CHAPTER 19

PRICES AND PROFITS

In the tranquil conditions of a golden age productive capacity, actual output and effective demand all expand together. When the conditions of a golden age are not being maintained demand may expand faster than capacity (as, for instance, when there is an unforeseen speeding up of technical progress, leading to an investment boom) or may drop below it (as, for instance, when an increase in monopoly lowers real wages without a corresponding increase in the rate of accumulation). We must now examine these situations in more detail.

LONG AND SHORT PERIODS

At any particular moment there is a particular amount of productive capacity in existence, represented by a who's who of capital goods appropriate to a particular technique (or a particular mixture of techniques), and a particular distribution of available labour between different lines of production. The stock of capital goods is in course of changing in quantity or being transmogrified in form, but in a short period of time it does not alter very much. The short period, in the analytical sense, is not any definite period of time, but a convenient theoretical abstraction meaning a period within which changes in the stock of capital equipment can be neglected. Within a short period the rate of output can alter, for it is possible to utilise given equipment more or less by employing more or less labour to operate it. The range of output that is technically possible, in a given short-period situation, is anything from zero to the maximum that can be squeezed out of existing resources. The range of technically possible rates of consumption is anything from zero to the maximum
rate of output of commodities that is possible without replacements, plus the consumption of pre-existing stocks of finished commodities. Within these technical limits, the short-period swings of output and consumption are governed by the movements of effective demand.

Everything that happens in an economy happens in a short-period situation, and every decision that is taken is taken in a short-period situation, for an event occurs or a decision is taken at a particular time, and at any moment the physical stock of capital is what it is; but what happens has a long-period as well as a short-period aspect. Long-period changes are going on in short-period situations. Changes in output, employment and prices, taking place with a given stock of capital, are short-period changes; while changes in the stock of capital, the labour force and the techniques of production are long-period changes. Similarly we can distinguish short- and long-period decisions of entrepreneurs. Short-period decisions affect the utilisation of given equipment (as, for instance, when a sudden spurt of demand leads to an increase of sales and output is speeded up to replace stocks), long-period decisions affect the stock of productive capacity (for instance, through the replacement of worn-out or obsolete plant). Investment has a short- and long-period aspect. In its short-period aspect it governs the level of employment and the relations of prices to wages, for these are influenced by entrepreneurs' outlay on the investment sector of the economy during the period when capital goods are being produced but are not yet ready for use. In its long-period aspect it governs the rate of accumulation or decumulation of capital and the technique of production.

A given short-period situation contains within itself a tendency to long-period change. For instance, when employment in the investment sector remains steady from week to week the short-period situation is unchanging (assuming that other conditions also remain constant), but if the output of the investment sector exceeds replacements of plant being scrapped, the stock of capital goods is increasing and a new short-period situation is coming into existence. At a later date the stock of productive capacity is larger and if it happens