COMMENT

By KARL G. JUNGENFELT

Mr Vind's note is partly an extension of my model; he uses less specified production functions and technical progress is not necessarily assumed to be neutral. But the note is also critical on two points: I am too "pessimistic" in my conclusions and my way of handling factor markets is "unrealistic". Let me take the last criticism first.

The basic idea behind my model was to treat demand for raw materials as a case of derived demand, instead of the ordinary income elasticity approach. To introduce my model in the simplest possible way I therefore concentrated on the derived demand aspects at the outset, and neglected complications like trade between different areas with closed faktor markets. Later on, however, I also introduced two different factor markets (pp. 15–16). These markets had different supply functions, reflecting differences in production functions, factor prices and income. I admit that this case was treated in the verbal part of my analysis only, and not in the mathematical appendix. But the appendix was a true appendix to the text, and should not be read separately.

Secondly, Vind is concerned with what he calls my "pessimism". I do not quite understand what "pessimism" means here, but it seems to be clear that the question has some relation to the problem of whether one could say anything with certainty about the direction of the change of the endogenous variables on pure a priori grounds, or whether empirical research has to be involved. In his table 2, Vind demonstrates that some endogenous variables, e.g. the equilibrium quantity of industrial products, always will increase during the growth process. It so happens, however, that Vind and I are not interested in exactly the same variables. My paper was part of a debate about relative movements of prices and quantities of raw material and industrial goods. I was therefore interested to see whether the growth process increased demand for and supply of raw materials relatively more or less than demand for and supply of industrial goods. In two cases, Vind and I, have a common interest, viz. in the relative change of the equilibrium values of prices and quantities of the goods. From eqs. (11 a) and (13) and table 2 in Vind's note, it is obvious that the direction of change of both these variables during the growth process is uncertain; depending upon the relative strength of the technical development in the two sectors I/R will increase or decrease. Apparently we agree on the necessity of empirical research in these cases. My "pessimism" therefore means nothing more than that I have not solved my model for variables which I have no interest in, even though their direction of change is certain.