ABSTRACT.

Money, growth, and cycles. Analytical features and ideological options in the "Austrian"approach and in the "Dynamists' " approach.

by Lilia Costabile

(1)In a growing economy, dynamic equilibrium requires the coherence between saving choices and investment decisions, i.e. the equality between the fraction s of real income which is not used for consumption purposes, and the fraction υ which is used as capital in production, and hence is not available for consumption. This condition, under the assumption that the capital/ output ratio is a given constant is equivalent to that stating that the output's rate of growth must be equal to the ratio between the propensity to save and the capital/ output ratio, as in the "Domar equation": $g^* = s/\upsilon$. According to other authors, by contrast, the ratio of capital to (final) output depends upon the structure of relative prices (including the interest rate). Both in the the former and in the latter approach, growth "in equilibrium" requires that consumption and saving choices are compatible with firms' investment decisions.

(2)What happens in a growing economy when, starting from an equilibrium situation, investment decisions rise, while no matching saving decision occurs? In the models we are interested in, the money supply is elastic to firms' demand. What is the outcome of the "disequilibrium" process generated by an elastic money supply? Different answers are provided by different classes of models: in one class of models, this process merely leads to a maladjustment in production, to the disruption of capital, and to a downturn in economic activity. On the contrary, according to a different approach, it leads to capital accumulation (either of the "extensive" or of the "intensive" variety, according to the circumstances to be specified). In other words, growth can occur via a disequilibrium process.

What explains the different predictions of these alternative models?

My purpose is to illustrate the interplay between the analytical features and the ideological options underlying these two alternative approaches to the role of money in economic growth and cycles. I propose the idea that the theory of money, cycles and growth has always been one of the main battlefields where the ideological battle over the nature of market economies has been fought. To be provocative and extreme: the models under investigation can be interpreted as technically refined essays in political philosophy. An evaluation of both the ideological options and the analytical aspects of the models under investigations, as well as of their interplay, is necessary in order to achieve a full understanding of the differences between these two lines of thought.

The first approach is that taken by the "Austrians" who, in spite of the label, are not a geographical sub-grouping, but the exponents of an internationally spread branch of liberalism, who apply their liberal views to the explanation of the role of money in economic dynamics. The second approach is that taken by what I refer to as the "Dynamists", who regard fluctuations (which they consider as determined mainly by non-monetary factors) as a physiologic component of growth under capitalist conditions, and argue that monetary factors can affect the time-profile of economic variables, and are an important condition for economic growth.

In this paper, these alternative approaches will be illustrated mainly by analysing some pre-Keynesians models: those of Mises and Hayek, on the one hand, and those of Robertson and Schumpeter on the other. Neverthless, our suggested "political philosophy" criterion of classification will allow us to show that there is a basic continuity, throughout the XX century, whithin each of the two approaches under investigation. In some cases, spectacular technical progress whithin these approaches can neither cancel nor hide the common ideological roots, which shape the analytical features of these models, and lead to some striking similarities between old and new versions of the same theoretical tradition.