pm \Delta V$, etc. How sav. becomes inv.

Desirable M policy.

(Reasons why defl & infl. encourage & discourage empl.)

(What effects M has on empl. other than thru inv.)

~~General outline~~ The relation of money to investment, & of bank to employment.
Money, inv. & empl. - Title

1. Investment is

2. It may vary. This seems to belie Say's Law. May be looked at as a demand, or just more supply of complement.
~~This explains fluctuations in general demand with no reference to money.~~

ΔV

sav $\pm$ inv. Bridge to M?

Analyze sav $\pm$ inv. viewpoint as related (bridge to M treatment)

Sav $\pm$ inv. very inadequate treatment; v can Δ for other reasons, &c &c.

Anticipations obviously involved. But money, sav.

3. Relation to empl.; (& hence to cycles, but don't stress this angle) Mention wages fund doctrine, which missed expansibility of inv. Mention error of c+i as inc. det.

3.2 4. Relation to M, & to ΔV . Thru mon. policy. How ΔM relieves investment of part of burden, & thus helps banks, ΔM the opposite. & all the effects of $\pm \Delta M$ on inv., ex post & ex ante. / M. as an accentuator of inv. fluctuations.

Non-monetary Δ inv. The dual problem emphasized.

Effects of various M changes - on inv. esp., but also other effects.

5. Non-inv. effects of ΔM s: credit, psychology, cash balances, Δ power, & money, incentives, etc. analyze eqn of exch.

6. Ways of achieving optimum employment: lower P; & increase inv. (or increase MV). Analyze, separating monetary from real effects, & criticize those who unite them.

7. Suggested monetary policy. To prevent its accentuating fluctuations, & other things - cheapening bank services,

Cap x turnover $\parallel$ M x V.

Investing parallel: corr. det. by amt of cap. x speed of turnover. Just as infl. det. by M x V. Sometimes identical. over

$\pm$ effects, of Δ yield. Δ yields $\rightarrow \Delta$ both cap. & turnover, just as both M & V.

c+i error

wages fund

policy; ΔM relieving burdens

policy

Parallel ~~is~~ not an identity. All cap. is potentially available for M backing. ~~Only~~ MC is amt so used $\times$ turnover. The nonmonetized part doesn't turnover at all. If we regard the cap. rep. by M as all available for conr, then C represents its speed of conr, V is turnover, it is an identity. Better to say all cap. is potential, MC is what actually is converted. But it comes to same value, since nonmonetized cap. never turns over. So $\frac{M}{P} C$ is conr, $\frac{M}{P} V$ is turnover.

Terminology.

Commission: paying for current services.

Turnover

~~Commission~~ means turning one asset into another, by any process. Hence refers to a lot of things besides paying for services. & services may also be paid for by new inv. - works both ways.

Commission: 'paying for services', better than gross inv., since much cap. x for might be mixed into gross inv. - paying for raw materials e.g. Ordinarily I will mean 'paying for services & materials'. Where doubt, specify.

'Credit' may cause creation of 'claim', but may also be just a x for of existing claim - many. 'Claim' differs from 'title' in that claim is ~~in~~ on a title, title is in prop.

Money differs from other claims because fungible, & generalized in what it claims - hence can vary in value ^{rel. to all goods} in & of itself, while other claims only vary relative to each other or m, not to goods they claim.

For expediency convenience, 'cg' means ~~possess~~ the goods for consumers to immediately take title to, p.g. being what is ultimately to be so converted. Distinction is of degree, meaning will be clear. Possible eg receive special treatment.

'Credit' might be called 'advancing', or 'making real advances'.

Circle those to be shipped for now

Conversion ~~from~~ into c.g. & durables, effect on rewards. Income receivers have lost work.

Use re ~~the~~ 4 yield shift to durables doesn't reduce current paych. rewards. May increase them.

When convertors invest in c.g., & doesn't build up his net stock: i.e., trades existing or maturing c.g. for ~~present~~ ^{next period's} services producing c.g., This is the form of conversion most increasing ~~present~~ ^{next period's} rewards. If he converts into durables, then in next period less c.g. can be offered to factors. If factors prefer c.g. to claims on durables they will not acquiesce in change, & convertors will find it more profitable to produce c.g. Thus income receivers, not convertors, determine distrib. between types of products.

Just because fewer c.g. are available, following increased durables production, doesn't mean fewer rewards available from factor's viewpoint. The shift will be caused by their increased desire to buy durables rather than c.g., so they will consider the claims they get as much income as c.g. & the durables will in addition be available for slow conversion over the years. (if the durables are for investors' consumption they will probably be consumed, not consumed, over years, thus the difference. Cons. durables are same as present cons. - except for miscalculation & exploitation of investors) If the factors invest in c.g. instead of durables, 1st pd. effects are same. But next pd. Δ is available for conversion immediately, increasing amt currently offered for factors. This isn't nec. an increase in their rewards, for maybe they are now demanding more % c.g. & less claims ^{durables} for the same amt of work, & the increased c.g. came from, not new inv, but changed conversion pattern. But, if it came from new inv, would definitely be offering more to factors. & unless productivity of cap. had increased, this would mean smaller inv. gap. (A productivity of cap. being same as Δ supply of factors)

~~Capital theory, one approach.~~

- a. Bank control, analytical & normative (inv. & d.M.)
- b. Velocity's determinants.
- c. Int. rate determination.
- d. ΔM & real hps
- e. Devaluation, & gold flows. My criticism of Hansen & Haberler.

Paper for Ellis

- a 1. Relation of ΔM & inv. - as effect & cause. "Forced saving", Robertson, or "Effects of ΔM ", general. - a much mishandled subject. Wicksell says ΔV & ΔM , forced sav.
- a 2. Determinants of V . (coincidence effects of $\Delta T, \Delta P, \Delta M$.)
- a Cap. gains 'income', as affecting inv., general change of demand, etc. a la Wicksell, etc.
- c 3. " " int. rate. (Set. first)
- (a?) 4. Possibility of general change in demand - goes with maybe; & isn't strictly monetary, but E. might not know diff.
- a The meaning of general changes in ~~real~~ demand.
- b anti-income approach. 5. The reality of spirals. The real cause in cash balances. Most balances are from gross, not net, income.
- (a) 6. The monetary impasse.
- a 'Savings' does increase inv., by lowering P .
- b 7. Causes of increased cash (is one way of holding assets not penalized. Instead of taxing cash, intax other assets)
- a, b 8. cf. effects of foreign & domestic inv.
- a The 'Disseq. system' of incentives. & any investment boom.
- a cost of bringing & 9. Banks, ~~monetary~~ & rising or falling sec. & land values, effects on ΔM & inv.
- a 4 inv. Other changes in cost of banking on m creation. (th, p. 123 fnk)
- a paper - a bank control 10. Bank control as means of regulating not just M , but inv., thru varying efficiency of banking, or its monop. power.
- b 11. ownership of cash, & what it implies re motives to spend.
- d 12. Effect of deflation on real hps (Leigh's point)
- a 13. Cons. & inv.
- a 14. Simul. vs. period analysis.
- a, b 15. How savings become invested.
- a 16. Relations of c & i - as consecutive expenditures rather than simul.
- a 17. Money as tied to particular assets.
- a over 18. 'Commercial loan theory' of FR would be a goodie, if I have to disguise my subject. or 'Credit ~~is~~ money'

What should
a M be allowed for?
a

What's a desirable money policy? Should it be created to buy sites,
or securities based on them? (even in part) Should investment &
money creation be divorced?

(Money isn't only thing changing in value after acquisition cap., too)

Investment paper for Ellis.

Changes in investment prospects would affect prices even if they didn't affect M , because they affect V . When those who hold the bulk of cash, namely those who are about to invest, feel pessimistic about the cost-price differential, they hold the money idle, or spend it in ways that don't reward factors. So the question with which I deal, if solved, will not solve everything. Changes in investment are connected with changes in effective money supply anyway, tho to a lesser degree.

From equity standpoint, can never decide whether it is best to keep stable price level, stable amount of money, or other. But can say this, that the inequities would be ruled out if the rules of the game were clearly stated, so those who invested in money, or might invest in it, would know just what to expect from govt, and could calculate accordingly.

From utility standpoint, within our present rigid price economy, can make good case for inflation. In the economy as it should be, probably not, probably better just to keep a constant amount of money, let it fall in value with dT , let contractors contract with this in mind. But then there is the question of real assets behind money, and such a system would not keep anything but seigniorage power of govt behind it, while present system, tending to keep M proportional to T & hence prices steady, also keeps real assets behind money.

But present system only very roughly guarantees a constant ratio of M to T . M increases when capital, usually inventories in this country, increases by means of bank loans; or when a higher % of capital is financed by bank loans. These could both change erratically, as regards T & V . Except that money's value cannot increase very much since the assets behind it won't stand it, banks will be run on. It can decrease, tho. & an increase movement is bad, for it ruins banks.

M also increases when use of loans for other purposes than buying capital increases. Tho this may be at first offset by dT , the results are often disastrous, the banks getting overvalued assets, then failing.

The effects of dM re investment are to cause those who accept dM to invest. They may invest & then, as M 's value falls, lose the investment, those who hold M as its value falls. (Main beneficiaries are borrowers, banks also gain for more loans are paid off, & all are better secured, this strengthens them to expand more, circular)

There are those who say all analysis like above (resembling forced saving ideas) is wrong, for dM causes increased T . But it is questionable to me as the whole truth: it is the increased T that causes the bank expansion. If people are ripe to invest they will do so &, if not by borrowing from banks, then by other sorts of borrowing. (note, however, that other sorts would be much less changeable, investment would be much more controlled by rate of saving, hence less fluctuable. This & the cumulative argument place much blame on dM power for cycle amplitude; add real hp argument, and others). If people are not ripe to invest, to increase the ease of borrowing doesn't have much effect. (this minimizes the argument of preceding parenthesis, but reconcile) Still, even then, dM does increase investment, in sense, people work for govt for m . So dM does increase investment, willy-nilly, even if it doesn't keep circulating.

Investment paper for Ellis, 2

Unless it actually displaces investment that would otherwise have occurred.

And so what if dM does cause increased T ? That only means that those who accept the M don't get rooked as P rises; not that dM doesn't mean investment.

In this paper I want to establish idea of investment as something real, not just a spending or creation of money. --that may or may not be associated with it.

But investment is the proximate cause of most employment of labor, & use or sale of capital & land.--tho sale perhaps should not be called investment.--buying land I mean.

Investment is either producing more than you consume, or trading presently owned assets for currently produced ones. Note that the latter process is undervalued by ec. theory, but is just as important as other. The "converter", without changing his net investment position, can cause or not cause employment, depending on whether he holds his assets idle or trades them to labor for currently produced items. If he does trade them, the laborer produces, and consumes the equivalent; if he doesn't the laborer is idle, and doesn't consume the equivalent of what he might have produced. Note that there is no possibility here of the laborer's crowding up on a smaller amount of investment, as he could upon a smaller amount of land, and take diminishing returns. (he could crowd in to be employed by other investment, but only by reducing the employment of other labor. He could not produce any more than before: FOR THE AMOUNT OF CURRENT PRODUCTION IS LIMITED STRICTLY AND ABSOLUTELY BY THE AMOUNT OF CURRENT INVESTMENT, GROSS. A one to one relationship. (aha, no wonder people have observed that smaller money expenditures cause less employment, and factors have not been able to reduce their hps. They are very wrong in getting it mixed up with money, tho. It is investment that is the key.) & labor can always increase investment by lowering its hp) (& can invest itself by accepting promises). (& if labor lowers its hp, a smaller investment can employ them. But if they produced as much as ever it would be a more profitable investment. And this shows another very critical point: it is not a straight one-one relationship, for the investor gets more than he gives, and the margin of profit varies. What is one to one is investment and factor rewards; but this is not to say that the same amount of production cannot be carried by a smaller investment: this just implies larger residuals.

There it is, anyway: gross investment employs labor, & is highly variable. So employment offered is highly variable.

Monetarily, again, it is investment expenditures that are more variable than consumption, hence the seeming connection of money with employment. When velocity declines it is because investment has declined. And then add to this - dM . *Sard inv. talk gives impression it is (over)*

Anyway, it is not strictly the amount of production that is limited by gross investment, but the amount paid to factors. If unemployment, two remedies follow from lowering hps: given investment employs more; higher residuals attract more investment.

Gross investment is probably something that is not hinted at by any current statistics. It occurs every time one thing is turned into something else. Still, it is not the number of times, but the amount of time, that counts: former indefinable anyway. Not amount of time either, but amount of current production that is paid off by existing assets, plus amount paid off by new assets.

conversion
und-invested

Payment for
services =
production

adjustment
of inv.

Consumption &
inv. variability
& M.
variability
ind. up. of
M.

It really is, if we consider the value of factor services at time of production. A delicate one to get across. & value is the subsuming, elastic word, for if less is offered, value of product before capital service is less.

- monetary effects that do it. Really this is mainly the monetary symptom of what could happen anyway.

When consumers & investor's ~~ideas of~~ anticipations rise, value of ~~exp~~ durables rises, factor services producing durables become worth more, their present value in terms of present goods rises. This means smaller gaps for perishable producers; higher factor costs, lower prices. But no one minds reduced perishable production, they are accepting claims.

Investment paper for Ellis, 3

This subject will be all right, since with money we are always talking about investment. It is all right for me to show what investment means.

Interestingly enough, I do not mean producing more than you consume, that is just net investment. I mean that plus conversion. And conversion is important, probably more important than rate of new investment, is this rate of turnover of existing assets.

Note incidentally that this rate of turnover depends partly on the nature of assets. Some assets cannot be turned over quickly, other must be, others are optional. The more inventory and the less fixed capital, the quicker conversion, the greater the real rewards to labor, etc.

Those assets financed by borrowing have to be turned over fairly quickly. (but if the borrowing was to buy inflated land, then the money has no real guarantee behind it, won't buy much nec.)

With steady M, only variations in ^{& in converting} investing would be variations in rate of saving & in holding cash. Granted.

With dM, also get changes in cash. Again, just adds to changes that would occur anyway.

