A S Eichner GPKE: Five Contrasts of PK and NC Economics, pp. 11-16.

1st 11 f PK aims at explaining both economic growth and income distribution by a single determinant, investment.

From the rate of investment proceed the income effects and other sources of growth, which far outweigh the NC substitution effects, due to changes in relative prices.

In contrast, NC theory usually eliminates income effects by assuming long-run full employment.

2nd 12 f PK keeps in mind the dominant fact of the past several centuries, viz., the continuous though uneven expansion of the various national economies over time.

Without introducing change in the determinants or parameters of a model, the PK model depicts the economy as proceeding along some secular growth path. It is constantly in motion.

In contrast, the NC model, even though change in determinants and parameters occurs, still the system is viewed as coming to rest at some fixed level of activity.

PK distinguishes (1) factors responsible for secular growth and (2) factors responsible for cyclicalm movements aroung that trend line, even if the rate of investment is the same. Hence distinction between long period and short period analysis [our distinction between pure cycle and human lack of adaptation].

While PK does not assume cycle [lack of adaptation] to be self-correcting, NC does and refuses to accept distinction between trend and cycle.

3rd 14 f PK describes an economy with advanced credit and other monetary institutions -- all of which play a role in the dynamic processes being analyzed.

In contrast, NC assumes that money does not matter in so far as real output is concerned; money is invoked to account for secular growth of inflation.

Role of credit and multiple resources.

While modern banking and credit institutions are designed to be accomodating to discretionary spending decisions, it remains that central bank policyxcan make them less so, thereby affecting both the amplitude of the current business cycle and the secuoar growth of real output. Without oney discretionary purchases cannot be made, and without purchases demand falls.

A S Eichner GPKE pp 11-16 Five contrasts

4th 15 f PK has no difficulty acknowledging the existence of MNC's and trade unions: in a modern advanced economy both prices and wages are administered (seller-quoted): the higher the prices (costs remaining constant), the greater the cash flow; if wages
d are drived by by trade unions, prices rise corresponingly.

Interplay between MNC's administered prices and cartels' administered prices.

NC supposes all suppliers of goods and services are price-takers in competitive markets. For PK competition need amoung to no more than that firms exploit the most profitable investment opportunities; it is only competition in this limited sense that prevails throughout the world, as the classical economists realized.

5th 16 PK is concerned with the actual behavior of dynamic economies.

NC is limited to the analysis of resource allocation under hypothetical market conditions.

16 ff Policy Implications

The shift from NC to PK economics //17// resembles previous shifts in scientific paradigms. While the change is occurring, it is easier to identify the outmoded concepts that are likely to be swept away than to anticipate all the implications, political as well as intellectual, of this new mode of analysis.

Conservatives will not be happy with the conclusion that the distribution of income can be significantly altered without impairing productivity. Liberals will not be happy with the notion that competitive markets are not essential to the efficient working of the system. Radicals will not be happy with the idea that the system may be stable without a fundamental transformation of institutions. But do not exaggerate the degree of consensus on these points. PK is not yet a settled orthodoxy.

One point on which PKers are likely to agree is that inflation cannot be controlled by conventional instruments of fiscal and monetary policy. This is because they regard inflation as resulting, not necessarily from excessive demand for goods, but rather from a more fundamental conflict over the distribution of available income and output. By curtailing the level of economic activity, the conventional policy instruments simply reduce the amount of output and income available for distribution, thereby heightening the social conflict underlying the inflationary process.