Aggregate Demand, Turnover Time and Growth

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1 Is there a room for AD

The classical-Marxian growth model assumes that investment decisions are forced onto the capitalists. There is no discretionary space. This assumption derives from the axiom of capitalist 'competition': invest-or-die (Shaikh,?). "In the classical-Marxian model there is no investment function and hence no autonomous investment."

However, the circuits of capital and tendency of equalization of turnover times of capital make room for the capitalists in which they have a trade-off in terms of investment or saving. The capitalists with higher turnover times (T_H) for example may save to lend to the capitalists with lower turnover times (T_L). The real rate of interest plays a vital role here. There are two choices: (1) invest (in machinery & equipment or in raw materials) and earn the equilibrium rate of profit or (2) lend to another capitalist and earn the monetary rate of return given the differential turnover times ($T_H - T_L$).

Within the unit circuit the capitalist would not deviate from the optimal capacity utilization. The only requirement is that there should be an asymmetry between the high turnover capitalists and the low turnover capitalists. If one wishes to keep the symmetry intact, then a sufficient condition can be allowing the homogeneity of the number of capitalists (in the margin at least). Capitalists go bankrupt and new capitalists enter the scene, for example. This rate can be assumed exogenous for simplicity (to be relaxed later).

2 Why was the door of the room closed?

The misadventures of Marxian growth theory have much to do with the uneasiness of Capital Volume II and Volume III. The discussions of turnover time and credit in Volume II and III are largely ignored in the literature. This is ironic as the distinctive nature of Marxian economics depends on its insistence on dynamics. Dynamics involve real time. Moreover, Marx could not finish up working on the theory of State and the credit system (two companion volumes to Capital).

Duncan Foley (1986) make the following assertion:
"...we assume that a dollar advanced as capital simply stays in the production process for a given time period and then emerges all at once as finished product. A more realistic, but mathematically more complicated, picture of time lags would allow for situations in which the value emerged from the production process gradually over time, some of it sooner and dome later." (p.69).

3 Dutt's Critique

There is no well-defined Marxian theory of the firm. Firms are simply the functionaries of the many circuits-of-capitals.

"The classical-Marxian notion of competition that is popular in the literature usually refers to the equalisation of rates of profit between sectors due to the mobility of capital, but this says nothing specific about how firms determine their output and price. One may conclude that there are logically consistent reasons, such as scale economies or perfect competition, which can imply that firms produce without excess capacity and are induced to produce at full or desired capacity. However, it is not clear why, given these reasons, firms will reduce their output and capacity utilisation during a recession, and why they will expand their output to bring the recession to an end." (Dutt 2011)

Dumenil and Levy (1999) consider a dual growth model: Keynesian in the short-run, Marxian in the long-run. "Investment is financed by liquid capital, which includes retained earnings and loans. The stock of money positively affects the overall liquidity in the economy."

"Stability requires that the product of the responsiveness of inflation to increases in the rate of capacity utilisation and the parameter representing the anti-inflationary policy of the central bank is greater than the parameter representing the accommodating role of the banking system."

In the Michl (1999) model the Central Bank can control the real rate of interest. When things get hot, the central bank cools down the system by increasing the real rate of interest and decreasing the available liquid money for investment.

Then for both Dumenil and Levy (1999) and for Michl (1999) the central bank plays a pivotal role in terms of guaranteeing the stability in the long run. Dutt (2011) correctly questions: ”from a classical-Marxian perspective, can the central bank be reliably expected to play such a stabilising role?”

Dutt (2011) further observes that
”the adjustment relies strongly on the positive impact of m (in the Dumenil?Levy model) and the negative effect of the real interest rate (in the Michl model) on aggregate demand. While the mechanism may work during the upswing, it is less obvious that during the downswing interest rate reductions will systematically increase aggregate demand, as implied by empirical findings on the interest inelasticity of investment, especially when the interest rate falls, and whether additional liquidity in the system will induce greater lending and investment.”