Two determinants of rate of conversion: rate of investing money, & rate of selling inventories. But money's value doesn't just mean its current p.p. to those who might hold it; but to those who spend it immediately it does. And when conversion by selling inventories declines, they commonly accept lower returns by accepting same money wage for a while, this makes adjustment, without disturbing wage rates, which is probably good. Which suggests it is a good idea to let prices vary some, not try to keep a constant price level. For if you kept a constant price level this adjustment would have to be made thru changing money wage rates, & this is & always will be (tho I hope less than now) institutionally difficult.

Also, in objection to keeping steady price level, this involves not just "pumping money into system", but investment: for that is what pumping money in does, it changes investment rate. Of course this is investment in the govt. ~~But note that these time trials is done, money~~ Still, it competes with private investment. Of course, secularly, it obviates taxes some, which isn't bad.

?

I could go to great lengths about why infl. is good & defl bad. Effect on investors with m increments; effect on incentives, marginal. effect on real hps; etc etc. This would work in where I would ask is secular inflation a good policy, & would give reasons why, before probably deciding it isn't.

Reason govt can't employ all by dM is not that it couldn't, but that we wouldn't want govt employing everyone. So question becomes how to make private people invest, either by dM or dV or less cons.

& it would have to resell what it invested in, or else someone people
'Fiscal policy' inv. encouragement encounters same problem.

So as anti-sepr. should make ~~govt~~ private invest. Then I can go into eqn. of exch, show how -dP is only way, aside from endless dM.

This answers the question: why not let govt continue to create M until everyone was employed? Because, tho this is perfectly possible, it would mean socialism, all would be working for govt. Further, it wouldn't solve problem of rest of economy too well, for govt would be competing for factors, their complements would be thus thrown out of work, would come to be working for govt then, and thus the process would not be completed until all factors were working for the govt.

Besides, the inflation would ultimately make people lose faith in govt., or in money. And, as prices would keep going up, those who accepted money would be exploited.

So we come to this, that we want private people to invest, to stop unemployment. Both by creating money, & just investing. By converting & by net investing. Normal control is to increase efficiency of banking by FR devices. Motivation is confused, inflation being thought primary by some. Thus the only control we have over amount of investment is over that particular amount of investment that is done thru dM. Such investment is net new investment --- it is no control over conversion. However one argument for retaining dM is that it is a means by which govt can control investment, without itself issuing the money. (of course I don't think much of this, long run) However it's not really much of a control, as events have shown, / esp. perhaps as there are so many other ways of investing. (this works into Currie's idea of distinction of credit creation & money creation --- & shows he was wrong to say money creation the only important thing)

Low mr from govt therefore can't do it. - & discourages holders of currencies & / currencies. over
During war---

If we consider purely monetary effects more important than investment effects, let's look at them & see. Eqn. of exchange calculations show that effects on V that we desire come from autonomously lower P mainly, not from other things -- can expound at length here.

Must emphasize that it is not adequate to talk about the govt's lowering the mr as tho the govt could cause private people to invest for less and that's all there is to it. What govt is doing is subsidizing banks to lend for less; or causing itself to be loaned to by dM. etc. So this question is inseparable from that of socialism. It is getting people to lend to it by dM, then lending this to private firms at low rates; i.e., if it just increases M & lends it cheap, the one operation is really those two. Part of paper then will be analyzing govt's power over mr & investment.

In war we had occur what I referred to above: govt just employed people by dM. Also other investment, of old money. This is what was done in war that means socialism in peace. Govt invests claims on goods from m holders, uses them to convert - or else just gives away.

So paper will: discuss & define investment, nonmonetary; describe it monetarily; describe it with dM; discuss desirability of allowing private dM; discuss govt's powers over investment & money; show that, for either inv. or dV, -dP the only satisfactory solution.

Proposed paper. 1. (could be introduced as critique of production credit theory)

~~But~~ What banks do, & what they should do.

1. What they do.

a. Change M by investing. ^{etc etc. Effects of ΔM .}

Productive credit rationale. But is it desirable for $\Delta \text{inv. opp}$ to raise M ?

policy
spread from $\Delta M \rightarrow \Delta P$ etc. - But how justify ΔM to buy land, sec.?
- Banks' 'inventory gains', effect on operations.

show how inv. would take place
otherwise, show how money
changes things.
show effects of inv. & of
 ΔM .

2. How they are now regulated.

policy
Efficiency is changed. So only way of controlling M that we have is a control of real inv. (which Hayek stresses) We can also just inject by spending, but affects inv. too.

How it should be.
Don't know yet.

$\Delta \text{inv. opp.} \& \Delta M$

$\Delta \text{inv. opp.}$ raises $M \& V$, perhaps disprop. to T .
increases inv, also increases credit, & probly inflates.

So $\Delta \text{inv. opp.}$ not only

"What is inv."

conversion
 $c+i$

When they say ' $c+i$ ', by ' c ' they really mean, or should mean, conversion. This, not consumption, is what contributes to 'income'.

Both c & i can change, motivated by same forces from demand side.

These are not responsible for all income, just for non residual income — i.e. non residual in respect to the point of ~~time~~ time chosen — all are residual ultimately.

Income of nonresidual factors comes from $c+i$.

c depends partly on what % of existing cap. is ripe for conversion. & this is whole process of sale to consumers. Is wages fund.

subject to much change tho, as rates of depr. change. Mr affects this strongly. i depends on income, yields, noninv. alternative ways of holding assets, & many (when bringing in m , see how it affects this)

Changes in investor's gap mean inverse changes in networks of others.

But you don't know what gap is for years. Hence improved expectations cause $\Delta(c+i)$, which has same effect as lowering gap, tho actually gap may turn out to be larger ex post.

The improved expectations may be due to sheer change of attitude; or increased supply of complements in some sense, which may mean technol. advance. (which means a inventive genius of humans is getting less per unit of self supplied, more per person; & all other factors get more in all senses)

Another viewpoint is that the yields of things produced have risen while m hasn't, hence their values have risen, & all ^{others} are more productive. (fall of m would have same effect)

Match. resources may also be converted. Is this the same? You're converting an asset from one form to another. But

conversion, det. of
momentary holders' motives.
chgt. of non inv.

Δ expectations, ex ante

credit

When less is offered for goods, less claims are accepted because fewer are offered.

Receiving claims

Isn't always inv. Depends on what recipient of claim gives for it.

& there are other kinds of inv. fine line between title & claim. So
& distinction of 2 maybe less important, & transcended by, inv. that are & aren't real.

govt bonds

When govt sells bonds, & increases taxes to do it, it has created a new 'yield' into which people may buy, hence increases inv.

(Note: lvt would increase ability of govt to bond selves, & as land values grow ability would grow, might be continuous area for inv. & a very happy aid in xition to lvt.)

~~Buying govt~~ Investing in govt must involve claims, since there are necessarily 2 parties involved: the individual & the govt. Also, no semblance of title — unless to the tax collecting machinery, as used to be done. Nothing else to which to hold title.

A claim $\equiv$ a lien on some income producing agent that is nominally owned by another indiv. or corp. ~~But~~ accepting title is as much investment as accepting 'claims'; little use for distinction. So ~~just call title another form of claim, forget distinction.~~

Claims & inv.

Acceptance

Creation of claims is not inv. when:

1. The thing given is not productive service. Selling land on personal credit (or any credit). Selling any existing thing, rather than its services, for a claim. There is no non-claim analogue. If thing is reproducible, maybe it is inv.
2. Gross inv. analogue?

3. Lending to govt. is partly, tho it results often only in intangible benefits, or non-existent ones. Latter is like investing in bad private things. But insofar as govt buys services, etc, it is inv.

govt claims

Timing of M
& goods flow

Commission
Gross inv.

Criticize Robertson
Wicksell

Discuss possibility of commission in real terms: money
payments meaning just flow of consumables. This is realistic
enough, incidentally, for consumables are on their way to completion
timed to be there when consumer gets money. But bad timing makes
extra complications when in terms of inv.

2 things influence quantity of gross inv.: ^{compose} limit of ^{capital} goods ~~for it~~;
& rate at which it turns over. If it turns over faster it means
more has been produced & consumed, so a given capital level can support various income levels.

At any one moment, variable limits of existing cap. will be
offered for current services, depending on incentives.

Not the 'limit' produced, but the rewards gotten, depend on gross
inv. The 'limit' also = funds, by def.

Those commission payments which are for raw materials are different
from those that go for factor services. Outright xfers. of cap, nat. resource,
or site, are not paid for current production. (But when writing of
effect on emp., note that converting to cap. encourages replacement. set par.,
while converting to land doesn't, it being irreproducible. But this is not
completely self evident. As far as seller's ability to buy is concerned, he will
in any event be as able, & will regard what he got from converter as capital
probably. - this being less certain of site seller. Capital seller will use
claims he got from converter to replace what he had, & all will trickle
back as returns for current services, & nat. resource - remember this is
always at the end. He has no replacement motive, may have an
expansion motive - but this would not be new inv., but conversion of
nat. resources. & he could consume, probly more easily than capital
seller, for he has no stock to replace. (It is adequate to the non-
monetary treatment to regard payments as stocks of generally acceptable
consumables meaning at no expense, which holder has option of
consuming or converting, & which usually are consumed by service
renderers (same for new inv.) & converted by capital sellers (same for
disinvestment).)

Sites & flow resources, when bought, not like buying cap.
stock resource. But as far as inv. goes I see little difference.

Gross inv. must not only pay for current factor services, but also
buy raw materials. The latter is not inv., it must be done to
complement inv., & it takes capital. - or money, & dM helps much here our

Buying raw materials may be considered, save for the nat. resource
element, as investing usually, since it causes that much inv. (avoid
double counting of course). But be careful of this. It's what I
objected to in Cti, where it is assumed that every consumer exp.
causes inv. at other end (note that, even if this true, Cti missed
nat. resource element at other end). Is consumer in exp.

Limit of cap. &
rate of turnover

turnover varies

gross inv. =
current production

commission on
land

Doesn't encourage
production

non-mon. analysis
assumptions

site, flow, stock.

buying raw takes cap.
or m. dM serves
as more cap. for this
purpose.

ones

Cti misses
nat. resource

the ΔM that lets you buy raw is not just psych. important, but is doing the service of actual capital, - it is as tho you had commodities to give now, where you had none before. If society attributes more value to its stock of M , either because of $-\Delta P$ or $+\Delta M$, & the things the money will buy can do more work in their function of being exchangeable. (i.e. $-\Delta P$, for the Δ to what m claims is offset by less use). But this isn't quite it: the M will buy more. It is, then, that a greater % of existing assets are monetized, hence society has more m , free for nothing. By ΔP , society reduces its real m supply. The m supply is an aid to exchange. Hence effects.

ΔP ,
 Δ real M
 & prod-
 uct m .

Where it is simply a matter of exchanging raw material, ΔM or $-\Delta P$ does it at no social cost. With Δ services, involves producing, inv. in m . Without ΔM , cheaply or other credit form, buyer would have to accumulate cap. to pay, raising costs, reducing production.

$-\Delta P$ & i.r. &
 inv.

When it is expected that P will fall, spending m is discouraged. But this is just the monetary aspect. It is now vain to invest in productively, for the yield of the cap. will be in things where m price is falling, & you can do as well by just holding m . ~~Of course~~ The only investments made will be those whose yields exceed the % ~~inv~~ anticipated in value of m . It will not just be that prices have dropped, but real inv. has declined. The % of m spent for commodities increases, for factors decreases, lowering real returns. If extreme, all assets would be held in m , no inv. would occur, all production stop - even tho m was spent freely on commodities, it would never get to factors. That which causes expectation of $-\Delta P$ is downward pressure, whatever it causes, & not so much downward movements themselves.

raw mat
 & serv.

Better to not consider buying raw as investing gross, but as encouraging it elsewhere.

So it encourages it both for buyer & seller. - For buyer, gets complements together; for seller, gets pipelines emptied.

analogous to gross inv. in real terms anyway? In real terms, expending consumer is guy who receives his consumables & doesn't reinvest them. (Object of converters being to convert consumables they hold now into more consumables, of higher value). He is not analogous to a converter in real terms. Yet in money terms he seems to be -

— work on this. Well, in either case he is not analogous, but in series, & he catches it coming back, so to speak - the product going down the line until it gets to a consumable condition, then coming back, dribbled out by converter.

With money we have added A.C.B. complications. With real terms, just something he gets for producing. His action is similar to converting, in that he gives something for what he is getting. But different in that 1) What he gives is currently produced

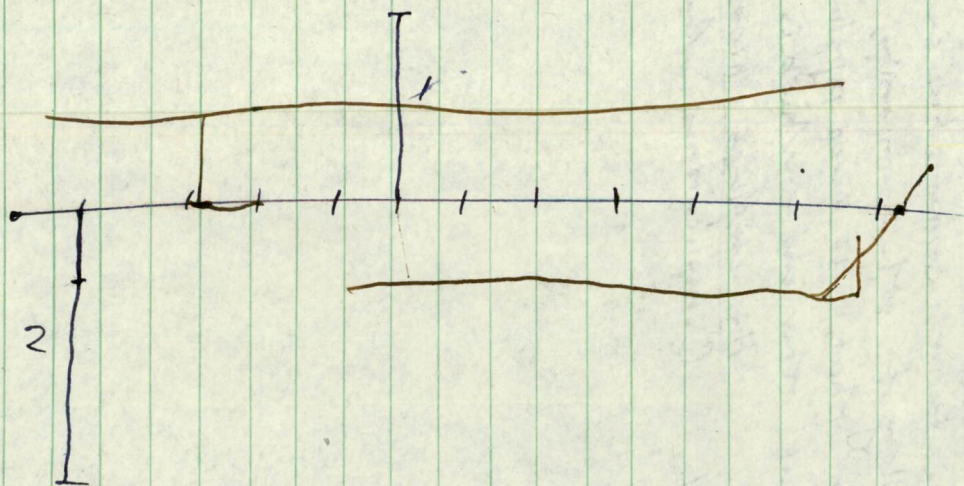
2) What he gets is consumed. (either alone is new inv., or disinv.) There are terminals of processes. Now it is reasonable to believe that,

cet par, when factor converts his services into consumables (the opposite & corollary of other conversion, & simul. the end of it) he starts a chain that, to keep pipelines at some fullness, causes conversion at other end - which is same place, but going

— opposite direction. converters play ball. interesting, tho.

