This chapter will discuss the relations between Kalecki’s macrodynamics and the method of the Traverse. It will be argued that outside the case of a deep depression all short- and long-term macroeconomic adjustments should be thought of in a Kalecki-Kaldor-Lowe type Traverse context. Indeed it was Nicholas Kaldor who developed in 1938 a fully fledged Traverse approach well before the coinage of the term by John Hicks in 1965 (Kaldor, 1938). We will argue that the only meaningful institutional, hence policy, framework of the Traverse approach is socialist planning as conceived by Kalecki himself (Kalecki, 1962, 1986). Hayek’s views are similar to the conclusions that we draw from the traverse analysis. However, Hayek rejects the proposals for economic planning and instead insists on the ability of the market mechanism to achieve the necessary structural adjustment in order to achieve sectoral balance. The essay will discuss the Hayekian objections to socialist planning and will conclude that some form of socialist planning remains the only viable option.

5.1 The Traverse explained

The Traverse method deals with the structural changes to which an economy is subjected with or without technical transformations. The central feature of the method is the heterogeneity of production between capital and consumption goods (Kaldor, 1938; Hicks, 1965). The more advanced case, put forward by Adolph Lowe (1952, 1955, 1976), is based on a heterogeneity in the capital goods sector itself. The capital goods sector is divided between a machine tools sector producing capital goods for itself as well as an intermediate branch which produces equipment exclusively for the consumption goods sector. Under these circumstances, if the economy is assumed to be in equilibrium or at
a stationary/steady state, any significant change, whether caused by demographics or by technological mutations, will entail complex processes whose directions and outcomes cannot be determined beforehand. Hence the Traverse method breaks up the determinacy which has characterized most economic theorizing of either classical or neoclassical orientation. Furthermore, in the discontinuous context in which the Traverse method is set, the identification of possible outcomes can be obtained only by imposing upon the system behaviour that Adolph Lowe called ‘goal oriented’.

A clear example is Lowe’s treatment of a sudden increase in population or of a once-over labour-saving technical change in an otherwise fully employed stationary economy. For the system to absorb the sudden increase in the effective supply of labour (or an increase in population) available for work it is necessary that new productive capacity be created. The same is true as far as the employees displaced by labour-saving innovations are concerned. Where will the new capacity come from? Physically it should originate from decisions to withhold replacement capital goods to the intermediate investment sector in order to expand the primary equipment sector up to the level required to produce directly, and indirectly via the intermediate sector, the capital stock required to absorb the increased labour force (whether in the wake of a once-over increase in population or following labour-savings innovations). Thus, initially, through the reduction of gross investment flows to the intermediate sector, less capital goods will be made available to the consumption goods sector. Indeed, the transitional phase ought to start with workers being shifted from the intermediate to the primary equipment sector. Meanwhile, as in the next stage the consumption goods sector will receive less machinery from the intermediate sector, the supply of consumption goods will shrink and some of the employees working in that sector will be shifted to the primary equipment sector as it expands its own capacity. Here a guided, planned process is assumed. In the build phase, needed to absorb the increment in the labour force, real wages will decline since prices of consumption goods will have to rise in the light of a reduced supply.

But let us drop the guided process and consider a natural market reaction to the expansion of available labour separating, for the time being, the increase in population from the labour displacement caused by technical change. We should be able to find a trajectory where capacity liberation and the ensuing sectoral shifts should start from below as a consequence of price-driven phenomena. It may be assumed that the appearance of surplus labour will negatively impact existing money wages. If, however,