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PRICE FLEXIBILITY AND EMPLOYMENT

By

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PREFACE

This volume is intended as a modest contribution to a much-discussed problem of economic theory and policy. Much of the controversy on the subject is due to differences of assumptions made by various authors. In order to arrive at satisfactory conclusions it is necessary to discuss the problem within the framework of the general theory of economic equilibrium. This theory provides a basis of analysis accepted by exponents of divergent views on our subject. For our purpose, however, the theory of general economic equilibrium had to be restated in a way which explicitly takes account of money. Such restatement leads to the conclusion that substitution between money and goods provides the key for understanding the equilibrating as well as the disequilibrating processes of the economy. The author considers this conclusion as the chief contribution of his study.

The interest in the problem and the recognition of the crucial importance of substitution between money and goods were inspired by Lord Keynes. For the tools of analysis the author is heavily indebted to Professor J. R. Hicks. Professor Hicks has provided the most up-to-date formulation of the theory of general economic equilibrium. He has also enlarged the theory by including an analysis of intertemporal substitution. Professor Paul A. Samuelson has developed a dynamic theory of stability of economic equilibrium of which extensive use has been made in the Appendix. The present volume builds upon the achievements of these three economists.

The author has endeavored to make the presentation as simple as possible. For this reason points of technical detail have been relegated to footnotes, of which there is a considerable number. A special Appendix develops the mathematical theory of stability of economic equilibrium and applies it to the problems of our study. The mathematically prepared reader may find that his understanding of the book will be enhanced by a previous perusal of the Appendix. This Appendix, however, is not a mere restatement in mathematical shorthand of the "literary" part of the volume. Though complementary with it, it covers independent ground.

The manuscript or parts of it have been read by several colleagues, friends, and students, all of whom have made valuable suggestions. They are: Bert Hoselitz, Leonid Hurwicz, Wassily Leontief, A. P. Lerner, J. M. Letiche, Jacob Marschak, Melvin W. Reder, Theodore W. Schultz, Tibor Scitovszky, Jacob Viner, and Abraham Wald. To all of them the author wants to express his thanks. Special thanks are due to Dickson H. Leavens who kindly undertook the editing of this book. The author is also indebted to the Cowles Commission for Research in Economics which has provided the funds for the publication and to the Social Science Research Committee of the University of Chicago which has contributed secretarial help.

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October, 1944

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