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Michihiro Ohyama

Macroeconomics, Trade, and Social Welfare

 Springer

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Preface

This book develops new elementary methods of welfare comparison and comparative dynamics between distinct and discretely positioned (rather than continuously related) socio-economic situations. They are not only realistic but also uniquely relevant to important problems of economic policy. Using these methods, I comprised the book to shed a new light to the theoretical analysis of Keynesian economics, international trade and social welfare.

Three chapters in Part I illustrate the merits of these methods applying them to the reconstruction of Keynesian economics, an important task in the current scene of political economy. Chapter 1 reexamines the Keynesian multiplier theory focusing on the concept of “public goods” as the object of government fiscal policy. The distinction between public goods and private goods is blurred in the standard multiplier theory spoiling its applicability considerably. In contrast, the government is here supposed to dictate the provision of public goods democratically or dictatorially while the amount of private goods (including labor services required for production of public goods) is determined by the adjustment of income in the market. Using the real general equilibrium model I show that the government is capable of achieving full employment even when the public good is intrinsically useless. It will, *a fortiori*, increase national economic welfare if the public good is useful in some sense or another. Furthermore, I demonstrate by the use of “expansion path” how the government can increase employment and welfare over time depicting the dynamic adjustment path under rational expectations. The ultimate destination of the path is *not* the neoclassical synthesis suggested by Samuelson (1954), but close to the neo-Keynesian synthesis advanced in *General Theory* (1936). With fixed production technology and static resource endowment, however, the steady state would degenerate to the long-run stagnation in the absence of government intervention, or its growth strategy.

Chapter 3 extends the real general equilibrium model of Chap. 2 taking account of firm-union transactions scheme introduced in Chap. 2. It develops the whole story of Keynesian Economics in light of liquidity trap and $IS - LM$ equilibrium originated by Hicks (1936). I explicitly consider the optimizing behavior of

households, firms and the government to delineate the monetary transactions between them and examine the effects of monetary policy in the short and long runs in the name of the general theory of money, income and distribution. The traditional monetary policy is well designed to realize the short-run effects on employment, but not necessarily appropriate as the means of attaining the long-run desirable effects on welfare and economic growth. In order to achieve such long-run effects, we may have to invoke the inflation-targeting. The final goal of Chap. 3 is to formulate inflation targeting rigorously and show how to switch from the traditional monetary policy to inflation targeting on the path leading to the long run steady state in some details.

I employed similar comparative methods in chapters in Part II to reexamine the modern trade policy issues such as gains from trade, the theory of tariffs, free trade agreements and the role of WTO. In Chap. 9, for instance, I reconsidered the role of WTO in the face of propagating regional free trade agreements and argue that it is high time to alleviate the restrictive stipulation of GATT Article 24 with a view to promoting global welfare even beyond the Kemp-Wang theorem. Chapter 10 modifies the general equilibrium model of Chap. 4 to incorporate elements of imperfect competition and variable returns to scale covering a related wide range of topics on trade and welfare.

In Part III, I applied our elementary methods of welfare comparison to dissolve modern controversies over welfare and efficiency in various socio-economic situations. In Chap. 11, we challenged the popular view that the pursuit of efficiency damages the realization of social values such as safety, health, environment, fairness and what not. I considered several examples that suggest the seeming existence of trade-offs between value and efficiency and reveal that trade-offs exist between different values but not between values and efficiency. The common fallacy stems from the neglect of cost required to realize value. The purpose of Chap. 12 is to comprehend a number of problems of mixed economies such as public goods, environments, peak load problems in a unified framework to deal with externalities, elucidating the structure of socially optimal tax-subsidy policies.

I wish to express my gratitude to the board of editors, Professors Ryuzo Sato, Hajime Hori, Kazuo Mino and Mariko Fujii for giving me the opportunity to publish this book in the Springer series of *Advances in Japanese Business and Economics*. Moreover, they freely gave me many searching comments which led to substantial improvements of the draft.

I would also like to thank my teachers, Professor Ronald Jones, late Professors Lionel McKenzie, Walter Oi at the University of Rochester, Professor Masao Fukuoka, late Professor Noboru Yamamoto at Keio University, late Professor Hirofumi Uzawa at the University of Tokyo, and Professor Murray Kemp at the University of New South Wales for continued interest in my works and encouragement. I am grateful to late Professors Kiyoshi Kojima, Miyoei Shinohara, Akira Takayama and Akihiro Amano for their inspiring instructions. I thank Ryutaro Komiya, Nobuo Minabe, Takashi Negishi, Koichi Hamada, Keimei Kaizuka, Hideyuki Adachi, Wilfred Ethier, Elhanan Helpman, Yasuhiro Sakai, Masayoshi Hirota, Walter Diewert, Makoto Ikema, Alok Ray, Anjan Mukherji, Shiro

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Tokyo, Japan
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Michihiro Ohyama

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Professor Ohyama conducted research at the University of New South Wales, Tel Aviv University, and the University of Minnesota. His research has ranged from general equilibrium theory to welfare economics, macroeconomics, and international economics. References to his works are found in *Keio Economic Studies* 42(1–2), 2005, a special issue in his honor.