

■ Fred Moseley on Sun, 7th May 2017 9:00 am (Edit)



Reply to Kliman May 4

Convergence of the iterative method

The key point in my argument about the convergence property of Kliman's iterative method (that "temporally determined" prices of production converge to static equilibrium prices of production when the productivity increases in individual industries stop) (April 3, April 14, April 16 11:25am, May 1) is to distinguish between the price of good A as input $P(A)$ and the price of other goods that are produced with Good A as input $P(X)$ (see below for a repeat of my argument).

Kliman's first comment on my argument (April 10) was in terms of a one-commodity model, which is not an appropriate response to my argument because one cannot distinguish between good A as input and goods X as outputs.

Kliman's second comment on my argument (April 14 5:07 pm) was in terms of a two-interlocked-commodities model (both goods are inputs to itself and to the other good), which is also not an appropriate response to my argument because again one cannot distinguish between good A as input and goods X as outputs.

Kliman's third comment on my argument (April 15 6:35 pm) was in terms of a one-SET-of-commodities model, which again is not an appropriate response to my argument because one cannot distinguish between good A as input and goods X as outputs. A one-SET-of-commodities model in which the prices of individual goods are not determined individually and in which the set of commodities is an input (and the only input) to the same set of commodities is essentially the same as a one-commodity model.

Kliman's fourth comment (May 4) argued that I misinterpreted the subscripts in his April 15 comment as two goods, but they refer to two time periods. I did not misinterpret his subscripts as time periods, but I did misinterpret his one-set-of-commodities model as a one-commodity model. But as noted in the previous paragraph, his one-set-of-commodities model is essentially the same as a one-commodity model.

So Kliman still has not engaged my argument (about the convergence property of his iterative interpretation) in the terms of my argument. Please do! Please respond to the latest version on May 1, which I repeat below:

REPEAT FROM MAY 1

In the following, I will use the following abbreviations:
HCPP for prices of production based on historical cost
CCPP for prices of production based on current cost
(parenthetical paragraph deleted)

1. A productivity increase in an industry will lower the price of production of that good (call it Good A and its price $p(A)$) IN THAT PERIOD. If good A is a final good (i.e. not an input to other goods), then the reduction of $p(A)$ will have no effect on the price of all other goods. And that is the end of the story. Since there was no productivity increase in the production of the inputs of Good A, the HC of its inputs = their CC and thus $HCPP(A) = CCPP(A)$. Market prices will fluctuate around the new PP according to the accidental causes of S and D.

2. If Good A is an input to the production of other goods (call them collectively Good X), then (according to the TSSI) in the first period the HC of the inputs to Good X will be $>$ the CC of the inputs to Good X and $HCPP(X)$ will be $>$ $CCPP(X)$.

3. However, *if there is no further increase of productivity* in the production of Good A in the next period, then (according to the TSSI) the HC of the inputs to Good X will be $=$ to the CC of the inputs

CONCERN

■ Fred Moseley on Sat, 13th May 2017 10:38 am (Edit)



Reply to Kliman (May 8)

I didn't receive an email notice about Kliman's comment and I just discovered it this morning.

My argument (May 1 and 8) was not a mathematical theorem. My argument was a statement about reality – that the effect of an increase of productivity in one industry on the general rate of profit is "usually negligible". One counter-example does not disprove "usually". Kliman quoted part of a sentence of mine: "In reality, this is not the case ...". But he left off the rest of the sentence! "... the effect of an increase of productivity in one industry on the general rate of profit is USUALLY negligible". (who's being dishonest?)

Besides, Kliman's counter-example is completely unrealistic and thus is not even evidence against my statement about reality, to say nothing about "disprove".

But, as I said before, this sentence was in a paragraph about final goods, which was not the main point of my argument. The main point of my argument had to do an increase of productivity in an industry that produces INPUTS used in the production of other goods. I repeat that argument here and ask again for a response.

REPEAT OF ARGUMENT

In the following, I will use the following abbreviations:
HCPP for prices of production based on historical cost
CCPP for prices of production based on current cost

1. A productivity increase in an industry will lower the price of production of that good (call it Good A and its price $p(A)$) IN THAT PERIOD.
2. If Good A is an input to the production of other goods (call them collectively Good X), then (according to the TSSI) in the first period the HC of the inputs to Good X will be $>$ the CC of the inputs to Good X and $HCPP(X)$ will be $>$ $CCPP(X)$.
3. However, *if there is no further increase of productivity* in the next period in the production of Good A, then (according to the TSSI) the price of production of Good A will remain the same, and the HC of the inputs to Good X will be $=$ to the CC of the inputs to Good X, and $HCPP$ will be $=$ to $CCPP$. Thus the $HCPP$ of Good X CONVERGES to its $CCPP$ after one period.
4. If productivity increases again in the production of Good A in the second period, then the second period would be a repetition of the first period, with both $HCPP(X)$ and $CCPP(X)$ decreasing further and continuing to be \neq .

However, as soon as the increase of productivity in the production of Good A stops for a period, then (according to the TSSI) the price of production of Good A will remain the same, and the HC of the inputs to Good X will be $=$ to the CC of the inputs to Good X, and $HCPP(X)$ will be $=$ to $CCPP(X)$. The convergence is within one period.

5. While the productivity increases are happening, market prices MIGHT fluctuate around the HCPP if the perception of capitalists is slow to catch up to the new reality, but the HCPP itself converges to the CCHP as soon as there is no productivity increase, so that from that point forward market prices are fluctuating around CCPP, and the CCPP is the true long-run center of gravity prices, which will remain in effect until there is a new productivity increase.

Andrew, true or false?