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REAL WORKING CAPITAL & THE ELEPHANT IN THE BOOM AND BUST CYCLE

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(The following is a transcript by your GroundSwell editor of the presentation in slides made at the banquet at the Council of Geogist Organizations conference in Orlando, FL on Aug. 19, 2016.)

I prepared this presentation originally when I thought that Mason Gaffney was going to be here, and it is in his honor, it is kind of a story of his ideas based on George but taking it further with new research and it has a lot to do with elephants. I sent it to Mason to see what he was going to think about it, and he emailed it back to me today, "Imagine me as an elephant!" I suppose



Mason is sort of an elephant in the Geogist movement. We prepared for elephants in the Boom and Bust Cycle because this is an area where Mason has taken off from Henry George and I think solved some problems that Henry didn't. Henry George, of course, wrote Progress and Poverty, and Henry George recognized that the boom and bust cycle was caused by land speculation. He knew that it wasn't money or overconsumption or underconsumption and he knew that land taxes were the remedy but he was kind of missing on the mechanism. And this is where Mason has stepped in and, at least in my view, has produced a satisfactory mechanism as to what drives the boom and bust cycle, apart from speculation.

I hope some of you have read some of Mason's pieces about real working capital, the lifeblood of the economy. He has written several pieces about it and I guess this is an important piece, How to Thaw Credit, Now and Forever. He writes that "working capital is the bloodstream of economic life. It is physical capital, the fast turning inventories of goods in process and finished goods that supply materials to the worker, and feed and clothe her family."

So this is a focus on a particular kind of capital. Here is where George diverged from classical economists who divide capital into fixed capital (buildings, big solid durable things) and working capital called circulating capital which was inventories of various things, including especially tools for the workers.

So what is real working capital? Inventories of consumer goods of all sorts which are replaced many times a year – food, clothing, production goods. Coal after it comes out of the ground becomes capital. Grain, yarn, oil, computer chips, paper before it goes into your newspaper, basic supplies that we produce in a civilization. That is a picture of the reservoir in Central Park which I walk around every morning when I can, weather allowing. And Con Ed. and steam. Con Ed supplies steam to the various buildings. A few years ago it blew up killing a few people, but that is what we live with. Gas, oil for

cars. These are the things that keep us going and are replaced regularly that make our modern lives functional and supplies of them are erratic and subject to being cut off in third world countries. In the first world country it is always there and we just take it for granted.

The function of working capital is what I call a bridge over time which allows us to survive until we complete whatever project we are working on. We have to have it stored up in order to get to from now until then. The oldest kind of capital, obviously, is stored food to get us from harvest to harvest. The reservoir provides water. Gasoline in our tanks – we have fuel; well, it takes a long time to get gas for the gas tanks because you have got to go explore for oil, drill for oil, pump it up, refine it, transport it. It takes a long time; you have got to have a good stock of gasoline available to keep an economy running. Those of you who were there in 1973 during the oil crisis when there were lines of cars around the block know what it is like to have a shortage of gasoline. I was living in San Francisco at the time and I quit driving altogether. I just took public transportation, as did a lot of us.

Something else that takes a very long time is lumber for construction. Trees grow for 40-50 years, and then we cut them and slice them up and transport them, and it takes time to have a stock of lumber on hand during that period when the tree starts to grow and we can harvest the lumber.

Another characteristic, and you see this throughout Mason's writing about circulation of capital, that it is made, produced, sold, used and replaced again. That is why classical economists call working capital circulating capital.

There are different cycles again. Wheat is produced on an annual cycle. Cattle pretty much the same thing, you have spring calves. Quarterly – fashion designs. Daily, food on a cart or newspapers. Or continually, as water in reservoir.

Mason loves to make examples of food carts. Hot dog vendors are seen all over the streets in Manhattan. They buy their hot dogs and buns in the morning and they sell them out during the day and they go home and the next morning they buy another supply of hot dogs and buns and then trundle out into the streets again. So this is real working capital replaced daily. You will see these vendors in Mason's articles. (continued on page 7)