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SG/JM

14th May, 1976.

Professor J. Steindl,
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Dear Professor Steindl,

I am sorry for the delay in replying to your letter of 2nd April. The points you made in the letter on my Kalecki paper are truly central. Although I have taken time to think them over, I am still not sure what my reaction should be.

My initial reaction was one of agreement with your conclusion that the equation with the forward argument must be discarded. For I was tempted to agree that it is difficult to see what in reality would correspond to the anti-damped minor cycles.

My present position is still close to yours, though perhaps not identical. While sharing your view that the degree of capital utilisation (or the rate of profit) is the dominant factor influencing investment decisions, I am not yet convinced that a change in the rate of profit is completely irrelevant. The observed fluctuations are highly irregular. They could perhaps be interpreted as a super-position of a major cycle and several minor cycles. Of course, these minor cycles - of the duration of weeks and months - could in fact be caused by exogenous factors, such as weather or strikes. But some of them could well be indogenously produced. Their influence is relatively small in the short-run, and because of the presence of ceiling there is never any long-run. These endogenous anti-damped minor cycles, if they really exist, could, in models II - IV, play the role similar to the Frish-Kalecki exogenous shocks in model I.

I admit however that I could be totally wrong. There are two basic difficulties. First is incompleteness of Kalecki's (as well as others') models of the trade cycle, since the dynamics of interaction of the economy with the ceiling and the floor is not described mathematically. Consequently, it is not possible to compute Kalecki's model, and to compare computer simulations with the reality. Secondly, the external disturbances (weather, strikes, etc.) make the actual data not well suited for the purpose of finding out which of Kalecki's two basic versions of the trade cycle theory is in fact correct.

but the shocks exist!

and the equation would continuously magnify those shocks
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since it does not damp, but anti-damps the initial conditions.