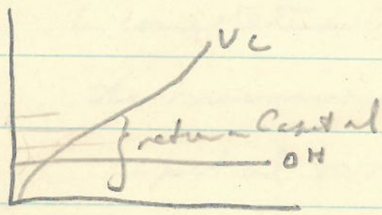
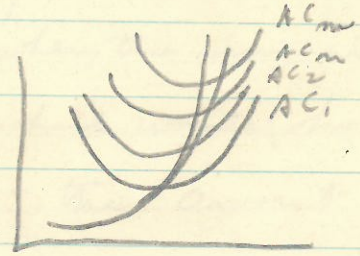
5-30-1949

Handwritten Notes for Minsky's PhD Thesis titled Efficiency, Monopoly - in determining rate of growth

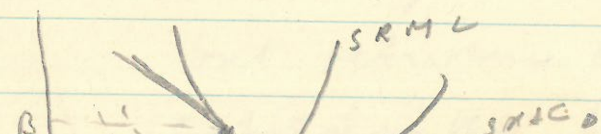
Hyman P. Minsky Ph.D.

Efficiency; Monopoly — indeterminacy of rate of return.



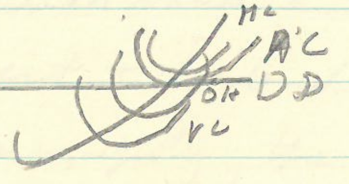


The indeterminacy of the AC curve level is related to the indeterminacy of the overhead element. Given the equilibrium position short run we have the following relations:



average price given by OB. Oa average variable cost: the amount ab is equal to the fixed cost elements which includes the overhead elements, and the return on capital. If the firm's management pursues a fixed dividend policy the dividend can be added to vc to give a $SRAC_D$. The management then is in a position to utilize the amount a'B per unit for what it will — in particular a growth of the bureaucracy, of the overhead items. For example if the DD curve falls

The firm may as its first reaction increase 'efficiency' by moving to cut overhead? Under a competitive system, where the normal rate is the minimum rate which would hold capital to the firm – the amount which can be spent on 'overhead'



factors is strictly prescribed – the choice is not between a sufficient return on investment and ~~[illegible]~~ even larger return on investment but between ~~[illegible]~~ having capital in the field at all. The analysis of monopoly on the basis of returns to capital investment is meaningless without deflating the overhead cost items to the 'minimum' possible. The freedom of the monopolist to use more factors to produce a given output at the expense of return on capital makes the earned return meaningless in terms of the proof as to whether or not monopoly exists. The carrying of extra personnel, of ~~expense~~ ~~money~~ products + services which do not pay their way, even that of subsidizing research are alternative ways of using the gap between the earned rate and the minimum cost + dividend rates. This effect of monopoly, the elimination of stringent standards of efficiency – of forcing the firm to use minimum cost combinations cannot be eliminated by any doctrine of 'workable competition'. The efficiency criterion of competition: Be efficient in terms of 'minimum cost combinations' or get out is eliminated due to the ~~need~~ ability of the entrepreneur to cut the rate of return on capital. ~~The amount of nepotism in business is greater than~~. The bureaucracy in a giant corporation sees no need to distribute its earnings to the stockholders and sees no need to 'earn' more than the minimum necessary – costs are expandable. The economic system must set a standard of efficiency – and the non-competitive elements allow the standard to be very lax.