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## The Nature of Economics and the Japanese Economy

*by Ryoichi Suzuki*

As economic theory should be the basis of economic policy, a theory however consistent should not be termed as an "excellent economic theory" if inapplicable to practical problems. The equilibrium theory is in this respect inferior to the Keynesian theory. Although it can be employed to explain the interdependence of economic variables, it cannot explain economic causality, and thus it fails as a basis upon which to form economic policy. Unlike any of the physical sciences, experimentation in economics is not possible. The closest thing to experimentation in economics is to examine the validity of a theory in the light of statistical data. Equilibrium economics is quite different from "causality economics," say the Keynesian theory or the theory of rate of growth. The Leontiev system is not an exceptional case, as it can explain the static structure of an economy but cannot be employed to explain economic development. Equilibrium economics and the causality theory cannot be combined into one theory.

The most outstanding fault in static equilibrium theory is its inability to explain the role of money. This defect arises from assuming the constant marginal utility of money. When this assumption is dropped, then the law of equality of marginal utility becomes invalid. When purchasing a commodity, the consumer weighs the marginal utility of the commodity to buy against the marginal utility of money to spend. The quantity of the commodity purchased depends on the order of its purchase. For instance, if it is the first commodity purchased, the quantity would be comparatively larger than were it the last article to be bought. The relation between savings and investments can be deduced from this fact. This is neutral equilibrium.

I wish to stress the historical nature of economics. No theory is free from limitations imposed by time and place. Keynesian theory deals with the phase under over-production. The income theory was developed by his successors, but their inflationary theory is apparently different from Keynes' "general theory." There should be another

theory where capital is scarce in relation to labor. In this case, it is important to note the change in the industrial structure.

Other things being equal, the theory that can be tested statistically is superior to one that cannot be tested at all. But validity of a theory undoubtedly should not be determined only by statistical methods, nor should economic theory be bent to conform units statistical estimations.

Short-term theory assumes constant parameters such as the propensity to consume and accelerators. The Keynesian theory is based on the principle of effective demand. Schumpeter's theory on the other hand is based on innovation. The theory of rate of growth is long-term in nature and thus cannot neglect innovation. As the values of parameters are unstable in any long-term period due to the effects of innovations, it is necessary to study the law of changing values of parameters. Modern theory of rate of growth is based on the effective demand principle.

In Japan, saving in relation to investment is small. Thus confronting an analysis of Japanese economy these above-mentioned theories are inapplicable. We can however make an analysis with Hayek's theory where saving is necessarily invested.

The fact that over-production occurred even in Japan is due to credit extended by the government. Credit motivates business cycles, and owing to an excess of import over export the credit later becomes suspended.

This theory should be completed by (1) combining it with micro-economic theory and (2) by formulating an equation that will express the production of each industry. This equation would be different from the Leontiev system in that it will be able to explain economic causality.

### Input-Output Analysis (3)

—The Dynamic System—

*by Masao Fukuoka*

A "dynamized" real output system is explained, and the existence of a balanced-growth solution is examined. The next section considers

a price system which is dual to the above output system. First Georgescu-Roegen version is criticized and a more general system due to Solow is introduced. It turns out that the Georgescu's system is a special stationary-equilibrium solution of the more general system, to which corresponds the balanced-growth solution of real outputs. Several conclusions are derived such as the constancy of the ratio of net national product to capital stock, the constancy of the rate of interest, and the importance played by the initial conditions in the dynamic Leontief system. Finally it is shown that the stability of the stationary-equilibrium solution of prices is never consistent with that of the balanced-growth solution of outputs, and that the possibility of the former would be fortuitous if not miraculous.

### Welfare Economics and Its Ethical Value-Judgment

*by Shigeo Tomita*

Welfare economics attempts to meet a dual requirement. It aims, on the one hand, to satisfy the practical demand to eliminate the social evils and to improve the society, while on the other hand, it claims to be an objective and positive science. The problem, what relation there is between theory (knowledge) and policy (practice), is a methodological one inherent in economics in general, and is particularly essential to welfare economics. One has only to survey the history of the theories of welfare economics, to realize the importance of the problem. This paper tries to analyse on what ground various thoughts of welfare economics have contemplated the problem of value-judgment. It is hoped that through this analysis some aspects of economic policy as it should be are clarified. So-called old welfare economics presupposes such utilitarian propositions as (1) satisfaction of wants which implies to be good ethically, (2) the possibility of interpersonal comparison of utilities. Against this, Mr. L. Robbins disclaims any welfare economics as a positive science for the reason that it involves ethical evaluation in assuming the possibility

mentioned in (2). It seems that this criticism of Robbins comes from the idealistic standpoint which stresses a priori the authority of ethical criteria in the conflict or friction between satisfaction of wants and ethical good. And so-called neo-welfare economics, which claims to be immune from Robbins' criticism, takes the viewpoint of the "technological" policy; it recognizes that there should be a positiveness required from the idealistic standpoint, while at the same time it aims at some utilitarian prescriptions without probing into ethical value-judgment. Consequently, we might say that it falls into a contradiction directly, or it is exposed to the danger of "policy without conviction". Now it is feared that lines of neo-welfare economics will represent the main current in welfare economics to come. The stronger this tendency grows, the more the writer wishes to emphasize how indispensable it is for students to search for what is good and to organize economic policy on their own responsibilities.

### Bevanism and the British Labour Party

*by Kanae Iida*

No one argues the point that one of the main reasons that the labour party lost to the conservatives in the general election last May, is the division within the party headed by Attlee and Morison the orthodox party and Bevan representing the left wing of the labour party. In this report, the writer has made an attempt to clarify the nature of the left wing labour party and explain its process of formation as seen through the British labour movement. He has also touched upon the role Bevanism will likely play in international politics of the present day when peaceful coexistence is being largely stressed.