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Handwritten Notes for Minsky's PhD Thesis titled Summation of Theory Part 1

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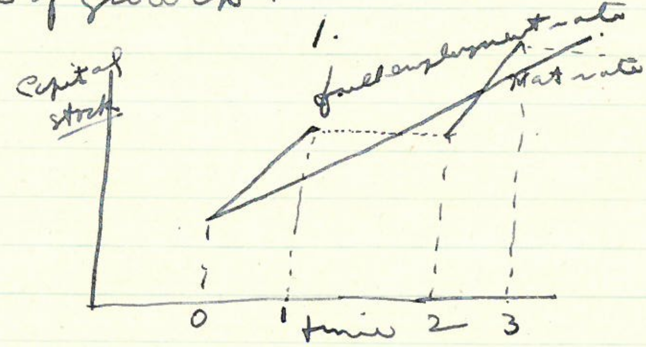
Alternative approaches to investment has yielded the two sets of conditions for investment – one dealing with autonomous investment, the other with induced investment. The conditions for autonomous investment were that ~~produc~~ the profitability of investment to the firm ~~is $\geq$ than the income increase~~ which is ~~in wage unit~~ difference between the 'productivity' of investment and the increase in wage income per unit of investment is $\geq$ than a going rate of interest. The conditions for induced investment were that increase of consumption ~~beyond~~ to ~~capacity will lead~~ the extent that there is general pressure upon capacity will lead to an 'accelerated' demand for investment goods.

These two are not independent – the increased consumers demand for a commodity will be reflected in an increase in the productivity of investment to a firm inasmuch as $\sigma I = p_\xi$, then σI will increase if $dp/dt > 0$, which is a result of consumption approaching capacity consumption – so if I, the price of investment goods does not rise, σ increases as p increases.

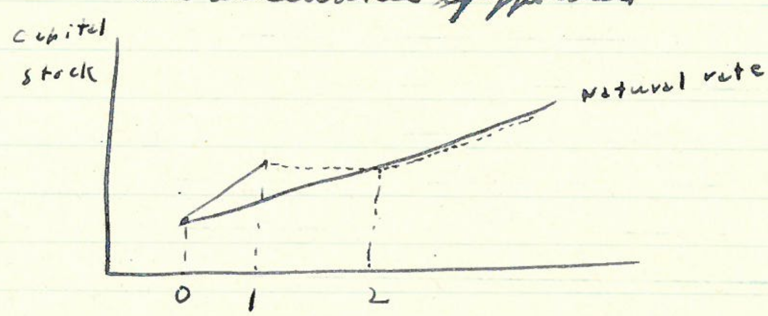
Therefore as one of the conditions for investment we have pressure of consumption upon capacity as a means for maintaining a set of σ's at a high level. If the rate of investment nevertheless is greater than the absorption of technological changes and the increased labor force warrants, the increased income resulting $I\sigma$ will be less than the would have existed with the essential homogeneity of equilibrium growth. The decrease in the ratio of income to investment will result in a decline in the profit rate. If this leads to a reduction of investment, a multiple decline in income will occur, including a decline ~~in the co~~ consumers expenditure.

A falling profit rate therefore will not only eliminate the autonomous investment demand but by ~~ma~~ leading to $C < C^*$, will remove the conditioning element of the accelerator principle from the investment inducing pictures. A period of no net increase in plant will result, until such time as the natural growth of the effective labor force will overtake the expanded ~~demand~~ plant, restoring the essential homogeneity between capital and labor. Then net investment can be resumed but if the full employment rate of growth is significantly greater than the natural rate of growth, then the long run condition will be of periods of unemployment, and no net investment to compensate for the periods of growth at the full employment rate so that the long run rate of growth will be equal to the natural rate of growth.



In the diagram: period 0-1 prosperity, 1, 2 depression and period 2 to 3 prosperity again.

An alternative hypothesis.



In diagram 2 - at period 0-1 prosperity, 1-2 depression, 2 on underemployment equilibrium

A guaranteed either minimum absolute or rate of growth of consumption would act to shorten a period such as 1-2 in diagram 1 above - a consumption guarantee is a stage-setting device by means of which the extreme collapse of the economy can be prevented.