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Structural Defects of the Economy of an "Affluent Society"

by Yoshindo Chigusa

Prof. Galbraith mentioned, in his "The Affluent Society", some structural defects of the economy in such a rich country as the United States. These are the dangers which might be brought by the increase in consumer borrowing, by inflation, by the social unbalance, and by the unbalance of investments. We can observe them not only in a rich society, but also, to some degree, in a poorer country like Japan, so I believe that it is essential to recognize these defects and contemplate the measures for removing them.

The first defect is the dangers involved in the increase of consumer debt. Prof. Galbraith assumes that the increase of installment credit is inevitable, because consumer wants are created by "dependence effect", and society will face the following dangers. For, the effect of each advertisement of individual good or service being offset by another similar advertisements, the consumer credit will reach its limit. Further increase in production may become impossible; the unemployment may increase; and the economic security may become difficult. Such a tendency will be more apparent in future. But I hesitate to agree that the effect of advertising becomes zero, because advertisements of new commodities would appear one after another. It seems to me, therefore, that Prof. Galbraith's opinion is rather farfetched.

The second defect is continuance of inflation. This phenomenon is unavoidable in a society in which the production is at capacity, and in which, the oligopolistic firms bargain with strong unions. Prof. Galbraith suggests that, the monetary and financial policy being not effective, some immediate control on wage and price may be necessary in the United States. His analysis, I think, may be approved to a high degree. Further he advocates an interesting programme of "Cyclically Graduated Compensation", as a method of overcoming inflation. But it does not seem to be sufficiently effective.

The third defect is the tendency to social unbalance, by which it is implied that private goods are opulent, while public goods are niggardly. The fourth defect is the unbalance between investments on personal goods

and that on material goods. But we must take notice of the fact that Prof. Galbraith must have something in the nature of value-judgement on "necessity" in human society. Above mentioned unbalances may be defective only when viewed from his value-judgement. He has not proved theoretically that both the supply of public goods and that of personal goods are scarce. His value-judgement does not seem to have enough objectivity, and what he regards as "necessity" is not clear. If we can establish some definite value-judgement on "necessity", we can build an economic theory based on that supposition. Such a theoretical model is partly achieved by Prof. P. A. Samuelson.

Excess Capacity and Market Competition: A Note

by Ichiro Okuma

In my previous article (this Journal, vol. 53, no. 10-11) I analysed the process of imperfect competition under the static condition of industry demand. Here I have attempted to analyse the analogous process, assuming the sustained growth of industry demand. Under such a dynamic condition, firms are exposed to uncertainty which is caused by the possibility of continuous entry of the new, even large, scale firms. How does the firm decide the scale of long and short period output? In this context, it is useful to introduce the Hicksian terminology, snatcher and sticker. Here snatcher means a firm which pursues the short period profit without any consideration about future potential competition, and sticker is rather weighing much on his future trade position. The short period output and price levels are determined by the group of snatchers aiming profit maximization. On the one hand, stickers accept these output and price levels in the short period. On the other hand, they determine the long period output (or scale of capacity) as large as they can with expense of the short period excess profit. Thus, in some future periods when new and strong competitors happen to appear, they will be able to keep their trade positions from any price competitions.

Some concluding remarks are followed: (1) Capacity policy and price policy are no longer determined simultaneously as in the traditional, static, excess capacity theories. (2) When industry demand is growing, dynamic excess capacities always exist. The more stickers are, the larger the scale of excess capacities in industry.