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“The Affluent Society” and Three Propositions of Welfare Economics

by *Yoshindo Chigusa*

Professor Galbraith concludes, in his “The Affluent Society”, that the interest in inequality has been declining as an economic issue in the United States of America, economic security has almost been attained, and even the increase of production has ceased to be urgent necessity. If this is true, it seems that Pigou's Welfare Economics may lose its practical significance. Because Pigou insisted that the increase, equal distribution and security of the national income are desirable for economic welfare. Then it is interesting to study how far those three propositions have its practical meaning in the rich country.

First, Prof. Galbraith points out the fact that inequality has faded as an issue. The major reason is that the income of lower classes has been raised as the result of the increase of production. However he recognizes that inequality is still great in the United States. Then it is sure that, if more equalization of income were realized, the economic welfare would be promoted. Therefore we can still say even in the affluent society that equal distribution of income continues to be a criterion of economic policy. We must only agree that inequality is not so urgent problem as before, and the increase of production became more urgent.

Secondly, Prof. Galbraith holds that the major uncertainties of pristine economic life have already been eliminated by the microeconomic and macroeconomic measures, “subject to a major qualification concerning the control of depression”. If this is a fact, the third proposition of Pigou will be now useless practically in the United States. However, I think, it is still urgent to raise the level of economic security even in the United States, especially by controlling depression. The control of depression in the United States is very difficult, and if it failed to be controlled, production would necessarily decrease, and economic security also would be lost. We may say rather that the control of depression and the increase of production are urgent for the purpose

of increasing economic security.

Thirdly, according to Prof. Galbraith, the increase of production is not urgent necessity, because goods are now abundant, and wants are created by the process by which they are satisfied, that is what he calls “Dependence Effect”. He attacks the theory of consumer demand which defends the urgency of production. However, I think, his attack is not effective. Because he dares to misunderstand about the theory. He says that goods produced to satisfy spontaneous consumer needs are urgent, and those which grew out of the process of production itself are not so; the marginal utility of the latter goods is zero. However it is zero under Prof. Galbraith's value judgement, not so under consumers' value judgement. Though the increase of production is not desirable for Prof. Galbraith, but it is desirable for consumers. Thus his criticism against the theory of consumer demand is not correct, but it gives an important suggestion for us. We used to think that free competitive capitalistic society and “consumers' supremacy” are desirable for both individual and society. But it may be better if government or authority of economic planning could determine what kinds of goods are really urgent for developing culture, national economy and so on. It is desirable that economists concerning about economic welfare should abandon the supposition of consumers' supremacy, and introduce the social welfare function given by any authority.

The Inflow of the International Long- and Short-Term Capital into Japan

by *Eiichi Ōmiya*

The Japanese economic development before the Second World War has been helped by raising the foreign capital in the form of the government bonds and debentures since the beginning of Meiji. After the war, Japanese industry, in its rapid postwar recovery, was compelled to invest heavily in modern industrial facilities, in order to keep up with current technological developments. The recent active demand for funds by Japanese enterprises for plant and equipment was inten-

sified by the meager accumulation of capital by business firms, which appeared as the high degree of dependence on outside capital included the foreign capital.

The foreign monetary investments after the Second World War were practised chiefly in the form of loans and credits by the World Bank and the Export-Import Bank of Washington. And raising a large amount of funds by the issue of the future in company with the foreigners' purchases of Japanese stocks.

Recently, the Finance Ministry is reportedly considering incorporation of a "securities yen" system, a Japanese version of the British securities sterling, together with the adoption of the American Depositary Receipt system. The purpose is to further liberalization capital transactions.

The international short-term capitals became possible to inflow as the "free yen" deposits into Japanese foreign exchange banks by the introduction of "free yen account" system. The free yen deposits of the end of July amounted to ¥24,000 million (nearly \$66 million), according to the Bank of Japan and exchange banks. The causes of it attribute to (1) the so-called Euro-dollars of \$140 million have brought to London branch offices of Japanese exchange banks, which generally apply an annual interest rate of 4.5 percent or thereabout for a three month fixed deposit (overseas branch offices of Japanese banks are outside the jurisdiction of the Japanese Deposit Law), (2) Japanese banks handling foreign exchange were eager to collect the free yen deposits for lightening the difficulty of management of yen funds, (3) the increase of congratulatory deposits from foreign banks. Henceforth, banks sources expect the gradual increase of free yen deposit arising from nonresident foreigners' sales of foreign currency to banks.

At present, the active demand for funds by business firms gives rise to great dependence on bank loan together with the lack of their owned capital. As a result of it, this fact brings about relatively high interest rate as compared with any other countries, for example, as the fact signifies that the annual rate of overnight call loans was 8.4 percent at the end of the last January.

When no free yen transaction was possible in Japan as yet, the London branch offices disposed of the Euro-dollars as their dollar or

pound funds there. But, as the free yen transaction is opened in Japan, the Japanese exchange banks may well bring the Euro-dollars back to Japan in transferring free yen for use on the domestic money market.

But it is the large question whether or not the Euro-dollars stay in London branch offices of Japanese exchange banks as the stable deposits in future. If it is stable, it will have a sizable influence on the domestic money market, especially the call money market, through the influx of the free yen of this kind, though the inflow of the free yen depends upon subtle differences between the overseas fund cost and the swap cost. At the same time, the Japanese monetary policy will have to be more prudent than ever.