

MY THOUGHTS ON CAPITAL AS A LAYER CAKE: MENGER AND LACHMANN ON THE NATURE OF CAPITAL

A paper by David Harper and Anthony Mendes.

The Harper and Mendes paper argued that capital should be viewed as a 'layer cake', a metaphor first attributed to Carl Menger and Ludwig Lachmann, due to its variable consistency, hierarchical levels and the increasing complexity of accumulated capital. According to this approach capital is combinatorial and is organized structurally and relationally- capital goods are not solitary entities that exist independently and only unleash their potential when combined in an entrepreneur's production plan. Harper and Mendes argue that to take the Clark-Knight-Cobb and Douglas view of capital as an amorphous, homogenous 'jelly' obscures the real features of the capital formation process. They say the viewpoint expounded by Menger-Lachmann provides an important entrepreneurial frame to capital decision making and with further research is likely to lead to the capital structure of production plans being brought to the foreground of economic decision making.

I particularly enjoyed this paper due to its logical development; from the original capital theorists, to the development of their argument as to capital more akin to the layer cake metaphor than the jelly-like alternative and finally to the important lessons this view of capital can provide for macro and micro economic organisation. Specifically I found it interesting the way they explored the concept of downward causation within capital development. This is the idea that gaps in the development of high level capital goods has flow-on ramifications for the development of low level capital. I believe that this is one aspect of capital development that a number of Australian governments have failed to fully comprehend and, consequently, this has diminished our nation's productivity growth over a number of decades in our history.

This paper changed the somewhat naïve way that I viewed capital and made me consider the key idea of capital only being beneficial when in a system; when it is being combined

with other elements in a relationship of mutual dependence coordinated by an entrepreneur.