## Contents

1 **Premises and an Overview** ................................................................. 1

2 **Myros and Other Concepts and Definitions** .............................. 7
   2.1 Myros................................................................. 8
   2.2 Myros Recovery Charges ........................................... 11
   2.3 Human and Nonhuman Capital ................................. 12

3 **The Macroeconomic Framework** .................................................. 17
   3.1 An Overview ...................................................... 17
   3.2 Constraints (or “Conservation Laws”) Imposed by the Pool
       of Fluid Capital ................................................... 22
   3.3 The Determination of Asset Values .......................... 25
   3.4 Aggregate Demand and Supply ................................. 28
   3.5 Macroeconomic Equilibrium ................................. 29

4 **Interest and Money** ................................................................. 31
   4.1 Factors Making for the Existence of Interest .................. 32
   4.2 Determination of Money and Natural Rates of Interest ....... 33
   4.3 A World with Fiat Money ........................................... 41
   4.4 The Concept of Velocity and the Demand for Money ...... 43
   4.5 Power of the Monetary Authority ............................ 45
   4.6 The Commercial Paper Market .................................. 46
   4.7 Some Notes on Monetary Policy ............................... 47

5 **Production and Investment** ....................................................... 49
   5.1 Capital and Production ........................................... 49
   5.2 From Production to Investment .................................. 52
   5.3 Roles of the Money and Natural Rates of Interest .......... 62
   5.4 Financing of Investment: An Illustration ................. 62
## General Price Level and Inflation

6.1 Defining the General Price Level ........................................... 65
6.2 Problems Arising from Excessive Monetization of Assets ............ 72
6.3 The General Price Level and the Natural Rate of Interest .......... 75
6.4 Equilibrium in the Natural and Money Rates of Interest ............ 76

## Capital Values, Wealth, and Related Topics

7.1 The Aggregate Wealth of an Economy .................................... 79
7.2 Money as Wealth and Real-Balance Effects ............................. 80
7.3 Some Implications of Old Masters as a Store of Value ............... 81
7.4 Taxation of Capital Gains .................................................. 83
7.5 Forced Saving and Investment ............................................ 85
7.6 More on Excess Monetization of Assets ................................. 87
7.7 Loan Defaults and the Stock of Money .................................. 88
7.8 Crowding-Out .............................................................. 89
7.9 Burden of the National Debt ............................................. 92
7.10 Ricardian Equivalence .................................................... 93
7.11 Commodity Money .......................................................... 94
7.12 Fluid Capital and the Gold Standard ................................... 95
7.13 Demonetization and Monetization of Economies ..................... 98
7.14 Economic Growth with Deflation: The Period 1873–1896 in the USA ................................................................. 101

## Macroeconomic Equilibrium and Employment

8.1 Macroeconomic Equilibrium and Employment ........................ 103

## Capital Theory in Perspective

9.1 Schumpeter ................................................................. 113
9.2 Keynes ................................................................. 116
9.3 Irving Fisher ........................................................... 117
9.4 Böhm-Bawerk .......................................................... 118
9.5 Jevons and Wicksell ..................................................... 119
9.6 Capital as Embedded (or Stored) Labor ................................ 120
9.7 Capital Theory as the Economics of Time ............................ 121
9.8 Capital Accounting ....................................................... 123
9.9 Capital and Nonrenewable Natural Resources ......................... 126

## Opportunity and Sunk Costs

10.1 Opportunity Costs ....................................................... 129
10.2 The Measurement of Unit Incremental Cost ............................ 131
10.3 Sunk Costs ............................................................... 132

## Trade, Transfers, and Monetary Overhangs

11.1 Trade and Exchange Rates ............................................... 135
11.2 Monetary Overhangs and Capital Levies ............................... 137
Contents

11.3 Wealth Transfers and Monetary Overhangs: A Stylized Analysis ........................................................... 139
11.4 Policies for Eliminating a Monetary Overhang: The Case of German Reunification ............................................ 146
11.5 The German Reunification: An Assessment ..................... 150

12 Questions Related to Consumption and Saving .......................... 153
12.1 The Macroeconomics of Retirement Saving and Consumption . 153
12.2 Questions Related to Position Goods .................................. 155
12.3 Questions Related to Engel Curves and Income Elasticities..... 157
12.4 The Hierarchical Nature of the Pool of Fluid Capital ............. 159

13 Questions Related to Economic Growth ................................. 161
13.1 The General Mechanics of Economic Growth ................... 161
13.2 Some Basic Truths Concerning Economic Development ...... 163
13.3 Keynes and Economic Bliss ....................................... 163
13.4 The Endogenous Nature of Economic Growth ................... 164
13.5 The Role of Technological Change ................................ 165
13.6 Investment in Research and Development .......................... 166
13.7 Economic Growth in Reverse: Large-Scale Disasters in Low-Income Economies ........................................... 167
13.8 Economic Growth and Different Stages of Development ...... 168

14 Themes and Counterthemes: Fluid Capital in Retrospect ......... 171

Postscript ............................................................................. 247

15 Background and Tools for Understanding and Dealing with Recurrent Financial Crises ........................................... 181
15.1 The Impact of Uncertainty on Economic Activity .............. 182
15.2 Uncertainty and the Pace of Investment ......................... 185
15.3 Hedge, Speculative, and Ponzi Financing ....................... 188
15.4 The Many Burdens of Quasi-Rents ................................ 190
15.5 The Banking Principle, Banking Disease, and Financial Panics ................................................................. 193
15.6 Types of Investors ..................................................... 195
15.7 Differences Between Goods Markets and Asset Markets ...... 196
15.8 The Floor for Asset Values .......................................... 197
15.9 Asset Prices in a Financial Panic: the Role of a Lender-of-Last-Resort .................................................. 198
15.10 The Effect of Financial Panics on the Real Economy and the Role of Fiscal Policy ........................................ 201
15.11 Conclusion .................................................................. 203

16.1 The Anatomy of Financial Panics
16.1.1 Emergence from Recession
16.1.2 Awakening of Asset Markets
16.1.3 Some Signs of Danger
16.1.4 Casinos with Banks
16.1.5 Getting Ready for a Fall
16.1.6 Onset of a Panic

16.2 The Fragility of Financial Markets

16.3 A Digression on Uncertainty, Confidence, and Trust

16.4 Preludes to Panic
16.4.1 The Layering of Financial Intermediaries
16.4.2 Lessening of Borrower and Lender’s Risk
16.4.3 Spiking of Expectations
16.4.4 Asset Prices Outpacing the Increase in the Pool of Fluid Capital
16.4.5 Explosion of Derivatives Trading
16.4.6 Activities of Hedge Funds
16.4.7 Globalization of Finance

16.5 The Uniqueness of Banks and the Lender-of-Last-Resort


16.7 Lessons for Reform

16.8 Summary and Wrap-Up

Appendix A
Appendix B
Appendix C
Appendix D
Appendix E
Bibliography
Index