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Policy Forum: Public Investment, Capital Budgets and Economic Growth

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Friday june 26, 9:30 to 12:00

Policy Forum:

PUBLIC INVESTMENT, CAPITAL BUDGETS AND ECONOMIC GROWTH

Chairman HP Minsky

participants:

Robert Eisner

James Galbraith

Wallace Peterson

William Vickrey

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Introductory Remarks HPM.

The concepts of loose and tight budget constraints have surfaced in the discussion of the transition from Socialism to Capitalism in Eastern Europe.

In this discussion Capitalism is characterized as a system with tight budget constraints and Socialism is characterized as a system with loose budget constraints.

In a capitalist economy the financing decision for a private investment, regardless of whether it is financed internally or requires external finance, rests upon a "demonstration" that the cash flows that will accrue from operating the capital asset will validate the cost of the capital asset. Thus the capital development of the economy rests upon a cash box, a fee for service, validation of spending upon investment. Because of this conceptualization of the

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investment process as being validated by receipts, the budget constraint is "tight".

In a socialist economy the decision to invest is based upon a planning criterion and the outputs are delivered ~~on the basis of the need~~ to fulfill planning criteria. The prices of outputs are arbitrarily determined by a mark up on out of pocket costs: the need to validate past investments does not enter the calculation either of whether to invest or of prices, once investment has been made. *The use of market power to extract funds that validate the costs of investments is not part of the "game"*

receipts relative to spending are made up by drafts against banks. Budget constraints are loose: *Caution that slashes around in a permanent refining price controls + rationing is the effect.*

We all know that our government possess capital assets which yield valuable services over long periods of time: the spending upon such assets is investment. The budget documents of the ⁴United States, which take up so much of Congress's time, would look much different if the spending

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were classified according to whether they are "Community Consumption", Community Support of Private Consumption, or Community Spending on Maintaining and Adding to the Community's stock of Capital.

A major

The ~~only~~ problem with capital budgeting is "where is the cash box?". Private investment needs to face the problem that fees ^(incremental ~~not~~ revenues) for services need to pay for the bonds. There has been no shortage of investment in the electronic infrastructure in the United States, where fees for services reign: they ^e likely has been a ^{fall} shortage of investment in what can be called public infrastructure investment. The payoff [?] from public infrastructure investment is twofold: the value of the outputs of the public capital as consumption and as inputs to private production, and the value of the output in raising the productivity of private investment. The latter will show up as a generalized rise in GNP.

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The problem with the concept of public investment is whether it loosens budget constraints. The recognition of the problem may be a step towards resolving the issue: Government indebtedness, regardless of the reason for the indebtedness, needs to be validated by government revenues. Government revenues may take the form of fees for services, it may take the form of general revenues. The issue of equity in spending and revenue raising is important, but of overriding importance is the maintenance of the public credit and the ~~superior~~ virtue of government liabilities.