He employs himself, i.e. If all complications when rates change are

EXE

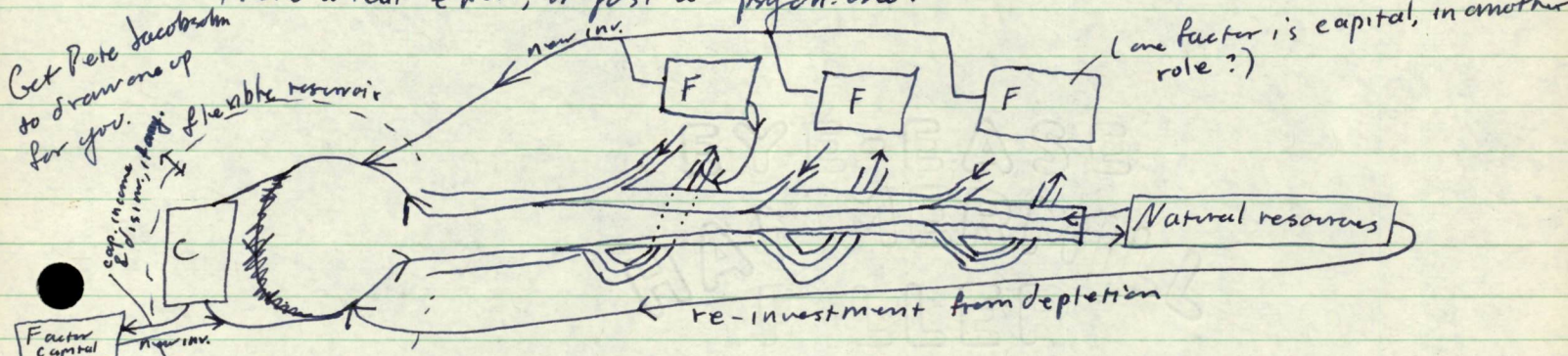


bridge to m.

Non monetary analysis is realistic as long as monetary factors are constant: i.e. people spend in as fast as they make it. When they don't, non-monetary analysis still has analogues, but imperfect: e.g. $\Delta c b$ is increased inv.

& no AP

The tragedy of hoarding is that factors are investing instead of consuming. If this happened in other ways it would be no tragedy. It means that they are creating capital; but then they are just holding it - or else letting it go to other m holders, & which they are doing is not in their power to say, depends on what ~~equity~~ nominal capital owners do. Gives same effect on converters as tho they had stopped offering their services for goods, in part at least. Why? Analyze further. Is there a real effect, or just a psych. one?



(new inv. & re-depl. inv. are pictured as going back to the reservoir to start. This represents buying securities in real world. Direct investment in the thing produced would be pictured as shown. This might be left off, or not, as simplicity demands.)

Reservoir volume in / can only be changed by net inv. or disinv. or conversion from depletion. Economy could run very well without them, so far as this shows. Rate of turnover affects income too. - what determines it? - - - - -

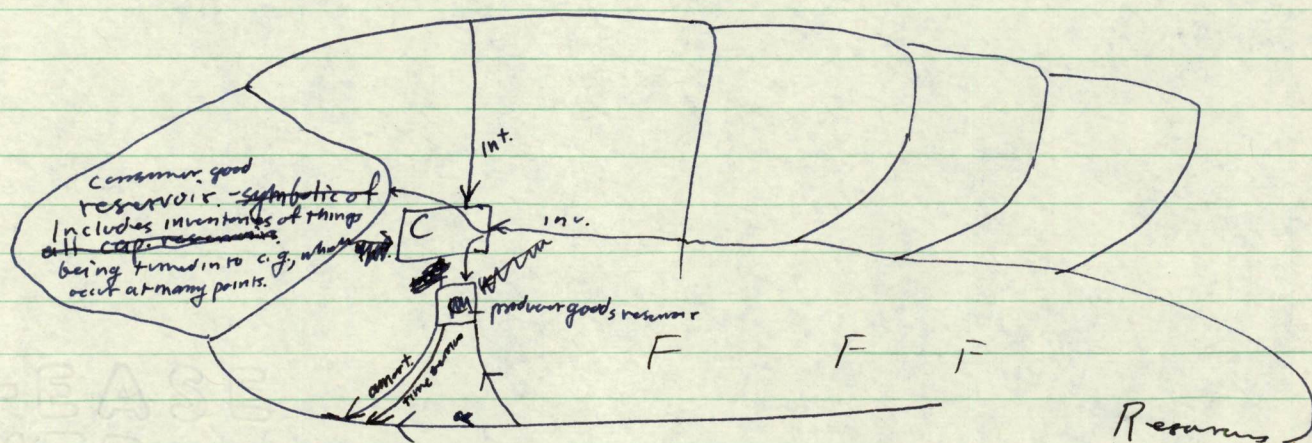
Reinvestment is not automatic. Depends on incentives. Alternatives are holding - which reduces rate of turnover, & occurs when future rewards are expected to be greater than present - & disinvesting, when neither present nor future one as great as present pleasure.

Rate of current income is thus determined, absolutely, (incl. all inv., new too). But not rate of production. Factors can produce as much as they want in return for the income offered, thus varying investor's gap. (Another view of relations is just that all factors pictured are complements)

new inv. not nec. to economy.

re-invest. vble, too.

Current inc. thus determined



Flows on lower line are those coming in return for gross inv: consumption plus new inv. This is clearer on bulb diagram.

Instead of ~~3~~ misc. F, have definite ones: labor, ~~capital~~, capital, sites. Job will be to fit capital in.

2 kinds cap: instruments of production, which come out of stream before it reaches consumable form; & consumables, which flow back to factors.

After getting all arrows in, sum up things that will raise & lower income.

Build diagram up in stages, don't flash it all at once.

Stock & flow resources Match resources at end includes all those bought outright, when they are so bought: sites in construction, stock resources, & flow resources - even the flow resources are replaced by Nature. But flow resources might as well be put among operating factors, for they perform a service in that

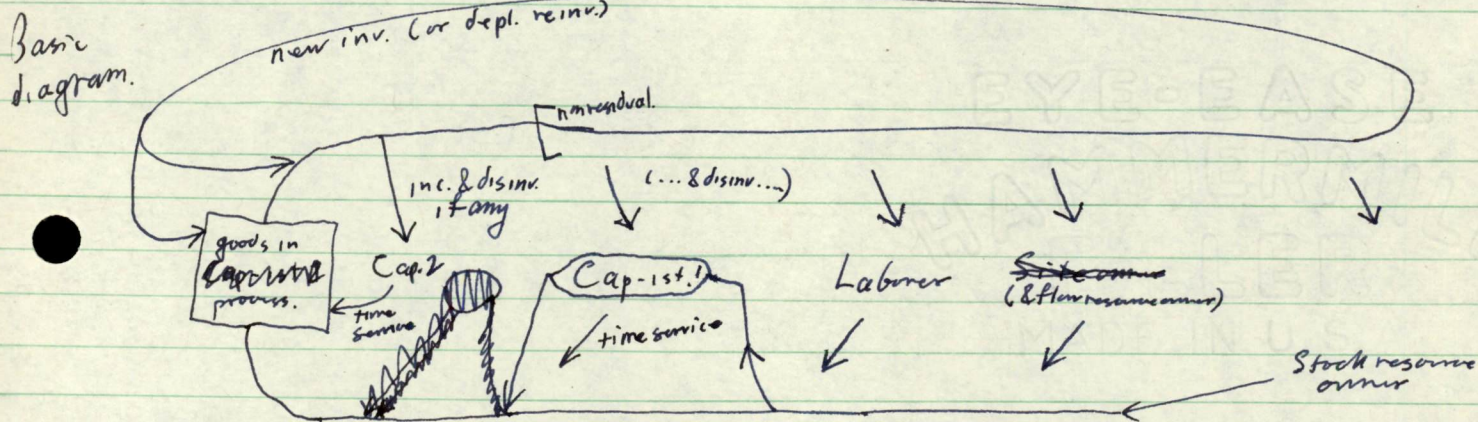
Inv. & stock & flow resources

diminishing themselves, & they are like sites in this. Income from them need not be regarded as disinvestment. It is available each year whether used or not, & isn't depleted by use, & is not product of human sacrifice. If income from this source is consumed, or not used, it is disinvestment, for something ~~not~~ available without any effort (some those of compl. factors, ~~whose rewards we~~ but they are paid, this is beyond that) is consumed. "We" are only labor & part of capital. If "me" consume income from land, we have consumed something we didn't produce.

Inv. & consumption

The case is clearer with stock resources, tho, & in article I will ^{but some producing most of it} restrict it to them, stating above in footnote, making it sound complex & undecided. Let 'stock & flow' subsume the matter, including sites in their 2 aspects here.

So put flow resources among operating factors, even tho it should have a special place.



All factors contribute at some time; & Cap. 2 gets paid off residually. Diagram would be better, if it showed these. Can show this by having more than one diagram. First show factor contributions & corresponding payments. Then residual payments.

Show how cap 1 contributions come from cap. 2 payments.

Show flexibility of diagram - how it allows for all the patterns that may occur: conversion, new inv. turned into cap 1 or cap 2, inv. from any factor.

Cap. 1 position is residual, too, ~~where as far as amount~~ long run return go - (tho free to contract, too)

Descript of diagram; worth.

Diagram doesn't emphasize conversion process. What's so good about it? Is it helpful to general exposition?

Gross inv. is
position in
fluctuations.

Gross inv. is role not more initiating ~~more~~ more determinant, potentially, any other factor can call forth complementments by working for less. But is more able, in fact, hence a major determinant. of fluctuations.

Diagram's
purpose.

Purpose of diagram to show role of inv. in production, illustrate all points.

Rewards of all factors but Cap. 2 are from gross inv.

Note it takes a step for new inv. to add to factor rewards. ^{the 2nd time} To just receive consumables & hold them is new inv., but ~~not until~~ ^{the 2nd time} they are ~~given~~ as rewards for production is the new increment to cap. stock turned over, i.e. used to cause income. ^{2nd time} This is the trouble with new inv. in m, usually: prices don't fall, you just build up stocks of consumables. If new inv. is such that factors just build cap., then they are rewarding selves as go, it is turned over right away.

In writing, express it all in English, then on diagram. Do not mix them up. Try to have a complete exposition indep. of diagram.

When a factor offers self, he gives cap-ist something to trade for. This creates demand for self, in real terms.

But not correct that is exact correspondence of s & d for hired factors (I shall thus define all non residuals). Because of great changeability of omit going to investors. This changeability of occurs because their rewards are residual, hence unpredictable, so anticipations count. Any other factor would do some, & does, but less spectacularly.

High antic, & low, describe difference.

So here is an expl. of inv. etc. divorced from money. It is clear that it has much force all by itself.

Big miscalculations come from buying cap. 1, (but also have inventory bumps) This involves giving converting existing con goods into it, & also new inv. Probably more of latter. This new inv. won't mean cgs running around the circle - we are analyzing without m, but we are analyzing what happens, ~~with~~ ^{in a society} in a society that uses m. - are just temporarily ignoring it. & it signals to capists to produce more inv. goods right away. Non monetarily could look at it that new inv. went directly into cap! people producing it instead of cg.

Wicksell et al would make a little sense here, without m.

ch. 5
Bain, ~~March 24~~

The more elastic firm's demand, the more it is close to price.

'Some writers have suggested that opportunities for enterprise to establish monop. positions are created incentives to the progressive adoption of new techniques & to the dev. of new products.' Cf. my comments on Chamberlin. Schumpeter developed this idea.

This word 'locus': an industry long run supply curve in price comp. is locus of min. ~~#~~ ac of firms. at the output. A firm's cost curve he doesn't consider a locus.

Competitive firms only make 'real' cost calculations. 'Pecuniary' refers to changing price: 'intra marginal rents'.

Limit to how high monop. can raise price is not usually $mc = mr$, because that high would jump barriers to entry - so he takes less.

(Bain is good man. I'll like 216)

Failure to separate
~~per se~~
the kinds of
spending, "...

p. 435 - "Govt deficit financed spending tends to create income in much the same fashion as private inv." So they actually identify ΔM & $\Delta inv.$ - bad mixup. So my paper has a point. It does make a difference what you spend it for.

cap. & turnover.
New inv. is a net addition to real rewards offered paid factors, provided it is offered to them & isn't just held. Hence a shift of capital from idleness or pleasure of owner to conversion has same effect. A speed up of turnover the same? & even if new investor just holds for self, this increases rewards of others because the conversion that would have had to employ him is left for them. & when he converts, this doubles effect. (since turnover is so imp., & credit speeds turnover, hence its importance) (added to other reasons)

credit
→ turnover
By 'investment' we may mean volume that has been accumulated; or volume currently offered to factors. Latter is important thing.

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New inv., ~~double~~ duty

It takes either conversion or new inv. to employ factors. Both same effects. But new inv. is likely to be converted immediately, having double effect. It might even have it all at once. — if one worked to support another for a claim, ~~he would~~ while other was producing something for him, he does both at once. & most inv. is like this. You don't know it's inv. until he pays another, & by then it is conversion.

If new inv. is from reduced cons, he is employing others. Increased prod, emp. himself.

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a) Conversion & new inv. ^{a) turnover (credit analysts here)} as done with m.

1. With M constant

2. $\pm \Delta M$

1. M const.

a. Conversion

M , a claim on goods, passes to factor, as he spends like amount, & expected goods come.

conversion with m ,

Goods passage is vital thing, definitionally? No: only that portion which, at any instant, = flow of production by factors. Rest maybe in windfall, or depleting c.b. Is social disinv. (if consumed). Hence, oddly enough, m payments represent conversion, = it precisely. (Even if not spent - this being turning over goods, which then aren't consumed. New inv. then rarely takes form of inv. in thing produced.)

effects of $-AP$

of anti- AP

- at their current value. Due to this c.b. effect, lower P means more spending from balances, balance depleters get part of what would go to factors, lower conversion by keeping prices up. (Contr., lower P mean more conversion, $\therefore$ ~~ass.~~ fixed m flow to factors) lower

new inv
& turnover

New inv. obscure, is never spending m . It is receiving m & ~~not~~ ~~spending~~ in excess of consumption. To then spend the m is to turnover your inv., not to make new inv. New inv., without ΔM , occurs whenever factor gets $m > cons.$ (also true with ΔM). Only other kind of inv. is when you aren't working for M . ~~at all other times~~ for then your product $> m$ receipts. When working for M , m receipts = value of your (imputed) share of product. $Inv. \equiv prod. - cons. minus cons.$

conv = spending

So conversion is simply spending m , for factors convert savings; (complications: cap. xactions, land)

new inv.

