An Appraisal of Weintraub's Work

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In the view of both the general public and most professional economists, Sidney Weintraub is undoubtedly more closely associated with the concept of a tax-based incomes policy (or TIP) than with any other analytical or policy construction of economies. Yet, TIP is only one of many analytical innovations that Weintraub has developed in the more than a dozen books and a hundred articles he has authored since the 1949's.

In his first book, Price Theory, Weintraub presented a "systematic and reasonably complete statement of modern price theory" (p. vii). In its "Dynamic Analysis" section (pp. 337–432) Weintraub took a monumental step forward; he moved price theory into the real world when he provided a conceptual scheme for the "forward-looking nature of the economic process... [where] production and consumption take time, decisions and actions

*Wenger University, New Brunswick, New Jersey, 08903. I knew Sidney first as a graduate student starting in economics at the University of Pennsylvania in 1985. I had previously been a Ph.D. candidate and Instructor in Physiological Chemistry at Pennsylvania before being drafted into the army and classified as a scientific and professional soldier to do medical science research during the Korean War. These experiences convinced me to change my occupational choice and I received an MBA from City University of New York before going to Pennsylvania in 1985. As a result of the empirical research of the biological sciences with its emphasis on experimental design and statistical inference, I found Weintraub's realistic approach to economic analysis more relevant than the so-called "scientific" empirical approach of some of my more famous professors at Penn who used to distill the values of economic parameters from time series data (My MBA thesis had been on the use of Time Series Analysis in Economics.) I was fortunate to have Sidney during the period when he was developing his ideas for his Approach analysis, and the lucidity of the arguments unusually affected my own choice of problems in the future.

in these spheres are guided by an estimate of the future" (p. 337). Had professional economists followed Weintraub's pathbreaking analysis of time and uncertainty, imperfect equilibrium adaptations, multi-period anticipations with their intermittent demand and user costs relationships, and his "clock-time sequences" analysis, instead of being diverted into the rather sterile static and dynamic general equilibrium analysis of the last few decades, microeconomics theory would have made great strides towards providing guidelines which were roughly right rather than precisely wrong!

In this 1949 volume, Weintraub distinguishes between particular equilibrium analysis which focuses "attention on one market while ignoring ramifications and repercussions in other markets... in contrast to general equilibrium analysis, which adumbrates the conceptual possibility of the simultaneous equilibrium... in all markets besides demonstrating the interrelations between the separate markets" (p. 120). At this early stage Weintraub specifically noted the need to study general equilibrium analysis in order to specify the conditions necessary, and to explore interdependencies of markets despite the "violence the idea of general equilibrium does to our sense of reality, and even if we entirely reject it as an artificial image of the economic world" (pp. 126–7). Almost a quarter of a century later, after millions of man-hours have been spent by professional economists throughout the world on developing such an analysis, Hahn has written that at this time the one and only useful function that general equilibrium analysis has demonstrated so far is to explain why an optimal
resource allocation cannot be achieved in the real world. As Hahn states, "The argument will here turn on the absence of futures markets and contingent futures markets and on the inadequate treatment of time and uncertainty. This negative role of Arrow-Debreu equilibrium I consider almost to be sufficient justification for it, since practical men and ill-trained theorists everywhere in the world do not understand what they are claiming to be the case when they claim a beneficent and coherent role for the invisible hand. But for descriptive purposes, of course, this negative role is hardly a recommendation" [Hahn, 1973, pp. 14-15, italics added]. Thus, after years of effort, Hahn's conclusion is Weintraub's starting point.

