MONETARY FACTORS AFFECTING ECONOMIC STABILITY

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I. INTRODUCTION

When I was informed how the world had been divided between Robertson and Viner, and then a part of it subdivided between Perroux, Lundberg and myself, I at first judged myself lucky, because, unlike Robertson and Viner, I could forget about Progress and concentrate on Stability; moreover, 'real' factors are taken care of by Perroux and international aspects by Lundberg.

But I soon discovered that this was an illusion. In order to expound what I have to say on the scope and importance of 'monetary' factors, I cannot avoid referring to 'real' factors, for the double reason that the dividing line between 'real' and 'monetary' factors is by no means unambiguous, and that, however we draw it, real and monetary factors interact in complex patterns. And while dealing primarily with the problem of stability, one cannot well ignore the claims of the related and possibly conflicting objectives of progress and growth. There, again, the reason is that stability and growth, and factors making for growth and factors affecting stability, overlap and interact in a complicated fashion.

There will thus be some repetition and trespassing on other territories. But in view of the great complexity, the interrelatedness and the manysidedness of the various topics of these meetings, this is not only unavoidable but perhaps not altogether undesirable.

II. CRITERIA OF GROWTH

It is now fashionable to define economic growth or progress as the sustained increase in per capita output or real national income. While I shall conform to this short formula, I should like to remind you that maximum progress in this sense cannot possibly be regarded...
as an absolute and exclusive objective of economic policy. First, real
income per head must be interpreted broadly, making allowance for
leisure, steady employment, utility and disutility of work and other
intangibles. Second, allowing for all this and disregarding possible
ascetic or puritan value systems, the composition of total output and
changes in that composition must surely be accorded a prominent
place among policy objectives, in addition to overall size and annual
increase of per capita output. Composition refers to commodity
composition, especially between consumption and investment goods,
as well as to the distribution of income between social classes and
individuals.

The rate of growth of overall per capita income will clearly be
related to the composition of, and possibly to changes in the composi­
tion and distribution of, income. For example, the larger the propor­
tion of output invested, the greater can be the sustained rate of
growth. Similarly, relations certainly exist between the rate of
growth of income and the mode of its distribution between social
classes, although the concrete form of dependence is not very
clear; it may vary according to social conditions and is, within limits,
amenable to change by policy.

I cannot pursue these matters any further. Suffice it to say that
I accept an increase in per capita output (broadly defined) as the
criterion of economic growth, and maximization of that rate as the
objective, subject to the reservation that the composition and dis­
tribution of income do not change in a way that is deemed undesir­
able. The fulfilment of this condition is often tacitly taken for
granted — which is perhaps not altogether unreasonable in view of
the fact that historically the composition and distribution of national
income often remains surprisingly constant for long periods of time.

III. THE MEANING OF INSTABILITY

Let me now turn to the problem of stability as distinguished
from growth and progress. By economic instability we refer prim­i
arily to fluctuations in aggregate output and employment. Here
again, as in the case of growth and progress, the aggregate criterion
must be qualified. But, by adding employment to output, an element
of income distribution is implicitly introduced, viz. as between
employed and unemployed. However, even with stable aggregate
output and employment, price instability is possible; this would
introduce instability into the income distribution which might well
present very serious social and economic problems. Sharp changes