(re new inv.: when shifting to factors is inv; but ~~shifting~~ it doesn't all finally get to factors. They put it back in general circ. when given to cons)

over (re 2, inter alia, discuss effect on mr , show its dependence on means of injection etc. If used to pay debts (fiscal policy), little effect on mr . If loaned (FR policy, & loan subsidies etc) another story, but only incidentally connected with ΔM , could borrow & have cheap, w/o ΔM) use some analysis

* The net operations of any convenient finite time period is an 'instant'.

ΔM & mr

-AP loses
conversion

Lowering P causes social waste, in sense, sense that some real payments that might have gone as incentives go as windfalls, that much conversion is lost to those who spend the more valuable m. Bonds etc too.

Higher debts do
not counterbalance

Compensation: m debts become stiffer, lowers hp.

But this lowering is ^{balanced} ~~compensated~~ by increased liq. of those with m credits - overcompensated, as some m debts are govt, do not reduce govt hp - as contrast with munic. govt, ^{bonds} which cease investing as result.

ΔM better

Leaving unbalanced, as net, that real conversion is lost by windfall.

If ΔM instead of -AP, balances held first become much less.

Δ to cb comes as marginal incentive, not windfall, so, despite Δ cb with ΔM , increases conversion. A very important difference. - & core others,

ΔM & mr

ΔM helps satisfy a certain kind of demand for capital, that for liq. - & is Δ supply of corp. in that form, i.e. liquid claims - hence lowers mr. Even if not loaned out, but just spent - provided no AP.

With annu. - AP

The borrower of m will have to make real int. of ~~less~~ rise in value of $M + \text{int.}$ to satisfy lender.

Lender will demand some m int. Will it be as much as if m weren't rising? Or is ~~an~~ loss of liquidity less serious than loss of time?

Probably cannot answer this wholly here, leave for interest theory.

Role of money.

1. With no change in nominal or real c.b.s. 2. With such changes.

1. ~~One is essentially~~ Investor has a claim, e.g. title, to future services, rather than present services.

Money is such.

Stocks, bonds, deeds, commercial paper, etc.

Most laborers ^{bc} strike a balance, spending as fast as they get cash, their cash receipts not num inv, & share in commission small.

Capitalists get cash some way, but don't spend it on selves, but to factors, converting. Non monetary conversion has 2 monetary aspects: money payments to factors, & ~~some~~ movement of eggs to them.

Conversion Counter was pictured as one who ~~see~~ gave cgs to factor. He is in fact one who gives money to factor, & then sells for money. The factors are capitalists too, a little bit - they live on their fat a little while, accepting claims, then 'cash them in' for cgs.

Everything pictured as one step 'really' is 2 steps. All have invested a little in m, & it circulates instead of goods. As long as cbs are const. it comes to some thing. Converter gives m to factors, as they spend it for eq or inv., & it is exactly as tho the goods had gone thru the process. - & he can be said to have owned the goods, too, since he had cash.

Most cash, obscure, is a claim on circulating c.gs, owned by converters. When they pay factors, & no change in c.b., they are really paying them directly in cgs which they own.

Note - it is possible to change ratio of production between cgs & ~~cap~~^{prod.} goods without new inv., just by converters' so choosing. But they are not likely to, for factors will give more for cgs if they reduce them, this stops reduction. But when factors start to invest, converters will also, there being less demand for c.g.s.)

New inv, continuing assumption of no change in c.b., now describe.

Commission, not just
new inv, determines
direction of production.

Complications
aortic

 $\Delta M \rightarrow$
$$\frac{\Delta \text{yield}}{\Delta T}$$

Now introduce complications. Here m ceases to be a perfect medium of exch., & we get phenomena which wouldn't happen w/o m .

1. Those with ~~only~~ nominal title to c_g don't put them on market at same rate as money holders put m. on.
2. M is created. ^{or destroyed} Vast possibilities. (e.g., money may not be new credit. Money may not be spent. P may rise, r may, etc.)
3. Yield of real cap. changes, affecting desire to hold M . (as well as real desire to invest. Integrate this.)
4. ΔT (speak of increased coincidence of payments, as in revenue notes)
5. ΔP

ΔM

(remember how ~~ΔM~~ by wiping out debts makes debtors better credit risks, increases inv.) etc etc.

ΔV

has some purely monetary causes, too, like increased liq. holding due to rising securities.

inv., inventory
gains, rising
prices
disrupted.

6. ΔV (much of this will have been covered in 1, just touch here)

7. Changes in investor's gap due to habit of reckoning in m. War time wholesale price rise faster than retail. & v.v., perhaps rigid cg price dilemma below described.

(8? M. shifts between commercial & factors.)

see b, iii; or 7.

1. Say converters hold m. This leaves inventory holders in trouble. (who are often same natural persons, we are abstracting by function.) This would happen when they decided not to invest. - which they would decide when factors would not leave them as big a gap as they (for various reasons) do insist on, i.e. the goods they get from factors are not, in their opinion, worth enough more finished than the cg they give to be worth effort, risk, time, etc.

If when consumer demand falls, inventory holders do not choose to lower prices, but then given m payments are not increased real payments. But inv. holders will be paying much less for inv. replacements, because of their now excess holdings. They will be in effect demanding a much larger gap, on current acct. ing basis. This less likely to happen w/o m, because it would mean nothing to insist on a given m price, & the selling of goods & buying of labor would not be separated. Surest, the excess inventory idea would not have occurred, it being occasioned by a desire to maintain fixed m prices. ^{& fact that different groups make decisions re m & no goods.} This isn't entirely a case of differential rates of putting m & inventories on ^{over} mkt, but too much keeping to same rate. & it doesn't explain how it started, but shows a problem arising when something does start it - the something being higher ratio yield from holding m, yield from holding goods.

This is essentially a matter of lower V with fixed m hps, situation where no one is really asking for more than before in real or m terms, but -ΔV stops production. By this, an original fall of antic. yields can become cumulative. But this is an effect due to fixed m hps. I want to distinguish them each time from effects due to money itself.

a. When converters -ΔV, this increases real debts of cg holders, makes them poorer inv. risks in future. & v.v. Thus affecting future inv. Wouldn't happen if same exogenous motives hit non monetary set up.

b. i. Suppose inv. holders put cg on mkt faster, (or m holders invest it slower) get lower prices. (due to greater holding costs, or desire to reinvest, etc) A windfall for m holders. Get same amt of real inv. with less m inv. - well, under present ass, get

inv. losses, h.o.,
& higher gaps
due to antic. -ΔV.
over

ΔV

-ΔV

distinguish effects
of m rigidities
from mon. effects
per se

-ΔV

how
m wastes
conversion
sometimes

w/o m. whatever caused converters to invest less, with m, would also cause same. But converters would have less h. power, for they would actually hold goods, not just m. With m, goods holders may have to throw them all on mkt for what they bring, all that potential conversion be wasted, go as mind fall, not incentive.

-DP & inv.
opp.

Those with m debts are those likely to be loaned to, hence their injury reduces inv. opp. more than mind fall benefit to misc. people increases it

M effects

We find m effects in: its creation & destruction; changes in its value, those affecting m holders & debtors, & real hps, & anticipations.

policy

General conclusion: all empl. problems solvable by lower hps which increase empl. quantity given inv., & increase inv., & also have pretty good mon. effects, tho better if defl. avoided. No impossibly.

-ΔP

more real inv. with same m. ~~Increases incomes~~. But: lowers inv. gap; (~~the~~ total effect here would depend on cause of faster selling. In any event, the monetary effect is not involved in the gap, that would do what it did anyway) & money windfall when strengthening m holders, without ~~the~~ increasing mang. incentives. & weakens credit of borrowing individuals by raising m debts, real value.

With non money increased rapid disposal of inventories would stimulate production more. Even then, it would not increase it prop., probly, but lower inv. gap - depending on circumstances. But, it would be a completely marginal incentive. But since consumers have money holdings, lower ~~inv.~~ ^{cg} price is partly a windfall, not a ^{entirely} mang. incentive. Which increases ability to pay for leisure, or power to hold out sites & inventories &c.

ii) Above case, good effects maybe exceed bad. - net effect depending on whether exogenous motive was lower yield in cg or higher elsewhere.

But if get same rate of cg sales, but smaller m inv., get some monetary windfalls, but no more ^{real} inv. (& fixed m hp of paid factors problem)

iii) When fixed m hp of cg, get case discussed on preceding page. But it only comes up when m inv. falls, ^{or rises} not when cg move independently, for they have no independence here.

ΔV

We can further distinguish cases where ΔV is due to converters, & due to factors. ~~It is not sure~~ The effects would differ appreciably. The cause would, & the therapy, slightly, too.

re-inv., Keynes,
income approach.

My tableau suggests that new inv. & consumption decisions have been overvalued; while re-inv. decisions are neglected, both in monetary & real significance. Ellis will like this. It is just a question of fact, tho, where the variability is greatest, not of interpretation. My analysis leaves room for either fact. K's doesn't - to him cons. automatically causes re-inv. C+I suggests it, & elsewhere he is explicit on it, according to Robertson. Of course the automaticity is ok if c+I par. But K doesn't consider the situation where c+I non par., & re-inv. varies. Sav-inv. analysis suggests - ΔV is due to sav. from net inc, too. While 'inc. approach', that spending det. by inc, is oriented to this. (& even so neglects cap gain inc)

Difference of cons. & conv. - ΔV is that holding m to cons. is alternative to cons. So he is investing. To conv, is alternative to spending for something he wouldn't consume, is just changing format holding assets. This is getting at it backwards, tho - real reason is that cons. get it for new production, converter get it for cap. This does not determine effect on society's

inv., just on personal. former depends on others, too - the various cases discussed. But the factor holding, ceteris paribus, will cause more inv. Because it is just the same as tho the converter held it, with difference that so much more has been produced. Assuming price rigidities, so amt spent determined amt produced.

With no price rigidities, if cons. hoarded, his inv. would be pure sugar for him, for the m he did spend would buy just as much & he'd have extra. It would represent no social inv., just a xfer of wealth from those with m debts to those with m. (not from those with just goods - they are no worse off). If conv. held, they would get just as much from factors for less m. (but of course they'd have to sell it for less too, their only gain being on m held. - same when cons. hoard) So with no price rigidities it makes no diff. who hoards, except that hoarder gets sugar, & others m debtors lose, & their credit worsening may affect inv.

With price rig. it makes a diff. conv holds, get less production right away, cons holds not until next time round - no diff really, either is first in circle.

But cons holds get increased cg inv.; conv holds, no (unless cons. don't reduce their cbs, due to lower m inc, & this is dubious) Cons consumes less in either case, but if conv holds he also produces less, if he holds he doesn't, at first.

Δcb by factors
(-Δv, Δm & inv.)
stops production.

This assumes conv. will reduce their cbs, perhaps by not realizing they can't resell - which they won't at first, we're assuming a spontaneous change of decision by factors. This assumption is more plausible this way than other: that converters could hoard & cons. would be unaware of it for a while & reduce their balances. - but even that is possible - they might think it only temporary at first.

-Δv by conv factors

cf. to converters. increase of inv. before production ~~is~~ reduces; when conv, immediate effect on production, maybe slower one on cons (if factors reduce balances)

Various combinations of price rigidities, various effects. In general, when P rigid - Δv stops production; when not, doesn't, but some unfortunate effects - tho relatively unimp. Main reasons for this concl. come later.

Decision to invest
in 3 groups

This covers complications arising from fact that decision to inv. is composite of 3 groups: m inv., cg holders, & ~~factor~~ ^{factors} spenders (who can inv. in m themselves)

2. $\pm dM$

Contractors borrow from banks & pay factors with dM . Thus get more real inv. in pipelines. This may call for more cb by contractors, & others, so if you get increased production to start with

all will feel content with increased real & m cbs, not dV . But may not - can't say a priori. But chances are it won't increase production originally as dM to dM , so will get a dV afterwards. (curr mult.) & ^{new} inv. will have occurred ^{in part} at expense of m holders, who, in effort to shake off unwanted inv. by dV , have exploited selves. It might not involve increased inv. in first place, if dM is taken by contractors, who just reduce their stocks to get dM . & This is bound to be partly true - another reason why dM won't have full effect in increasing production & inv., & why dV will follow.

dM, dV , inv. & exploitation.

i.r. effects. (not of dM new, just of M)

In real terms, supply of cap. was owned by those who used it. (I suppose we might have had loans there, too, expressed in ^{some} real terms) With m we get separation, sometimes: Those who produced more than consumed are not those with nominal title. Money holders did real investing, equity holders take nonmoney risks. (This is corollary to much gone before). Now nominal owners have extra pressure to sell, to pay m debts. So what.

$dM \rightarrow$ yield

M as medium of lending.

Does existence of m affect yield (demand) or supply of cap.? It affects supply when changes in its value change credit standing of borrowers, by process shown. If it worsens it, it becomes more inconvenient to lend, & lending declines (which reduces M , too, & may increase hoarding). It may affect yield by changing real ^{exchange} ratios. Increases supply by making more efficient connections between borrowers & lenders - but that is irrelevant here - except that govt regulates amt of lending by affecting the cost of banking, that is relevant.

i.r. effects of dM .

M comes into existence (private M) to satisfy demand for a loan. The loan may come from new inv., in which case dM has increased real lending & loaned i.r.; or may come from contractor, who must then replace his reduced stock - but this effort must lead to more real inv. Either the dM is held by factors, or is held by contractors with smaller eq stocks. Well, neither is nec. more likely.