Weintraub's dynamic analysis of the relationships between pricing behavior, innovations and development is more in the mold of Schumpeter's conception of creative destruction than in the bombastic welfare incautions of modern "ill-trained" theorists who envision deregulation in the absence of demonstrated externalizations as the only policy solution to all our economic maladies. Weintraub, however, after delving deeply into real world dynamics, concluded:

It is a curious, and perhaps dangerous, pastime to suggest price changes as a means of improving the resource-allocation efficiency of the price mechanism without probing the effects of price changes on such dynamic phenomena as commodity innovation and commodity progress, and the impact of controls upon the spirit of business enterprise. So much of the analysis pressures that we have an original choice of inverting one mode of policymaking rather than another, while realistically we must always remember that the economy is a "going on" case: any change will work hard to be resisted by those adversely affected. Policy cannot assume this problem away by presupposing that the damages are unimportant, that the hostility is misguided, or that the ill effects fall only upon powerful "vested interests" whose welfare can be disregarded. Annotating a bit political philosophy, the policy will be self-defeating, inimical as it is to our institutions, ethics and concepts of freedom. (pp. 437-438)

As an indication of what problems he would devote most of his energies to in the following years, Weintraub wrote in his Preface to Price Theory that "the theory of income division, on the other hand, is in a more chaotic state: a laborious job of reconstruction, in my opinion is necessary." (p. vii). Since 1950 Sidney Weintraub, with characteristic goodwill and indefatigable effort, has engaged in such a reconstruction.

In 1958, his Approach to the Theory of Income Distribution explicitly developed the conceptual analysis of Keynes's aggregate supply function. In this classic volume, Weintraub rendered intelligible the Marshallian microfoundations of Keynes's macroanalysis. Clearly, his earlier Price Theory system of analysis provided Weintraub with the perspicacity necessary to become the first economist to develop a supply-side dimension to Keynesian macroeconomics. Thus, in one sense, Weintraub was the first "supply-side" economist, but his system was far superior to those in the 1970's and 1980's which professed a garbled "supply-side" analysis based on the dual misconceptions of Say's Law which assured there were no obstacles to full employment and Walras' Law which assured instantaneous and simultaneous market clearing. Had the economics profession paid more attention to Weintraub's Approach and its analysis of aggregate supply-demand interdependence for monetary economies, with its explicit link between productivity and relative shares, many of the false "trade-off" prognostications of the neoclassical synthesis Keynesians could have been avoided. Western governments, when faced with the growing problems of inflation and stagnation in the following decades, would not have been advised by their "ill-trained" economists to adopt policies which only exacerbated stagflation tendencies. Had the Weintraubian aggregate supply system been more widely adopted by Keynesians, the resulting theoretical framework would have been sufficiently strong to ward off the simplistic, faddish solutions put forth by Montaillards and their rational expectations-supply-side brethren in recent years to fill the vacuous gap in theory and policy left by the bastardized neoclassical Keynesian system.

It is indeed difficult, from hindsight, to comprehend why economists who pride themselves on their objectivity and complete separation from value judgments did not react more enthusiastically to Weintraub's clear, concise, and correct macro and micro analysis. It could not be because of a lack of information as to the existence of Weintraub's work. Paul Samuelson, for example, in a 1963 essay entitled "A Brief Survey of Post Keynesian Development" (which appeared in R. Lekachman's best-selling Keynes' General Theory: Report of Three Decades (Macmillan, London, 1964)), wrote "pretty much as a lonesom wolf, Sidney Weintraub has also been formulating macroeconomic theories of income distribution." (p. 343). Moreover, Samuelson went on to note that there was "ample evidence" that Weintraub had been fruitfully working in this area "for a considerable period of time." Nevertheless, the devastating realities of Weintraub's far-sighted analysis of inflation, income distribution, and growth continued to be ignored by "the Keynesian" economics establishment who preferred to fill "empty economic boxes" throughout the 1960's and 1970's. Sidney Weintraub was clearly an economic prophet before his time!

