

105 Analogy: new fixed investment & favorable balance

Both generate pure surplus income: income over and above all that is to be spent on basic goods & service, replacements, main

Mercantilism: sell abroad more than you buy: favorable?

Because money is gold; econ expansion presupposes greater quantity of money; fav bal increases quantity, permits expansion

106 Ideal of "successful man" nourished by pure surplus income; favorable balance increases pure surplus

FB obviates depressions: they are caused by increasing share of economy going to basic; hence decreasing to surplus; FB replaces growing basic; augments surplus income

FB offsets need for losses during depression; need arises from increasing basic but FB obviates increasing basic

Nineteenth century knew about crises; only about 1870 did Juglar discover they were periodic; until then, viewed as incidental, arbitrary, no need for explanation

107 Exporters move  $Z'$  to basic and  $Z''$  to surplus demand

thereby increasing by  $Z'$  and  $Z''$  both  $E'$  and  $X E''$ , receipts  $E'$  and  $E''$ , outlays  $O'$  and  $O''$

whence  $Z'$  and  $Z''$  increase surplus income by  $G'fO'$  &  $(1 - G'')fO''$

whence  $Z'$  and  $Z''$  return to redistributional from surplus demand

Within redistributional  $Z'$  and  $Z''$  can now purchase gold or other payment received by exporters from foreign countries. and in turn the exporters can begin another turnover of their trade.

110 The inverse phenomena of the unfavorable balance

Not just single individuals buying foreign stuff for personal use but dealers buying basic and surplus to sell on markets

Domestic entrepreneurs purchase basic imports from importers and surplus imports from importers transferring  $Z'$  and  $Z''$  into the redistributional function

The domestic public spend  $E'$  plus  $Z'$  and  $E''$  plus  $Z''$ : but in the case of FB the public has earned the  $Z'$  and  $Z''$  by producing the goods and services sold; in the case of the UnFB the goods and services have been produced abroad and so were not a source of income in the domestic economy.

What is going on is either a process of dehoarding with importers, entrepreneurs, final buyers all drawing upon their reserves, or else a process of borrowing with importers

111 con'd

borrowing to pay for imports, entrepreneurs borrowing to pay for transference of import to their stocks, final buyers borrowing to pay for their purchases.

The importers receive  $Z'$  plus  $Z''$  from entrepreneurs, the entrepreneurs in turn receive  $Z'$  plus  $Z''$  from final buyers, and there the buck stops.

112 It stops absolutely with basic purchases, unless the goods can be passed on to the second-hand trade.

It stops relatively with surplus purchases, for there they can give rise to larger or more efficient production

However to conduct a surplus expansion on this basis differs greatly from a surplus expansion derived from domestic materials and labor: in that case the value of the new plant and equipment is so much additional surplus income. But when the surplus expansion is based on excess over import, what is generated is not pure surplus income but pure surplus debt

113 More difficult is the unbalanced of basic goods and services

Flow of rentier income from domestic industry does not meet the use: they is domestically generated and must be spent to keep the domestic economy going

Again, there arises the case of the long-standing creditor country that has vast investments abroad and can collect its dividends only if its debtors can export basic supplies.

The recipients of the ~~surplus~~ dividends have not the appetites needed to consume the basic import

The non-recipients of the dividends find themselves restricted in employment: with the size of the import their services are superfluous.

A solution is the dole for the unemployed financed by placing a surtax on the dividends from foreign debts.

In brief the favorable balance for a while has the appearance of being an economic imperialism but its final result is a cul-de-sac.

The final phenomena are an ongoing depression: more goods and services available than money to buy them by those that want and need them; continuously falling prices; discouraged enterprise.

## Deficit Spending and Taxes

Govt spending purports to promote the economic social and cultural overhead of the community

Deficit spending emerges when government expenditure exceeds its revenues

Revenues ultimately come from taxes, though proximately they may be had immediately by govt loans ultimately to be redeemed through taxation

Govt spending is from the redistributational area to the circuits,  $fZ'$  to the basic circuit,  $fZ''$  to the surplus circuit.

Inversely govt revenues are from the circuits to the redistributational area, an  $fT'$  from the basic circuit and an  $fT''$  from the surplus

In general, if one distinguishes between ~~any~~ banks as strictly redistributational and banks as business enterprises paying wages salaries dividends, then taxation of the redistributational function is a capital levy.

When there is a deficit then  $fZ'$  plus  $fZ''$  is greater than  $fT'$  plus  $fT''$ . But this inequality can mean either of ~~two things~~ three things

- (1)  $fZ'$  is greater than  $fT'$  and  $fZ''$  is greater than  $fT''$
- (2)  $fZ'$  is greater than  $fT'$  but  $fZ''$  is proportionately smaller than  $fT''$
- (3)  $fZ'$  is smaller than  $fT'$  but  $fZ''$  is proportionately greater than  $fT''$

In the second case the surplus circuit is being drained in favor of the basic

In the third case the basic circuit is being drained in favor of the surplus.

### Outline of the Argument

concerned with relations between monetary circulation and the productive process

there follow a number of cryptic statements

best to wait for end of course before reading them

### Circulation analysis

what is analysis

differs from descriptive method: the fuller, the more vivid, the more detailed, the more commonsense, so much the better  
differs from statistical: seeks out what can be measured  
if not strictly measurable, at least approximation possible, otherwise of no interest

analysis: sets up a system of terms and relations (up to p. 42)  
and then proceeds to explain why things happen the way they do

### Method

Transition from common sense view (business man's, book-keeper's) through a cumulative set of complementary insights to the primitive terms and relations which in various combinations yield explanations of what is going forward

### The Productive Process

The totality of activities bridging the gap between the potentialities of nature (phys chem vegetal animal human) and the actuality of a standard of living  
because "Totality" not merely making things  
extraction of raw materials (mining, drilling for oil  
cultivation of farm lands, orchards, forests, ~~herds~~ of sheep, cattle  
assembly, transportation, planning & designing products, processing, distribution  
not only activities on material objects but also services  
labor, management, of production, of sales

activities vary with physical geography,  
with the cultural political technical development of population  
from simple and fixed routines of primitive hunters and fishers to complex and ever changing routines of modern civilization  
in every case one effect: the emergence of a standard of living from the potentialities of nature  
an emergence that does not occur once for all but ever by an ongoing process

flocks, herds

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It is the current process, what now is going forward  
differs from potentialities of nature, whence it comes  
differs from effects of past production, what has emerged  
The current process always is a rate of activity  
a rate that differs from the potentialities whence it comes  
a rate differs from the final products at which it terminates  
Potentiality, process, product are closely related  
but without distinction of the three one cannot grasp the relations

p 7 GOODS THAT HAVE BEEN COMPLETED...

The productive process is a purely dynamic entity  
a totality of activities but only activities  
it is none of the potentialities of nature  
it is not wealth but wealth in process  
it is none of its own effects  
it is not durable consumer goods: houses equipment  
re producer goods  
in the process as means of production  
in the process as labor in the process, management in the process  
but not under process, not being produced  
a ship under construction is in the process as being produced  
a ship transporting passengers or freight is in the process  
as a means of production

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Division of the Productive Process

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