

THE AVERAGE PERIOD OF PRODUCTION.

—Role of Capital Production

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I

THE phenomenon of time is the source of most of the complexities in the analysis of economic categories and relations among them. To the philosopher time may be a device to prevent everything from happening at once; but to the economist time spells trouble and more time means more variables, more permutations, and more disturbances. This is nowhere else better indicated than in the field of capital theory.

The object of this paper is to recast as much of neo-classical capital theory as is possible in the mould of classical economic theory as it appears to have been evolved in the works of Ricardo and Sraffa.

While it is possible to retain the essentials of the conception of the average period of production its key role in the determination of the interest rate is taken away. Capital theory is separated from value and distribution. Scepticism is demonstrated regarding the ability of increasing roundaboutness or of a rise in the degree of mechanization to offset the fall in the maximum rate of profits. Variations in the proportions of fixed and circulating capitals in total capitals have generally no effect on the maximum rate of profits; on the other hand it is the fall in the maximum rate of profits that tends to raise the proportion of fixed capitals in total capitals. Technical improvements leading to a rise in the maximum rate of profits may now lead to a rise in the actual rate of profits, thus giving the illusion that the rise in fixed capitals proportions has led to the rise in the rate of profit. It thus appears that it is not theoretically possible to establish the *raison d'etre* of profit or interest as a distributive share.

II

Modern capital theory founded primarily on the contribution of Bohm-Bawerk enunciates the following propositions :

(1) The 'quantity' of capital per unit of primary resource like land and labour is represented by the length of the average time period lapsing in the transformation of primary resources like land and labour into instruments of production. (2) Given the volume of current labour assumed to be stationary, and given the amount of savings historically available in the form of circulating capitals