(note: with dT , we have either: rigid hps; or falling P with wnd fall to m holders; or dM , with ~~monetary~~ effects. so can't escape effects of M)

Just as likely that dM will cause increased sales as increased producing. (Let us say the very stock which was replenished by dM 's 1st expenditure was the one sold to get it. - shows net effect nearly) So we shall have increased real inv. & reduced i.r. if factors take it; & neither if converters do. (The first trip around is what I'm talking of. Subsequent changes may occur, but won't be effects of dM , but of shifts, as described before, between converters & factors holding M). The more % of dM factors take, the less likely to have subsequent dV . *

$dM \rightarrow m$

subsequent changes
not considered
effects of dM

dM needn't be increase of claims. & claims can increase without dM . When non-mon. claims increase, no effect on value (except insofar as increase is motivated from one side or other, it raises or lowers i.r., thus affecting value.) When dM , affects value of other M . expand on this.

dM

Cuss Robertson, on effects of dM . - he said real cb would be reduced.

So dM will add to supply of real lending if taken by factors, & in spite of subsequent dV , if any, but not in spite of subsequent shifting from factors to converters, if any, that being disinv.

If factor prices so changeable that no increased production due to dV , but just higher P for some services, no d inv.

with perfect flexibility,
no d inv. from dM

dM not causing
investment

If dM used to buy non-reproducibles, no d inv. Except that sellers might treat it as non-net inc. & reinv. it, but that is optional.

If dM used to buy paper claims other than titles (i.e. such that don't increase demand for any producible thing), same situation.

If dM used to speculate in commodities whose production is so stretched that ~~demand~~^{supply} is inelastic, doesn't cause any replacement, is same as above 2.

In 1920s we had all 3 of these, various times, keeping m supply higher than it ultimately could be.

$dM \rightarrow ?$

* Subsequent dV unlikely. dM makes itself necessary. If it doesn't increase T , it increases P , & either one balances dM with no change of V . Possibly its impact effect will be so it has less V than existing m , subsequent rise will raise P & exploit m holders. But dubious. More likely that initial dT will subside, raising P & exploiting m holders.

Δ new inv.
→ ΔT.

(after Δ inv, probly have ΔT, more goods being in process.?)

Policy

Govt can keep m^r for private individuals a little lower than otherwise by giving banks extra reserves, letting them expand, as in 30s. Increasing efficiency of banking, or subsidizing, or whatever - perhaps ceasing to penalize. But I think we are overestimating govt's power to lower private i^r, by present tools. Can see that banks lend to it cheaply. But not to others, unless by actually undertaking part of expense (as FDIC, HOLC, etc) or actually lending - or lending its credit standing, as by making i^r m. 30s low i^r. due to low yields. & now we have high rates. (so?) (use of non-bank sources of credit would also account for lower rates on bank loans, which aren't representative of i^r. changes in general. On their own m, corps must make more)

Regardless of what govt can do, ΔM can lower i^r. But only in right circumstances? Well, if we look at long run effects of given limited ΔM must have right circumstances. But immediate effect is always to lower i^r, if ΔM used to lend, & continued applications can keep this effect up, as long as can keep factors accepting it. When not, i^r. would rise, this source of supply would be cut off. But this would be chaos, & anything could happen.

not
reviewed

If I sell existing bond to bank for ΔM, is a new loan made? Is there a signif. diff between new lending & passing on old loans? If I sell bond to bank I haven't borrowed from bank, as I would if I made loan. It is as tho corp. had sold bond to bank & paid me. (Note that when bank buys equities the ΔM is not backed by any pressure to sell goods, as it is with indebted)

Each time m changes hands it is an extension of credit. You cannot judge 'the amount of credit' by the amount of paper. A non-monetary paper you can, for it only circulates once. Money, each turnover is credit extension, analogous to individual bond. You can call this passing on the same loan to new lenders, if you wish - & that's part of picture - for each money turnover is not new net inv., since giver disinvests as taker invests (tho giver doesn't disinv. immed, probly keeps goods a while, & when he sells them m may sell them for m again)

? The only person who is getting a net new inv loan from m is original borrower. All others get it by producing more than they consume & they are not borrowing from later takers, but giving them a claim on their excess production in return for the taker's excess. So there are not extensions of credit, but dealing with generalized warehouse receipts. & incidentally the original credit is passed along. It has same effect as tho credit were extended each time (is cheaper & more convenient); with later, each borrower would also be a lender to the next man in chain of exchange.

His net position would be same.

Credit & inv. are different. I have already invested when I produce my excess. Then I give credit when I give it to another. M turnover increases credit, but not inv.

(Bank credit when expanding competes with m ; having expanded, increases coincidence of payments, need more m .)

It doesn't matter for what purpose m is created. Being created, it has given effects, depending on how it is spent & received, not on how created. Whether it liquefies an existing credit instrument, or creates a new liquid one, is of little importance. ~~Effect is slightly greater when it creates new one,~~
When it buys a bond it lowers i.r.; just as when it lends any other way.

The significant inquiry then is into ~~factors~~ contrasted determinants of value of non liq. int. bearing securities, & m . Both are worthless when more of them; m this appears as its buying less; sec., as lower price, or higher i.r., as supply rises.

But bond seller stops lending, net, by borrowing & spending m . So in this case there is no net increase of inv. by DM ; in other case there is, maybe. 'Inv.' is wrong word. 'Claims' other than title, i.e. claims on others, is thing. Net claims, really. We don't know about bond seller's net inv. position, for he may do what he wills with his own. But a claim usually represents an inv. (or loan) for the person on whom it rests must have something to back it, which is usually what he got by borrowing, so claim position is some index to inv. position, tho only roughly. Money is backed by claims. By buying bond bank does not affect number of net claims. Bond seller loses his claim, as he passes it on, liquefied. But this need not mean he is disinvesting, he may be just changing form of inv. from claim to title. Whichever he does has nothing to do with money, or claims.

(Banks don't usually buy assets outright. So m is based on other claims than titles. Administration of property they usually leave to borrower)

Do we care if DM represents d claims? This depends on whether we care about d claims. We care about them only if 1) They are m sub. & affect P ; 2) They are nec. ass. with d inv.

2) If you have goods, & give for a claim, no effect on inv. But d claim is m sub. May increase T , too. — ~~A~~ willingness to thus extend credit may cause prod. & inv. where none would occur.

The only reason we care about d claims is because they do what one turnover of m would do, then. & not for any increase of inv. (& of course because they provide various ways of investing, for convenience, & int.)

By liquidating the bond we have failed to increase claims, but all they do is what m does, & the m gets out just as fast, so no difference on that score.

DM a means
of borrowing
w/o raising m -
extorting from
cb holders.

When you borrow by floating sec., you lower their price, raise i.r. When by DM, you similarly, & for some reason (excess supply) lower value of paper. But you aren't paying anything on it anyway, (same services to depositors) Well, pt. is that ^{remember they may get} if people get more m than they want they dV & it becomes less m, & borrower pays no more, & people are just as willing to accept m as ever, banks need provide no more services. So you can borrow this way without raising i.r., & exploit investors by dP as well. (another view of same thing is you've increased loanable funds)

You won't raise i.r. because people won't feel they're holding more assets than before - they won't be. (unless no dV, but that means higher real inc. Either case, no more assets/inc) Further, their ~~own~~ incomes & ability to invest won't be lower, because what some have lost others have gained & besides the x for is in the past, people are dimly aware of it if at all, & credit risks are better. (here is where claims mean inv.) You may improve inv. possibilities by effect on real exch. ratios, raise i.r. by improving yield. But that is from other side. We are asking if you won't reduce supply of lending. You won't. More, we are asking if you will increase it this way, & you will, without increasing i.r. (except for A bank costs, & this is mostly short run)

Because, fundamentally, when lenders want to dispose of their claims they only succeed in lowering their value, & this doesn't affect i.r. as it would with int. bearing claims. & they can't refuse to accept new ones, because they can't distinguish new from old, & their economy is based on acquiring them.

So whenever banking can expand, allowed by govt, this increases real inv. Provided borrowers can pay bank cost of administering dm, which they couldn't in 30s.

How about paying m back to banks? Can people get rid of m this way? They surely will be some who will borrow less because already have too much?

$\Delta M \rightarrow$
 Δcredit
etc Insofar as ΔM causes cap. to turnover, it
improves general productivity, by joining complements,
with no Δ sacrifice by anyone, simply by making
people ~~can~~ trade their assets; Is sort of a solvent,
loosening restrictions of stubbornness.

The buyer loses liquidity, true, but he gains
an income yielding asset, & seller does v.v.

Interesting idea to develop sometime.

MV - credit or exchange?

A MV seems as credit, but really no credit is extended, for m giver owns it outright, accumulated cap. to get it; only ec. is that cap. can be used for 2 things at once with m.

In another sense it's continuous extension of credit to original borrower.

Resolve by saying original m receiver extend credit
the loan, - or those whose balances were raised,
net - & thence forward all is just exchange of cap.

Criticism of current thinking

General drift has been that declining inv. opp. hurt economy because they reduce v of m ; or, putting it in sav-inv terms, they make sav expansion, leaving a demand gap. I show the effect on real inv. is also important, in itself, in affecting demands of factors. They say sav > inv says say's law; I show more to it, (& also question their premise)

Credit, Δv ,
inv., Δm

Credit is one problem. Desirable to have more, aids exchange hence production. ~~Inv.~~ Δv is more credit. Inv. is another problem. Δm is more inv. This is fundamental to bifurcation of monetary & inv. effects. Monetary effects, i.e. Δv , are credit extensions (as well as price level changes insofar as they aren't credit extensions) thus creating own T , etc.

Credit can be responsible for movements of goods without inv.; such as e.g. bring raw materials existent already into positions compl. to labor & other operators. Credit has independent importance then. & velocity $\rightarrow$ credit.

Credit is one thing, claims another. Credit results in claims; if a turnover of m is not the vehicle of credit; but, if it is, get credit with no increase of claims.

You can look at ΔMV as Δ credit; or Δ unusually acceptable warehouse receipts.

But in either case it is an increase only so long as production increases. This it is likely to do, due to general habit of holding for a rise, or setting fixed in price.

To individual, no way of distinguishing real change in demand from mv change, so whatever supply elast. he has will react same to either. & by reacting to ΔMV , he makes it a real Δ demand - because it is Δ supply, as Say said. If he didn't react, would be just nominal change. So supply elast. habits justify themselves, & universal.
 - opposite of Leight's effect.

Production depends on credit. ^{new} Conversion, too, not just cap. exchanges, requires just Δ credit, not Δ inv. (note - ΔP or ΔMV , either, supplies Δ credit the same) (but due to supply elast. habits justified above, ΔMV better - other reasons, too). New inv, conversion, & turnover, all require credit.

(Δ non-man. credit not a net gain, for increases coin. of payments. Hence ΔMV better)

Credit doesn't mean any net inv., just a shift of assets in middle, & prod. & cons. at end. ('permanent acquisition of title' or cons., same effect) (& self use of benefits - if others to get them, is inv.) (so? How does inv. differ from cons. then? Just that you will pay more?) (you pay factors instead of consumers. But this must be worked in better? It's ok - consumer has invested, & if you 'invest' by buying from him, it is just a xfer of assets, not the original inv., which you both made separately. If you work for him, & don't consume what you got --? Inv. that you pay to others, & that you keep yourself, are different? - expand.

ΔMV & supply elast.

Credit $\rightarrow$ conversion & turnover & new inv.

Δ non-man. credit $\rightarrow \Delta T$

QMV or -DP is same as Δ cap., due to credit.

Whatever makes M command more, or more faster, increases credit equipment of society, which is a complementary factor of production, is same as actually having more cap., for both he with m & he with goods have equivalent of cap. for some purposes. Allows same cap. to finance more actions - people use it all along the line.

(in pure comp., ΔM must raise price to make you produce more. In life, just increase demand for things with fixed prices)

It must be done by indiv. action. ΔMV can be done by social action.

ΔMV increases commission, then. Some sense in saying it increased inv., then. But it is by spreading all x hrs. that it increases production. In this way all can extend more credit without anyone's lowering his individual exchange ratio. If individual's lower P to increase credit, they are lowering individual prices re others. Hence resistance. If all lowered at once, same effect, but they hold out vs. one another. ΔMV affects all more the same, generally increases real amount of credit without any other effect.

Each M turnover is same as creating a new credit instrument, with no repayment to worry about.

ΔMV means number of acceptable credit instruments has increased - provided supply elasticity. Which, when credit is the limitational thing, just means if the M is acceptable, which we just said it is.

Little in this is more than elaboration of what we already know, as far as effects go. ^{input thing} But I stress The credit angle is separable from the price angle. ΔMV either increases credit (T) or prices. Insofar as does former, is a real addition to productive equipment. & determines, or equals, speed of production: amt of credit accepted = amt of production, in any interval. (99%o, anyway) (prod. for exch.). Well, not so. Amt of credit accepted for services = prod. for exch. (Other credit brings in complements (raw mat.))

If look at it as, not granting credit, but receiving a claim for value, it is same. But instead of claim on credit recipient you get it on someone else, for convenience.

General Δ of demand with m - Leight's Law.

Looking at m in this light, ΔMV increases amt of ~~goods~~ value offered for things, since it is something representing real goods. But it only does so if it doesn't reduce its own value. & it ~~only~~ doesn't provided it calls forth production, or T . So increased demand here is just increased production. It isn't goods behind M from bank side, but from other direction, that determines its value.

New inv. is accepting m .

All payments to factors are commission, not net inv. at all. The c_g must be created thru new inv. before being offered for services. & once so created they need not be offered, may just be enjoyed by investor. You invest when you accept m , if you don't consume equivalent. You convert when you pay m to factors for services. This is a new attitude re new inv., forced on us by

provided he invests in what he actually produces, not what the consumer gives him for it. If latter, his new inv. employs no one. Ordinarily is latter kind: receive m. Hence only rarely does new inv. cause empl., but just conversion.

New inv. employs investor.

There is only one way to invest: produce more than you consume. & in this you can only employ yourself, not anyone else. (society helping complements)

Conversion employs others

Then, having done so, you can convert, & double, etc effect on empl. - but you don't have to. (consumer ownership may be conversion, if you live on it with "in return for" producing something else. But this is rare)

New inv. may be less cons., not more prod.

