NOTES AND MEMORANDA

PROFESSOR PIGOU ON "THE CLASSICAL STATIONARY STATE" A COMMENT

PROFESSOR PIGOU attempts to show in his article that full employment in a stationary state would be established automatically provided wage-earners would act competitively, *i.e.* provided wage rates would continue to fall as long as any unemployment is in existence. The gist of the argument is roughly as follows:

In a stationary state equilibrium net investment and thus net saving must be equal to zero. Thus in order that full employment should prevail in such an equilibrium saving out of full employment real income must be equal to nought. If saving out of full employment income is positive, zero investment will entail a level of real income so much below full employment that the saving out of this income *is* nought.

Such may be the situation in the initial position but the existence of unemployment causes—according to the assumption of unrestricted competition between the workers—a continuous fall in money wages, and consequently in prices. Now Professor Pigou makes the assumption that when incomes fall the banking system maintains the stock of money constant. As a result the fall in money wages and prices causes a fall in the rate of interest; for with the rate of interest unchanged the stock of money would have to fall more or less proportionately to the money volume of transactions. Professor Pigou assumes that this fall in the rate of interest reduces somewhat saving out of a given income, and thus tends to increase employment, but he admits that even if the rate of interest (net of all risks) approaches closely to zero it may still not be enough to create full employment. He centres his argument on another factor which takes care of this task.

As mentioned above, on Professor Pigou's assumption the stock of money is constant, and thus its real value increases in the course of the wage fall. Thus, argues Professor Pigou, the real value of existing possessions increases. The richer people are, however, the less they are willing to save out of a given real income. Thus if the increase in the real value of the stock of money reaches a certain limit, people will save nothing out of real incomes corresponding to full employment. At that point full employment long-run equilibrium will be reached.

The following reservations must be made with regard to this argument. The increase in the real value of the stock of money does not mean a rise in the total real value of possessions if all the money (cash and deposits) is " backed " by credits to persons and firms, *i.e.* if all the assets of the banking system consist of such credits. For in this case, to the gain of money holders there corresponds an equal loss of the bank debtors. The total real value of possessions increases only to the extent to which money is backed by gold.[1] In other words, the total real value of possessions increases as a result of the wage-fall only by the increase in the real value of gold. If in the initial position the stock of gold is small as compared with the national wealth, it will take an enormous fall in wage rates and prices to reach the point when saving out of the full employment income is zero. The adjustment required would increase catastrophically the real value of debts, and would consequently lead to wholesale bankruptcy and a " confidence crisis." The " adjustment " would probably never be carried to the end : if the workers persisted in their game of unrestricted competition, the Government would introduce a wage stop under the pressure of employers.

M. KALECKI

Oxford Institute of Statistics.

OBITUARY

RICHARD THEODORE ELY

April 13, 1854–October 4, 1943

RICHARD THEODORE ELY was born at Ripley, New York, April 13, 1854, and spent his youth on a small farm at Fredonia, New York. His father, Ezra Sterling Ely, was a civil engineer. His mother, Harriet Mason Ely, was a teacher of art. Both were deeply religious, and the influence of this upon the son Richard is shown in the strong ethical bent of his economic thinking and writing.

Richard T. Ely graduated from Columbia University in 1876 at the head of his class, majoring in philosophy. Having a graduate fellowship from Columbia University, he went to Germany to continue the study of philosophy at the University of Halle. However, at Halle he came under the influence of J. Conrad's lectures on economics. The influence of Conrad's

[1] Or Government securities. The classicals and Professor Pigou do not postulate, however, the existence of National Debt as an essential feature of capitalist economy.