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W.H.C. Simmonds
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Dear Dr Simmonds,

When you were so good as to inquire about my current views on economic issues, I was still struggling with the planning of my current seminar on Macroeconomics and the Dialectic of History. Last Thursday, we got through the first eight chapters of Robert Gordon's Macro economics (Boston and Toronto: Little, Brown, 1978), and now I feel more at ease.

On page 2 you will find a list of topics proposed for the weekly meetings of the seminar.

On page 3 I have endeavored to indicate a rough outline of my view of the twentieth-century problem. As you will see I do not plan to do more than indicate a path of solution, and this as yet I have not worked out in detail.

From A. Lowe's Patterns of Economic Growth (Cambridge Univ. Press, 1978) by xerox I have copied two pages: what I call exhibit A is his three--sector schema of industrial production; exhibit B gives the sources from which this schema has been derived.

With regard to both Gordon and Lowe I have reservations. Gordon works very well in the short term but his practical proposals are confined to the debate with Milton Friedman. He does not advert to the variations involved in the purely physical process of an expanding economy. In this respect Lowe offers something of a complement, but I am very sceptical about Lowe's permanent stationary state (apart from population increase).

With best regards and sincerely,

Bernard Lonergan
Bernard Lonergan

Theology, Spring 1979

B. Lonergan

Th 860 Macroeconomics and the Dialectic of History

Part I. R. Gordon, Macroeconomics, chapters 1 to 8.

January 18: Introductory

January 25: Macroeconomics and Measurement (pp. 1 - 47)

February 1: Commodity-Market Equilibrium, the Multiplier,
Spending and the Rate of Interest (pp. 49 - 92)

February 8: The IS and LM curves, Varying Effects of Fiscal
and Monetary Policy (pp. 93 - 142)

February 15: Flexible Prices and the Self-Correcting Economy
(pp. 143-170)

March 1: Allowing Prices and Output to Change Together
(pp. 171 - 200)

March 8: Determinants of Inflation and Unemployment (pp.
201 - 245)

Part II. B. Lonergan, Essay on Circulation Analysis

March 15: The Productive Process: Definition, Division,
Stages, Cycles (pp. 6 - 27)

March 22: Classes and Rates of Payment and Transfer,
Circuit Acceleration, Measuring (pp. 28 - 59)

Thursday March 29 transferred to Tuesday (same room and hour)

March 27: Cycle and Phases of productive process, Cycles
of Basic and Surplus Income, of Aggregate Price Spread
(pp. 60 - 101)

Part III. Profit Motive and Profit Criterion

April 5: For the individual firm profit is the excess of
bills receivable over bills payable. For the economy
as a whole pure surplus income is the aggregate dividend
which is large in a surplus expansion and decreasing
in a basic expansion and zero in a stationary state.

This appears to be the root of the instability
in investment and consumption (Gordon, ch. 13 and 14,
pp. 366 - 416). Do monetary and fiscal manipulation
correspond to this cause and root?

April 19 & 26: Further discussion of the foregoing and
planning of term papers.

In my opinion the success of the Old political Economists from Adam Smith up to Marshall was not a matter of general equilibrium, nor a proposal of guide-lines which lawyers cannot decipher, but the discovery and inculcation of a precept or slogan, "Thrift and Enterprise."

This piece of advice works very well in what A. Lowe calls sectors Ia and Ib of the expanding economy (see exhibit A). It also works well when the economy moves on to sector II, provided wages are kept down and the consumer goods are sold on a foreign market. But when foreign markets dry up and the consumer goods have to be sold in the home market or not at all, then wages must rise to the exclusion of much of the profit, or else both sector II and the relevant part of sector I go into a slump.

Prof. Lowe's diagram regards the textile industry. But machine tools are relevant to far more than the production of gins, spindles, looms, and sewing machines; and so the relevance of the diagram is by no means confined to the textile industry.

Again, it is true that when one industry declines another may begin to develop. Manpower may yield to waterpower, to steam to oil/power, to electric power, to nuclear power, to solar power. Each of these will trigger other developments both to undergird them and to extend their range of applications. The whole process might evolve continuously with at most brief interruptions and fairly smooth transitions.

But history suggests that this does not happen necessarily, and contemporary bewilderment prompts the suspicion that the real problem is not understood.

The real problem, to my mind, is twofold. Its basic component was formulated by Macchiavelli who urged his Principe not to rely on moral restraints but to put his trust (for the common good) in the indubitable efficacy of the stiletto. Such Realpolitik is still with us, in the blatant form of armaments, and the many disguised forms that take for granted that individual and group egoism are the only motives effective in public affairs. It remains that intelligent self-interest offers an alternative, that the alternation of prosperity and recession, boom and slump, reveals little intelligence and promotes no more than the illusory self-interest of the revolutionary.

The second part of the problem is constructive. We have to discover and support the thinkers and the high-level journalists who will do for the consumer phase of the expanding economy what was done by the Old political Economists and their publicists for the capitalist phase. They will have/work out the theoretical basis for the consumer expansion, and they will have to find the slogan or precept that will make the theory communicable to capitalists and consumers alike.