In 1989, Weintraub presented, in A General Theory of the Price Level, a simple but powerful statistical analysis to demonstrate that the price level associated with the business gross product produced by the entrepreneur firms in the private sector could be viewed as related to wage costs per unit of output (i.e., money wage rate divided by the average productivity of labor plus a gross profit mark-up). Weintraub demonstrated that between 1929 and 1957 the aggregate profit margin or mark-up (which Weintraub labelled k) in business gross product showed small, non-systematic, annual percentage changes. Over the three decades surveyed, Weintraub concluded "the evidence is clear, the practical constancy of k is an empirical fact" (p. 39). Through the Great Depression, World War II, and the Post War Boom, the facts had dictated that secular price level movements could be mainly described solely via changes in money wages relative to productivity. From this simple but clear analytical construction and its theoretical implications, the relationship between income shares and aggregate supply enveloped in his Approach, Weintraub was able, at that early date, to criticize the monetarist approach to controlling inflation. "Our criticism of the Federal Reserve has been of the incompatibility between the job and the tools allotted. Man may get the moon in a rocket, not a rocking chair. The wage level, not the money supply, governs the price level... the Federal Reserve with the power to cut off or augment money supplies is a poor instrument for achieving economic stability." (p. 88).

Since the mid 1950's, Weintraub has labored at picking up the shattered pieces of the Keynesian revolution and redirecting economic theory and policy towards the pragmatic problems of our times. As early as 1960 he was advocating guidelines (or what he called a "watch-tower" incomes policies)—several years before the Kennedy administration adopted and successfully pursued such policies. In January 1971, Weintraub published the first version of a tax based incomes policy in the London Bank Review in which he proposed using tax penalties on firms. Later in that year he collaborated with Henry Wallich, a member of the Board of
Governors of the Federal Reserve System to spell out in greater detail a tax-based incomes policy. The fruitful collaboration (apparently encouraged by Leonard Silk of the New York Times) provided Weintraub with sufficient public and professional attention to attract others to accept the verities that Weintraub had spent years analyzing. Today, his vision offers developed entrepreneurial economies the primary solution to the second great crisis of capitalism in the twentieth century—stagflation.

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The Military's Monopsony Power

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And so, having made my plea, let me salute the profession with what might well have been the title of this paper, with what is certainly the key that points to the solution of most problems in applied welfare economics, with what surely should be the motto of any society that we applied welfare economists might form, and what probably, if only we could learn to pronounce it, should be our password: $\int_{0}^{\infty} \frac{\partial Y}{\partial t} \, dt$.

Harberger, 1971

Introduction

Since the inception of the All-Volunteer Force (AVF) the issue of military compensation, the level of current remuneration and the size of future increases, is debated annually in Congress. Civilian sector competition forces military pay toward parity lost shortfalls and attrition take their toll. Moreover, the effectiveness and cost of military pay has brought back the debate between the AVF and the draft. Surely, given a fixed military budget, there are competing demands on these resources, i.e., hardware versus personnel procurement.

The purpose of this paper, then, is to examine the labor market behavior of the combined military services. Currently, the military attracts an average of a quarter of a million 17-21 year-old non-prior service high school graduate males annually. The total size of our armed forces numbers two million. Exclusive of military retirement payments, the size of the military's wage bill in FY 81 was nearly 34 billion dollars. This sum was 20 percent of DoD's total FY 81 budget of 171.2 billion dollars.

The debate between the AVF and the draft is a debate on the issue of military pay and its effectiveness in attracting needed personnel. Were the military a perfect competitor for labor, any failure on the part of the military to pay the competitive wage would doom the AVF. Indeed, the military would face a completely elastic supply curve at the market wage. An examination of empirical estimates, however, reveals elasticities of supply for this age group considerably less than infinity. Most estimates, in fact, are about unity (See Goldberg, 1981).

The only conclusion, then, is that the military does face an upward sloping labor supply curve and, to the extent that increasing military pay increases enlistments, the military does wield some power in the labor market. This power has been analyzed within the framework of a monopsony model by Thomas Borcharding (1971) and Richard Cooper (1975). Thomas Borcharding "calculated" the deadweight burden associated with the monopsonistic purchase of volunteers and "compared" the magnitude of this loss to the loss associated with the over-employment of

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