By elision, we can call the first conversion 'new inv.' But actually the new inv. was when you accepted the m. Passing it on is conversion. & the original effect on empl. comes when you do it, not when it is passed on. (provided you increase your production, not reduce cons. to inv. But you probably do both. Reduced cons. does not increase empl. To this extent new inv. doesn't increase empl., only conversion does.

Conv. & inv. may be simul.

(Just as you can only spend from a.c.b., not inc.; so you can only hire someone with existing cap., not new cap.) (except, rarely, it might be simul: you produce to support him while he produces for you. & in a sense it always is that way.)

If I take durable cg for my work, I am supplying the inv. that makes them. But even so it took conversion, too. If I work on my own then my own investment employs me. But if I work for m, or someone else's durables, conversion also involved. But these 2 are different? Well, a xfer is involved, & it can be called conversion, or a xfer of my cap. after I created it, just as you please. The net effect is the important thing. & if I take durable c.g. it is same as tho I had consumed perishables. Hence why differentiate? Say I received conversion, - so this kind of inv. doesn't even "employ" myself. After I get my conversion goods I won't consume them immed. But have have not obviated paying me goods for my work. I have increased the amt of cap., but not the amt used to pay factors. It would be different if I had worked for myself, for then I would have stopped working for others, & what they paid me would be available for others, while meantime I employed myself by my investment, i.e. by working without consuming. Then my inv. would be the kind that employs factors. Or if I had just worked without taking any present rewards, the cap. I created would be production I had carried with my own inv. But if I am employed, & my work is carried by someone else's converting, my original inv. is not kind that employs anyone, for I am not carrying any product with it. The diff. of this & self-empl. is not in amt of cap. involved, but use. With conversion case, I am taking cap. out of conversion use as fast as I create it, so no net effect.

Durable cgl pg & conversion

So durable cg reduce amt of conversion. Durable pg do temporarily, but you get it back; durable cg forever, unless used to convert later.

But you can employ yourself by new inv., I should say carry your own product. That's if you build on horse; or become owner of a factory you produce. & you can also carry your own product & also another's, if you convert as soon as you invest. & this last is most common. So new inv. has a big effect.

~~for~~ Conversion is largely regulated by nature of cap. produced in past, for its nature partly determines the speed of conversion. But only partly.

DM increases inv. & conversion, lowers i.r. But may raise yields.

~~govt~~ DM is private

It doesn't matter if govt. or private people create the m. Somewhat when govt does it is a permanent increase, & the cap. created is not used for conversion, & has no strings on it - hence is more infl., & also reduces % of cap. in eq

Final resting place of DM

If DM ~~spends~~ held by factors, inv; consumers, none; land owners, none.
Any d. of last 2?

IS ΔM nec. inv., then? In some sense, yes. But this sense not universally valid.

~~ΔM is disinv.~~

In & of itself, it means disinv. ^{Borrowers} ~~converters~~ who have borrowed sell to factors (the real lenders), & they consume. Non-monetary. This is like converters consuming own eq.

It might just mean borrower could now finance himself, or borrow elsewhere. Then inv. isn't reduced. But credit instruments are, unless $-dP$, with its effects.

dT cannot be called independent, for it cannot occur without a correlative change, like $-dP$. dM , dV , or dP can be indep, but not dT . Well, they are all the same. Whichever I decide to do implies changes in the others; it all depends on which is the basis of decision. & dT might be. Individuals can decide to sell or produce more at the given mkt price, e.g. - or what they think is given.

The amt of inv. in m is not determined by what went into it, but only what it will bring now. (like any inv.)

dM won't cause dV . It will $\frac{dP}{P} \propto \frac{dM}{M}$ (or perhaps a little less than $\propto$, since M isn't only means of credit or payment), provided no dT . The dP will necessitate higher nominal balances - same real balances. (dT would nec. higher real balances)

Unless dT , there is expl. of inv., nec. If dM held by factors, expl. is of new inv.; if by converters, is no new inv., expl. is of converters. If by land sellers, is no new inv., nor either any encouragement to new inv., as there is when converters hold dM . But converters' holding dM isn't nec. an encouragement to inv.? If it amounts to disinv, it is - as when consumers borrow, & just to consume (even if they hold durables, they aren't available for consumption, so is same effect). Such cons. loans won't discourage production, either, factors will have to produce to repay. Anyway, it isn't who holds dM that determines what is encouraged; it rather reflects the situation. If dM is held by converters, it is because they wanted to reduce real holdings. Those who acquire them may be consumers, may be other investors. If latter, no encouragement to further new inv. ~~pipelines~~ pipelines are as full as ever. If to cons, converters nobly

Does disinv. encourage inv.?

won't hold them in, it would be a net fall of eq.

$\Delta M \rightarrow$ empl.
extreme
variability.

This shows how we must not treat all ΔM as same in effects on empl. If cons. gets loan, & converter holds it, get no effect on empl. at all, & a disinv., reduced converting potential. At other extreme is when it is taken by factors for new inv. ^{production} that wouldn't have occurred otherwise, & borrower immediately sells to ~~the~~ consumers - then we have double inv.

Probably first effect of ΔM is usually to draw from converters, extra. If it's 1st use is to pay labor, even so labor probably takes it & spends immed. for goods of fixed price. - maybe. So converters are those who keep from original price rise.

If they then respond, get increased credit, ΔT , with no nec. price increase. - ΔM at its best. Increasing no. of acceptable credit instruments, allowing the exch. nec. for production. If prices are really rigid this need involve no ΔP , just ΔT at same P .

$\Delta M \rightarrow -\Delta P$

ΔM also a good way because non-rigid parts of ec. benefit, & this encourages inv. more. When we count on $-\Delta P$, less monop. sectors take real cuts ~~at~~ to benefit of monop, & inv. opp. don't increase as much.

ΔM by
converters

If converters hold M it shows a reduced desire to hold eq. So, even tho reduction of their holdings: - if it occurs - leaves a gap, the same force that created the gap will maintain it.

In assessing effects, tho, remember it represents a movement of eq. to a place where they are wanted more - an extension of credit. Are probably more compl. to other factors in new location, allows production to continue, or occur where it otherwise wouldn't.

ΔM by
land sellers

With ΔM held by landowners, same as above. Is better, in sum, because represents a less desire to hold land, which is good for all producers, bad for none, since none produce land. No disinv. involved, but a depletion, matched by increased holding of borrower. When borrower converts, get a net gain - it is analogous to new inv. by other factors. The m not spent by landowner represents his gift to society, he turns it over to others. Again, if it was a cons. loan

there is no net increase in what is offered as conversion, for the corr. loan reduces it just as the lend sale increases it.

Even with corr. loans, can look on them as cap. that will be converted? ~~No, for it usually won't be?~~ Since he doesn't own it outright, he must 'convert' it into his services to pay for it. He will have to produce more than he consumes, & turn it back to lender (or holders). His selling of his services to holders, beyond what he consumes, is conversion. He earns m but can't spend it, just like a borrower who got cap. to sell.

'Disinv.' by conversions not nec. reduces ~~the~~ rewards offered. Must distinguish 2 senses of inv.; for 'disinv' is conversion (same for m & A) As the eq holder consumed himself, you say? Not quite: as tho he converted, & then consumed himself. Less for next time, but not less for now. & if disinv. is cause of converting, more for now.

Inv. just opposite. But the 'less for now' ~~disinv.~~ doesn't affect incentives, for investors are getting title. & the more for future is real - provided investors continue to feel this way.

So corr loans don't differ at all from others. Only signif. difference of ^{inv.} loans is durable & non durable. (compl. of cap. also worth noting)

If dM is from govt, is permanent, & maybe no cap. comes on mkt. People may work more, but don't get more. (higher real cons. in war a myth?) (Incidentally, dM isn't govt inv, but govt borrowing. M holders invest) Govt may convert what it invests in, but isn't bound to, as other borrowers are. If other borrowers don't ^{sell} convert right away, immediate effects are same; if govt never converts, ultimate effect of govt dM more infl.

Govt dM hires more people, at first, ~~their own~~ inv. hires them. But that ends it, until conversion. & it probly prevents some inv. that would have otherwise occurred, & the other inv. would have been reconverted faster, had more ultimate effect.

cf. govt & private dM

Ways of $\rightarrow \Delta V$

(to get ΔV , either reduce incentive to hold c_b , or increase incentive to hold other assets ~~or~~ or increase real size of c_b)

ΔM to landowners
doesn't
 Δ prod.

ΔM may cause Δ production. When buys land, capit, land not produced. It does serve as credit, to get land into hands of those needing it as complements. But in land boom it may do just opposite. If it stays in land seller's hands - I mean insofar as ΔM ultimately increases c_b of land sellers as such - if that means anything - it hasn't caused any increased production, some maybe indirectly by getting land to complements. Difference with its ending up with consumers is they will then have a higher i.r. than before; with landowners, no such.

Inv. without ΔM can occur many ways. One is shift of M from consumers to factors. This involves careful discrim., since some person may be both, ---

Shifts of m between
factor & consumer
a valid concept.

It doesn't matter which group builds up its balances by spending less? - as far as new inv. is concerned? Yes, it does. If consumer spends less, is disinv., & less conv. But crucial not that conv. spent less, but that cap. declined. Insofar as we can distinguish conv. & factor, this is what would happen if balances shifted to conv. - i.e. if people in general changed their assets from real to cash (we have been assuming consumption by factors). So this idea has real meaning. (I have also been assuming inv. by consumers who spend) If more m is spent to consume the proceeds, disinv., & no conversion. This is roughly same as shift from factor to conv. If more spent to hire factors, is more conversion. If more to buy things to hold, more inv. Roughly like shift to factors. Latter may be inv., maybe neutral; must be more conversion, the process of shifting (it would be in addition to regular flows)

Cons. & conv.

Cons. exp. aren't conversion, but they mostly cause conversion.

Summary

Just what is it increases the rewards of current factors when m_r falls, or anticipated yields rise?

Many things.

1. People are willing to pay more for sites, anticipating better future for them. But this is not nec. implied in better yields for other kinds of cap, only by lower m_r , or increased general optimism.

2. Will pay more for all durables, thus getting much to complements. But most raw is not so very durable.

3. Prices of unproduced long term durables rise, relative to perishables. Factors can get larger rewards in terms of perishables. If their rewards in terms of durables are lower, they don't know it if anticipated yields are higher, or they accept it if m_r is lower.

4. Conversion increases, throwing more consumables on mkt. Production shifts to longer term goods. Converters offer factors more. MP of labor has risen, & others. (this is something m accentuates, for m conversion changes much more than real conversion does). On the other hand, with respect to durables, their use rates are shifted to the future, as far as possible. But what this usually amounts to is more maintenance, not less service given in the present. Except for natural resources, whose use rates are only shifted to the future by non-use.

(the parallel of higher anticipated yields and lower m_r is by no means complete. If you have higher yields now and also anticipate them in the future, no change in use rates results. But a changed m_r , extrapolated, will change them, because, if it is lower, e.g., the farther you get into the future the more the discounting of yields is reduced, (1 plus m_r) being raised to nth power. But for things whose yields are expected to be all in the future, the two things have substantially the same effect, as far as direction goes: the thing yielding in the future will be of higher value. Well, tho, it is not a question now of what will make use rates change, but what will make present values of durables change. And for this increased anticipated yields, even if they are present yields too, is as good as lower m_r)

A lower m_r also helps you hold consumables off mkt. Hence higher anticipated yields are really the potent thing, for they make you turn your perishables into durables fast, both by increasing alternatives and raising m_r .

Probably more to this.

5. New investment

- $\Delta m_r \rightarrow$

$\Delta y_{\text{yield}} \rightarrow$



— antic. yield of cap. in compl. work, e.g. inventories
 - - - - - " " " " " other " " residences.
 — or return to any factor.

Leigh's law
 (another
 reason that
 -dP worse than
 dM, incidentally)

Essential lesson to this point of Leigh's is that a small general rise of real hps can go a very long way in reducing production. Because as one drops out that reduces returns of others, because of compl. in both production and exchange; and those whose hps have not risen will drop out, etc. Hence if V falls, much unemployment may ensue without anyone's having raised his m hp at all, nor his real hp much. It is not true that if no one were asking for more in real terms a -dV would stop production. ~~Otherz~~ If no one were asking for more, why would they not be producing? Someone has to drop out first. As m demand falls, if all observe rigid prices, they will be producing less, despite the fact that the marginal unit brings them as much as before. They could expand production with the same results as before, regardless of whether they have sloping or flat demand curve. It is true, if they were producing as much as before, their mp & mvp would be lower: so this operates too: the ho of some lowers mvp of others. But it is either one or the other.

Det. of
speed of
turning

Determinants of turnover of given stock of cap:

What kind it is to begin with.

How much antic yields or mr have changed since it was produced, and which way, and how convertible it is.

How much factors complemented by its turning over change their hps to get it to come; or, without intending, to drive it away.

With m, this doesn't matter as much.

With gently falling price level, one would get interest by just holding m, it would become an object of investment. In addition to the implicit interest from convenience of holding, get actual increment to value. *This would be discounted to present?*

This would not put an end to all investment. It would simply mean that all investments that were to take place thru the money mechanism would have to yield, in addition to the regular interest rate, the amount lost by not holding money. It is not the lenders who would make this calculation, for they would be repaid in money. But actual investors in real goods. The goods they bought today would have to sell next year for the present price plus the m plus the amount lost by not holding m . True?

The social loss would be that this potential supply of investment would be lost. The investor's sacrifice would be made, by holding m , but no new capital would result, --well, it would maybe, going as windfall to those who spent their m when it was worth more.

What harm would be done? M becomes an object of investment, but this doesn't even increase hp of m holders nec, for they might have invested in something else with a yield if not in m . The fact that those who get the windfalls may consume is one thing; that conversion is slowed is another; & general psych arguments another.

But it is not correct that m must be considered a subtraction from other yields. It would be an alternative. If I am considering making an investment that will yield m 5% in real terms, I will not insist on that margin that makes marginal yield 8%, just because I can get 3% for holding m , any more than because I can get 3% for holding anything else. When I spend my money on a real investment I am not sacrificing the yield on the money any more than I am the yield on alternative investments.

