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The Theory of Labor Supply

—its role and conclusions—

by Keiichiro Obi

1. The Role of supply of labor in the economic growth is discussed.
2. It is clarified that the theoretical and quantitative study of the relation between the labor supply function in terms of man (with regard to the group of households) and that in terms of hours (with regard to each household) is indispensable.
3. In order to deduce the labor supply function in terms of man from the income leisure preference functions of the households of the group, the notion of "critical level of principal earner's income" (CPEI) in household, I^* , is introduced.

Imagine a group of households whose members are consist of a principal earner and his wife. Let the hours of work and the wage rate assigned by the firm (employer) be \bar{h} and w respectively. The wife is gainfully employed if her husband's income, I_i , is lower than CPEI, I_i^* , and vice versa. I^* is written as

$$(1) \quad I_i^* = I^*(w, \bar{h}, \alpha_i),$$

where α_i stands for the (set of) preference parameter(s) for the i th household. α_i varies among households of the group. Let the density distribution parameters of α_i be $f(\alpha)$. Making use of (1), (density) distribution function of I^* , g , is deduced from $f(\alpha)$.

$$(2) \quad g(I^*|w, \bar{h}, \alpha)$$

where $\bar{\alpha}$ stands for the (set of) mean value(s) of income-leisure preference parameters for the group of households. By the integration (up to I) of the function g (with respect to I^*) we obtain.

$$(3) \quad 1 - \mu = \int_{-\infty}^I g(I^*|w, \bar{h}, \bar{\alpha}) dI^*,$$

where μ stands for the probability of being gainfully employed for wives of any household (of the group) whose principal earners' incomes are I . μ can be observed by calculating wife's participation rates of the households in which principal earners' incomes are equal to each other.

Making use of specified analytical form of f and income-leisure (hour) preference function we can determine $\bar{\alpha}$ and characteristics of the distribution f from the observed data on μ and I . ((1), (2) and (3) can be easily generalized

for households of n family members)

4. Conclusions are:

(1) the higher the principal earner's income, the lower the participation rate is (wage rate and hours of work assigned and the shape of the preference map being held constant).

(2) the higher the wage rate, the higher the participation rate is (principal earner's income and hours of work assigned and the shape of the preference map being held constant).

(3) the higher the principal earner's income, the less the wife's labor hour which is scheduled to be supplied (wage rate and the shape of the preference map being held constant).

(4) As far as the data and the tested analytical form of income leisure preference function are concerned, it is shown that there exist the systematic shifts among the preference map of the groups of households classified by principal earner's income.

That is, the higher the principal earner's income the higher the level of the marginal utility curve of income is. This implies the labor supply behavior of household is irreversible.

(5) From the above findings, it could be concluded that there operates some potential instability when the economy contracts, while, there operates some stabilizing factor in the course of steady growth.

Because of the negative sign of the household's supply curve of labor in terms of both man and hour, reduction of wage (if it happens) tends to accumulate unless some institutional regulation is introduced.

In the course of steady growth, augmented principal earner's income would reduce the household's supply of labor, and wage rate would have to be raised to meet the growth in demand for labor.

However, the speed of the rise of wage tends to be moderated on account of the existence of upward shift in marginal utility of income.

Capitalism and Agricultural Structure in Japan

by Masaharu Tokiwa

The object of this paper is in clarifying the significance and the role played by agriculture in the structure of the reproduction in Japanese

capitalism.

To begin with, it is essential to consider the historical relationship between Japanese capitalism and agriculture.

First, we take up the question what significance and role the so-called "semi-feudalistic landownership system" of prewar Japan played in the reproduction of Japanese capitalism, how it was collapsed as a result of the postwar economic reorganization including the land reform, and in what way it has been transmitted to present Japan.

After we have surveyed what changes the Japanese agriculture has undergone in the time of "high pitched economic growth", we discuss what are the problems in agriculture at the present stage of its development, in other words, what significance they have in the structure of the reproduction in Japanese capitalism, as seen in the light of the existing basic administrative law of agriculture.

(I) Japanese capitalism and landownership. The agricultural structure called "landownership system" was the important structural basis of Japanese capitalism in two ways: (1) the high farm rent paid in kind and reaped by landlords was an important source in the formation of civil capital, (2) most of the tenant farmers were left in a poor living condition as petty peasants because of the high farm rent paid in kind, and they often went out to offer themselves as cheap laborers for industries;

(II) Agricultural structure in the postwar capitalism of Japan.

The old landowner system was dissolved as a result of the land reform, an important event in the postwar reorganization program of Japanese economy. What it has effected, however, was merely a transformation of the traditional tenancy into an owner cultivation system of farm land, its small scale of old days being left over unchanged.

It is true that the production power of agriculture was fairly increased as a result of tenancy being transformed into the owner cultivation system, but this fact has rather lowered the relative importance of agricultural income, if estimated in relation to the total income of the nation, and has aggravated the income difference between agriculture and industries.

The relative decrease of the weight of agricultural income in the total amount of national income is a natural outcome of the development of agricultural production power, but this income difference between agriculture and industries was rather due to the inequitable exchange value of the products between agriculture and industries. With agricultural products

being sold at the price lower than their value, the farmers took up side jobs to earn extra money. The agricultural structure under the "high pitched economic growth", therefore, became characterized by a large number of farm households getting engaged in some business besides farming.

(III) The role played by agriculture in the structure of reproduction of capital. Since agriculture is a food production division of work, its production power makes a wage regulating factor. The government, therefore, is trying to enlarge the scale of agriculture as an enterprise, but in fact not much has been accomplished so far. On the contrary, a remarkably large number of farm houses has come to take up side-jobs; as many as 80 of them are now engaged in extra business. Even the heads or the heirs of farm houses began to take to side jobs.

There is no denying that farm houses, or even some whole villages have now turned supply agencies for cheap industrial laborers in Japanese capitalism. Really, the petty scale of farming and the large number of farm households being engaged in some sort of extra jobs make the characteristic features of agriculture in the reorganized capitalism of present Japan, sending out required cheap, wage laborers for the industrial development of the nation.

"Value", "Price" and "Land Rent" in Socialist Economy (I)

by Ayako Hirano

It is long time since socialist economists took up the classical theses of socialist economists,—“theory of commodity production” and the “Law of value” which is fully realized through commodity production under the capitalist form of economy with the private ownership of all the means of production and the social division of labor,—criticized them very hard, denying the private ownership of all the means of production.

The logic of transition to the socialist economy, the theory of *establishing* socialist economics and the “process for the formation of socialist economics”, involving the controversies on the *essentials of socialist economy*, are tantamount to the process of “socialist economics”, transforming itself from the qualitative consideration of commodity production and value theory to

the mathematical evaluation of effective investment rate, and the index in the rate of profit.

Seeing that the conditions requisite for the realization of the theory of socialist economics are getting increasingly fulfilled, we seem to be justified to reexamine the various categories of socialist economics of their possibilities and limitations in their application to the economic problems today.

In my previous work there were discussed the “socialist economics” of the Soviet and that of Socialist China, and this essay is an attempt to see what conclusion we may derive from them, as related to the propositions below:

- (1) The abolition or the socialization of all the means of production including land;
- (2) The conditions centering around the individual and the social value judgement, in other words, the conditions for the thorough application of the “principle of marginal theory of price.”

(Continued to June Number of *Mita-Gakkai-Zasshi*, vol. 61.)