So all we can say of falling prices anticipated is that they reduce velocity by some amount. And of actual lower prices that they increase hp of those with m .

But this reduction of velocity may be very serious. Money as an alternative investment may become so attractive that real returns of 15-20% are required to offset it -- esp. with riskless character of m investment. Investment would then take the form of receiving m for services. But, if no dM , this m could only come from others who held it, & they are holding it as inv. Hence not much inv. by this route, and it prevents inv. by other routes. ~~at least~~ at least ~~each other~~ ~~exactly~~ ~~exactly~~ ~~exactly~~ Most important, it stops turnover.

You are holding just as many assets, but of such a kind as need not be turned over to give their yield. The rising value of m represents a more favorable ratio of m 's value to other goods value, not a change in the ratio of values of any goods. This process, when carried far enough, brings more m on mkt. But process of getting there is painful, for the process, and anticipation of process, keeps m off mkt. And this process therefore takes m as an instrument of exchange out of use, this is depriving us of a factor of production. It is always true when a speculative movement is overpowering equilibrating forces that things move the wrong way. Probably this is truer of money problems than any other, save maybe land.

Next page.

*loss by m
borrowers also
does this.*

Inv. with - ΔP

- ΔP stops turnover

*M as medium of
exch. ruined.
is temporary.*

-AP

So: when we want to increase supply of m, the way we do it in mkt is to lower other prices, this draws forth more m by raising its price, just as with other commodities. Money crises come when speculative forces engendered by this process overpower equilibrating ones. Our general institutional set up makes this possible.

-AP, turnover,
& crises.

Turnover is the thing that suffers. Money is a form of investment that can be made without any action. All m is held by someone to begin with. If it then becomes ~~evident~~ anticipated that P will fall, the m just stops circulating as much, and not until P has stopped falling does it recommence. Now when hps have reached their peak we already have unemployment. When it then becomes necessary to reduce P to restore an adequate amount of actual circulating medium, the transition is painful, because the first effect is to reduce still further the real circulating medium.

Turnover changes
while assets
don't.

The one who holds m is investing, in the static sense, as much as if he spent it on another investment. But he is hindering turnover. This is even true, perhaps, if the goods corresponding to the m are not held off the mkt because of lower v, but sold for what they will bring. Because then they will not go as marginal incentives, but as windfalls to those already holding m. Of course they will also be marginal incentives, for such m as the converter does spend will be worth more. But at the same time the first effect obtains. And is not quite right to say it means nothing, on grounds that owners could have invested it elsewhere and gotten a yield. For it had to be held by someone anyway, probly one who does hold it, just in course of carrying on business or life; windfall is gratis.

antic - AP

If prices responded immediately to -dv there would be no more anticipations of falling prices, ~~no~~ ^{less} problem. It is the anticipations that hurt. So if the m holders stop spending it, this need not stop conversion at all if they get just as much for what they do spend as before. It is transition that is tough, when they get less for what they spend, (they spend less), and anticipations of falling prices make them hold m, despite the fact that fallen prices, such as are, would make them spend it.

-but they will be
competing with
mkt fall in
spenders,
can't get
as much as
before. -if
-AP is indep.
vble. But it
-AMV is indep. no
such problem.

Transition nec.
involves hps &
varying
anticipations

This is necessarily a battle of hps, and of varying anticipations. For if those who hold goods anticipate falling p, they will immediately convert them into m. But they are hopeful for the future; and m holders are thinking in terms of ~~xxxx~~ risks, etc, so the issue is not clear cut, these things are possible. Each is afraid to flood his mkt, the monop. motives stand out, etc.

Whatever makes goods holders decide to hold them and not renew them, instead of selling them for what they will bring and filling up again, doesn't affect their assets, but their turnover, and latter is important for employment. If prices are expected to fall they will not want to hold inventories during fall, will, it is true, sell what they have, but then will hold their assets as money. To those individuals who take their goods it is disinvestment, reducing their cb to live on. To society is disinv. Hence money actually claims less, even tho its value has risen, their being less to claim.

Conclusion stands that the act of shifting your assets to

money would not reduce turnover if all prices immediately fell proportionately. For then only harm would be a windfall rise in m holder's assets. No reduction of effective m supply. It is that horrible transition that hurts.

$-dM \rightarrow -dV$

When initiating force is $-dM$, need to replenish cash balances, as well as anticipated rise of M's value, reduces V. As in case of dM , can conclude that the change of V only occurs as long as P has not adjusted to dM , when it has V will return to its original position.

$\Delta y_{\text{ields}} \neq -\Delta m_r$
re nat. res.

Another difference between yield changes and m_r changes is re effect on natural resources. If yields of cap. rises this, by dragging up m_r , causes resources to be used sooner; but if m_r falls, which we have taken as parallel to yields' rising, causes resources to be used later. In this, too, rising yields is more stimulating than falling m_r .

& re value of
existing assets

Is a h_p effect, and a velocity effect, too. Rising yield or falling m_r increases value of assets held currently. Esp. falling m_r . Rising yield may not, for it may be things now held by no one whose yields rose, this would lower value of things presently held -- & to some extent this is probably always true of rising yields.

Δh_p

ΔV

Effect of $-d m_r$ on
V is indeterminate
& re h_p

These higher valued assets increase holdout power.

But they also increase velocity, cash being needed less, and alternatives to cash being better. -- so $-d m_r$ may increase V? Which effect will dominate? Can't say

The holdout power angle is probly very slight when yields rise, holding out being silly when anticipated yields are good. But is potent when m_r falls.

$\Delta y_{\text{ields}} \rightarrow \Delta V$

Higher yields are sure to increase v because alternatives to holding m better. Lower m_r doesn't have this effect, but of course it represents in part increased willingness of m holders to hold other assets, plus more saving.

$\Delta y_{\text{ields}} \rightarrow$
 Δ real consumption,
B. Crusoe

Hayek sees this R. Crusoe view, that when society attributes more value to the output of given resources, production can "increase" with no increase of resources used. I agree, but would stress that the significant thing for employment theory is usually that rewards for production generally increase, and this does bring in unused resources.

Any change
stimulating but
 Δy_{ields} must.

Simply a change in yields or m_r s, either way, will have some stimulating effect on labor, because it takes labor to change either way. But this probly minor.

But there is an asymmetry, rising yields or falling m_r stimulating by raising general "demand" or productivity, falling yields or higher m_r v.v.

H_p & credit
effects of
infl. over-
powering
inv. effect.

First effects of investment is always to raise consumer goods prices, since factors are taken from producing them; and MV is increased. Hence, despite their fall in value relative to unproduced durables (& some produced ones) they rise in present money value. Hence we often get increased production of consumer goods during investment booms, when inflation effect in putting idle resources to work overpowers transformation effect.

It takes labor to build things up, but also to tear them down. When yields fall, therefore, anticipated, the tearing down caused encourages labor employment. However this will be small in magnitude. And when yields fall this lowers m_r and this makes it unnecessary to tear down, or to deplete. If indep. vble were ~~fall of m_r~~ , rise of m_r , rather than fall of yields, would get more of a compensation, from faster depletion and depreciation and inventory selling and reduced consumption.

The most depressive thing then is falling yields; next rising m_r ; then falling m_r is encouraging, and rising yields most encouraging.

To Rob. Crusoe, rising m_r means increased time preference. Future yields would mean less to him. But depressive effect would be compensated because he could deplete and depreciate land and capital faster, thus having more complements, and more current rewards.

Do not represent new inv., even in real terms, as becoming owner of thing produced. Investor gets something for it, doesn't consume it. - usually

Rank of changes
in producing
effects

A m_r to R Crusoe
not depressive?

Investor takes
commodities, not
thing produced

c. by disposal & comm.

When those with M hold, or buy sec. or pay factors, they increase what m spent for commission will buy, & comm.

over

Turnover of capital is the aspect that makes it most complementary to hired factors. Yet its rewards are not for this service, but others.

Turnover

Turnover of M becomes key

Turnover requires no greater sac. than not, yet affects empl.

Tremendous variation in rate of turnover. Capital held in inventories or durables does not turn over, fails to perform this function -- except that when the things have money claims to them, the turnover of the money becomes the key matter, and durability of goods doesn't affect this --- the investor who is holding capital idle is making just as much sacrifice as tho he were converting it, yet he is not contributing to employment. True in real, & m, terms.

except as it affects what m will buy.

Whatever lowers hps aids employment by speeding turnover, as well as other ways, and faster turnover is not a factor of production, for the capital exists whether it turns over or not, and is being used, in a sense -- but not in another sense, so perhaps this is just adding a factor to production. The important thing, then, is to recognize that capital whose turnover slows is being held idle in an important sense. Capital used for pleasure is idle as far as this function goes.

But in real terms, is sac'n here, in having goods which can be turned over. With m, no such.

Turnover as a use of cap.

Factor prices & turnover

I imagine capital is rewarded for turning over, whatever that means, somehow. It really means carrying new goods as opposed to old. If things get rough for factors, they lower prices, carrying new goods as opposed to old becomes attractive, turnover increases.

I must specify means by which higher entre. yields cause higher present real payments to current factors.

P of future goods.

We are dealing with a price level of things which do not yet exist, yet which affect incentives to produce. Hence Mints' inadequacy.

All factors get more

When entre. yields rise, those who hold cg will pay factors producing durables more cg. This means they are more valuable vs cg. But it does not mean factors producing cg are less valuable in terms of cg. They get fewer durables per cg, but the durables are considered worth more.

This is a 'general demand', cap. goods being considered worth more, not just vs. cg, but absolutely.

R. Crusoe decides products worth more. Society forms compl. too.

In simplest terms, it's as tho Rob. Crusoe decided everything he produced, durable, was worth more. He would not consider cg worth less, but that his productivity had increased. This is just what society does; in addition for society, it forms complements, get boom. -- whether entre. are correct or not.

In society this takes the form that those who invest think things they may buy are worth more. In real terms it seems that a commission will not be the overwhelming component of a payments to factors, but a inv. In m, it's a comm. probly. -- can hoard m easier than goods, & do, greatly.

Left this out of paper, to avoid confusing reader with an interesting sidelight.

ΔP reduces inv. in this sense: those with no obligations are now required to put less in mkt form. i.e. it causes disinv. of existing assets.

If ΔP follows ΔM , & is α , no Δ in inv., in above sense, from ΔM .

But this not the strict definition of inv., which is prod. cons. All ΔM going to Δ of factors Δ inv. (may be later disinv. by shifting Δ to cons.; or lost by general ΔV)

If P rise in antic. of ΔM , even so those who receive ΔM must prod. cons., so ΔP makes no diff. at all, save in ~~total~~ lessening existing obligations, & this will happen whether ΔP is before or after.

Also, the ΔM will not command quite as much at ΔP , is diff. hence.

ΔV at any time $\therefore$ reduces inv. same by reducing no obligations. Any other cause of ΔP does same.

Notes on notes.

When you put an inventory on mkt faster, or m payments come slower ~~you~~ while you sell at same rate, you lower investor's gap for similar unproduced things. Dumping cg on mkt, therefore, may have net discouraging effect -- they having minimum complementarity in production, maximum discouraging effect. The getting them out of the way keeps them from hanging over mkt., allows pipe lines to fill up again. If it represents willingness of investors to take less, no discouragement. Really one should not ask what are the effects of putting more on mkt, without specifying the causes, .

Much of it is wasted by is not consumed but would fall.

Δ pattern exp. between cg & p factors.

When converters increase their cb, two differences from when ~~consumers~~ ^{buyers} do: raises investors gap, instead of lowers; and is disinv. instead of inv. Are they related? over

Where converter & consumer are same person we must drop simplifying statement of cb shifting from converter to ~~consumer~~ ^{factor}, and say more cb held consequent on selling services rather than goods.

Antic. ΔP lowers real inv. gap, the timing.

When converters anticipate rising P, they want to hold their assets in forms other than M, hence they hold them as inventories, take a money gain on rising prices. In practice this looks like speculating for higher prices, and often is. Hence anticipated rising prices lower real current inv. gap, raise other rewards. And v.v.

ΔP , even when accomplished, has drawbacks

Not all the problems of lower P are in anticipating it. Actuality of it, if achieved immediately, still gives windfall to m holders, wasting that conversion; reduces credit standing of debtors; etc?

$\Delta M \rightarrow$ conv

ΔM means more conversion, even if no more work gotten for it, provided inventory prices don't rise prop., & ΔM is spent for factors. Some will go for raw, is a form of conversion.

ΔM maybe new inv.

Whether society's assets Δ depends on who holds ΔM . But whether they do or not, turnover is Δ , tho perhaps by different means.

$\Delta M \rightarrow$

$\Delta M \rightarrow \Delta T$ & ΔP , if these do not take up slack, ΔV .

Cons. loans

Cons. loans would bring complements to no factor, cause no conversion, directly.

$\Delta M \rightarrow$ mr

ΔM effect on mr:

1. Will lower mr to borrowers without nec. lending to lenders, by efficiently intermediating.
2. By Δ ratios, changes yields.
3. If held by converters is matched by Δ yields to fill up gaps created, no real Δ inv. has occurred, no fall of mr. - that wouldn't have occurred anyway.

More expenditure for goods, less for factors, means less inv., or more disinv.,
-- The changed pattern of exp. shows, first, a less desire to invest,
which raises yield on goods, --- & the shift of c.b. reduces their amount, a
~~the same~~ result of same cause.

4. If held by factors, Δ lending, lower m_r . Subsequent rejection by them is their loss if ΔV ; or disinv. & higher m_r if it goes to converters. Remember this is an effect of the movement to converters itself, not of what may have caused the movement; latter may be lower yields, total effect may be lower m_r .
3. It would seem reasonable that Δ supply of loans would lower m_r . But if converters will hold, means is matched by Δ demand for loans, by converters. Hence to have converters hold all violates ceteris par. With ceteris par, hold ΔM in same prop. as M now? But even that involves changes, too. Cannot have ceteris par. Must see what things will change. That is indeterminate, can only say what possibilities are.
5. If ΔM as expenditure, not loan, less determinate.
6. If unlimited ΔM at given m_r , can determine m_r of course. Above assumes limits, so Δ demand may offset.
5. If P do not rise prop, more loanable assets, probly more loans.
3. If converters hold all ΔM then w/o ΔM they would have taken M from factors & circ. So we are not interested, in assessing effects on m_r , in who holds it. But just that more command over goods is offered for loan, lowering m_r . If injected other than by loan, immediate effect is to reduce real loan offerings by ΔP , raise m_r . Later effects complex. Even if all ΔM goes to converters it lowered m_r , per se, & as much as otherwise - unless it caused the shift. So effect on m_r & effect on inv. are 2 different stories. Drop m_r .

ΔM causes ^{new} inv. only if production is increased or consumption reduced on account of it. Usually production Δ s, & then as P rises consumption is reduced as in holders exploited - maybe - & this would also happen if P rose immediately, production not Δ ing.

ΔM causes Δ turnover regardless of effect on new inv.

$\Delta M \rightarrow$ credit & inv., indeterminate.

New inv., conversion, & turnover, the 3 different vobes involved. New inv. parallels conversion, but in addition results in new cap. Credit affects conversion & turnover both. - & thereby new inv. too. ΔM Δ s all.

drop m_r

ΔM & new inv.

3 vobes, non mon.

Notes on notes 3

That $\Delta cb \rightarrow \Delta V$ is a basic equilibrating tendency, which may be overruled in situations, but must eventually become dominant.

$\Delta cb \rightarrow \Delta V$
basic

$\Delta V \rightarrow \Delta$ credit. When non-mon. claim is liquefied, same as ΔV .

So, if ΔM consists of buying bonds already existing, has no effects different from ΔV . No effects peculiar to ΔM come when ΔM used to ^{buy} existing assets. - i.e., no Δ debt, or claims, hence no additional person with obligations to meet. ΔM to buy equities, new, also makes no pressure. One who sells old bond to bank (over)

non-liq. claims

Δ nonliquid claims same as 1 turnover of M . Like ΔM , may or may not Δ new inv.

Credit schemes
cap

Without credit, to buy, a converter would have to have acquired acceptable cap. first, turn it over, it would be otherwise useless. Like gold. With credit, cap. can be performing other functions, ~~like~~ some here as well. The m must still be accumulated, save it may be created by bank. ΔM obviates such accumulation, cheapens production.

New inv. with
 M

New inv., with M , means M goes to factors from converters, net. But this does not mean M stays there, for the factors become converters, often, rather than permanently Δcb .

ΔM pretty
all goes to factors

With ΔM , new inv. is when ΔM gets to factors, without raising P . Now unless some goes to converters, all goes to factors. Only way some can stay with converters is for them to reduce their cap. No reason for them to do this. - in fact, growing liquidity of their non-liq. cap. will make them increase it. But ΔT will make them want more, m . - pretty weaker than other motive. Is likely that ΔM will all be held by factors $\therefore$ - i.e., held in return for more production. (or higher factor P)

Maybe to conv.
if so, no
inv.
 ΔM 's many effects
possible.

If converters take some, is ^{relatively} disinv. But those who get from converters will ~~probably~~ be borrowers, not consumers, so no net disinv., just neutral. If ~~undebted~~ consumers (incl. govt) get stuff, is disinv. (but is still turnover. Shows Bain & Keynes confusion, they say all ΔM the same)

If recipients consumed, ΔM held by factors would ^{not} be net ~~disinv.~~, but neutral. Have been assuming all along they would not consume, isn't always so. So effect of ΔM on inv. depends on many things. But it always is turnover, which is what Keynes etc were thinking of.

If ΔM is held by converters, & they were going to Δcb anyway, & this would have caused disinv., then ΔM has caused new inv. by preventing disinv. - assuming those who got it thru ΔM would not consume it, others would have.

ΔM may cause
disinv.

So all the circumstances must be specified before we know. If ΔM is cause of Δcb of converters, then it caused this disinv. - & may or may not have offset it. So it may cause net disinv. - (& still encourage (the less) ^{empl.!})

is not positive to be going to put what he buys back on what some day. Hence is more infl., even than 'cons.' loans.

Notes on notes, 4

AM →
new inv.

AM ^{new} probly means inv. because it probly takes existing goods, & current services, from consumers to those who will hold for conversion. (over)
But many exceptions, esp. cons. loans, govt loans, & govt non loan AM.
Is a sin to lump all as 'inv.'

M holders squeezed
by AP

Frequently AM causes net new inv, then investors are squeezed out
in AP. even if disinv., m holders get squeezed when AP.

Outright vs.
liened ownership.

If we regard consumption under a loan as inv., - & it is, if under a
loan, for then we know it will be ultimately converted back - then
the significant difference is of property (including labor qualities) owned
outright, & that subject to liens, in debts.

'Cons' is not
disinv. if liened

Hence we are ok in saying in general those who borrow m
& buy things are investing in them, ~~at~~ even if they 'consume' them
personally, because they do not own outright, have a m lien, a
negative liquidity, which must be satisfied by production. (not true of
govt). & those who buy outright may be investing, may be
planning to put back on mkt, but is optional.

AM only
→ disinv. when...

Hence disinv. from AM only possible when is govt AM; or
bank buys equity, existing bond, etc.

fully owned goods
may be sold, too.

Often a strong presumption that goods recipients will resell, despite
outright ownership: e.g. when goods are obviously for that purpose. So
when M shifts to factors, the extra goods held by converters are
probly for reinv - but not nec., they might consume. So can't say
such shift always means more inv.

liened ones
more likely to be

AM always means it, tho, because ownership not outright. (i.e.,
if AM taken by factors) Hence AM, as opposed to shifts, always
tends to cause more real inv., ^{if} ~~because of~~ obligations created. Only
drawback: lightens other obligations.

Govt may
convert

Govt may convert what it gets from AM. But, if so, doesn't
come as incentive usually, but is free.

Antic - AP &
m getting
&
conv.

Anticipation of m falling rising in value will make people eager to
get it? Probly no more than already, & less eager to spend it. It may
make them unload inventories faster, & work for less. But neither of
these is conversion. Conversion will decline.

Increases ratio of expenditures by those who will put goods back on
mkt. to that by those who will keep for selves.

This is, roughly, $\frac{\text{exp for factors}}{\text{exp for goods}}$. But not precisely. & if it

happened that ΔM was spent for goods, it would raise ~~inv.~~ & ~~inv.~~
inv. gap, & ~~then~~ cause disinv, both directly.

except it would lower it for those who borrowed - the goods they got
would satisfy their gaps.

Notes on notes 5

- Δ yield reduces
M & V

And $\Delta P \rightarrow$ less
M & V

Decision to cease converting ^{as by} $-\Delta$ yield, $+\Delta$ mr
as debtors liquidate their assets they pay banks & do not
renew loans. Some with credit $-\Delta P$, when lenders demand as much
int. as ever (true?) & borrowers will pay less. Get $-\Delta M$ as well as $-\Delta$ conv.

Over

I.

spread of income det. by m & goods - some for m parts. over 3.

Inv. said to affect empl, but not defined. Will define.

New inv. affects empl., sometimes, rarely. (usually not until converted, in exch. etc.)

But is only part. Gross inv. includes conv. Is all current factor payments. of existing assets
Affect empl. w/ a shift in assets, just a long turnover. Turnover det. by unit plus speed, both vary with circumstances over 2.

Flow of gross inv. may vary, is a 'demand', from view of paid factors.
from view incl. investors, may be reduced returns to them (say then holding).
or maybe higher antix. yields, a real overall & productivity, still consistent with
say, same I don't think he considered that antix. yields were so determinant
of current productivity.

Wicksell saw this as a cap. value. ^{is just as the all worth more to R.C.} One must then show how they are
related into a demand, by a gross inv. (for society joins empl, too)

We have now a basic process, not resting merely on an illusion, of
effective gen. a demand, consistent with say, etc. I take as basic.

Determines current needs of factors = ^{change value of their products.} not antix. don't of empl. ~ wages find.
~~Needn't be conv. goods coming on currency, when needs can be satisfied.~~

Empl. also affected indirectly by antix or inv because more will be paid for
goods in earlier stages of production, bringing complements together. over 1.

So, even w/o m, or with const. P, could have fluct., for this & other
reasons.

As far as non-m. matters, hired factors can get more inv. by turning
hps. tentatively concl.

skipped.

skipped

skip

Increasing
conv. then M
mostly involves
new inv.

Quick changes in commission pretty involve much new inv.: m payments
suddenly increase, is commission. But if there were all cashed in
immed, P would skyrocket, real commission increase but little. So
much must be held or otherwise invested, to let commission change
quickly.

-AP not only Δ s effectiveness of what^M does circulate, but ΔV too.

1. The more cap. is taken by this (incl. payments for land) the less remains for paying factors. $\&$
2. Conv. not more imp, but more variable; & compl. more striking, as thumb to fingers; & current supply subject to antic., great variability & unpredictability in new'd.s will accept. But great error to think other factors hp not vble, & important.

Conversion,
velocity,
determination of
amounts & returns

3. It is not conversion that determines real income, wholly. Factors offer their services; conversion comes out to take them. If more factors offer, probly more conversion comes, but not enough but what gap is slightly Δd . etc etc. By this S&D setup, converters returns determined. It is not time preference that is cost of conversion, since stuff already exists. In practice, the foregone gain is liquidity. Well, not so, you could consume stuff, foregone gain is time + liquidity, as usual. But spread of turnover is affected by antic. yield, speeding up, & liq. pref., holding back. Nothing else holds you back if you decide you are going to not consume it. ^{is to competing uses of existing claims on cap.} M. makes cap, being used for other purposes, also some as med. of exch. When M held idle, cap. in that sense is idle, useless. - same as liquidity is useful - & it is, hence the justice of permitting it at all. But recognize its effects, & avoid giving extra motives to it, as by defl. etc.

Det. of speed of
turnover are
liq. pref. vs. yield

M makes extra
cap. - ΔV desiring
it.

Liq. pref. &
mr.

Δ liq. pref. raises mr, - in real terms, is a greater demand for capital; in m terms, a smaller supply

Sh. Δ s of cb
between conv. &
factor. solved.

No problem of knowing whether individual is Δ his cb as converter or factor. As long as his cap. is kept const, he has not changed. The cb as converter, all changes are as factor. If he Δ his cb, the equivalent of any decline in his cap. is from disinv, i.e. is to him as converter, rest is to him as factor.

Outline, 2. - Will study in effects (proper, leaving price rigidities out (same as they are nec. for different hypothetical cases) until end.

Inv. & conversion & paying for services with M.

When all goes smoothly. (much inv. indep. of m, all same)

When m & goods travel different speeds, ΔP (same Δ inv. come here)

When c.b. shift between convertors & factors.

ΔM , & inv. & conversion. & paying for services.

Effects of $\Delta M V$ other than inv. & paying for services Credit.

Turnover

✓ Turnover sure to Δ . (Conv. not sure.)

✓ Unless immediate ΔP , which unlikely, since supply elastic to M because can't distinguish.

Control of turnover changed, as ratio, previous cash holders losing some.

As long as P do not rise, more monetized cap. (real), will keep turnover at higher level, unless failure of P to rise is due to $-\Delta V$. ΔV will get extra turnover over

means more real income production, ~~longer the artistic more goods that come~~ ~~the demand is an Δ supply~~ (another aspect of

gen Δ demand $\neq$ different from Δ conv.) over, 2 ~~it's fundamentally the Δ hired factors which~~ have supplied Δ cap. monetized cap, ΔM only

This will Δ some kinds of turnover at expense of others, first. (Hence it makes a difference how m injected.) ~~but it doesn't~~

Conclusion.

Δ general Δ , not in first exp. nec., but after, due to general Δ turnover, if such happens depends on how

Ratio effect depends on how M spent. ΔM wrests control from those with c.b. Hence some goods may be converted twice. Or might use it to buy goods, reduce conv. Or, Δ as long as these goods not resold - maybe always - reduces conv. by ΔP .

But this is unlikely, for if they will Δ tomorrow once for ΔM , why not next time around.

2. Δ corr. is original; this is then met by Δ other factors, general Δ of supply. It is also true that exchange ratios of different products are not affected, because all Δ in supply - roughly.

$-\Delta P$
2

If all ^{goods} prices fell, true, this would Δ command by existing balances. But this is as true for balances held by consumers as any other. Net effect of $-\Delta$ goods P , P price, is to Δ corr. - despite would fall to m holders. $-\Delta P$ caused by more goods on market, & this both would fall m holders & Δ corr, simul. If it didn't would fall m holders it would Δ corr. more, true.

This is only as far as this effect is concerned.

Distinguish general ΔP , goods ΔP , factor ΔP .

With ΔM , conversion is done by
someone who never invested first.

You might, alternatively, look on investment
as ~~an~~ being in ΔM direct, with no conversion
intermediary. But other is better I think.

In this paper for Ellis I shall just outline a complex subject. In thesis, will restate same things in numerous ways, from different points of view, regrouping ideas in various contexts, to solve various problems. Thus letting reader become familiar with ideas by end of paper.

ΔM etc considerations are now made perfectly parallel with my other views of factor supply, complementarity, & employment. ΔM is, if P const, additional factor supply, hence its encouragement to employment.

But it is only Δ corr. if you get Δ factors. & if Δ factors, $-\Delta P$ & $+\Delta V \rightarrow \Delta$ corr anyway. So factors reduce supply of corr. when they supply selves, not just by Δ yields, but Δ real m supply.

A lower price level would include a lower price of yields, i.e. higher inv. opp. This would be part of same thing. : i.e., lower p. of yields is caused by other factors available at lower P.

A given m supply finances more x actions at
a lower P .

But is it always socially desirable to increase
the rewards of investors, vs. others, to A real
 m supply. I think yes, for investors, as such, are
not monop; other factors are. Just allude to
this in paper.

The bad times associated with low prices are not due to low prices. If low P were indep. vble, would be good. They rarely are, some only due to technology. Otherwise, $-\Delta MV$ is indep, P comes down with friction.

Sharecamie how Yosemite cost same as 1 evening.

? After ΔP , people must Δc_b , will invest in M $\therefore$

ΔM brings in another factor of production: conversion cap. Hence its encouragement of production is just like all other compl.

P. 100