

this way, the situation in which positive amounts of real output are always being carried over, from period to period, will not arise. But, this cannot be done in a decentralized manner within the present framework of assumptions. The first thing which comes to mind at this point is that maybe the trouble lies in the lack of sufficient overlap between generations, which prevents the right trades from being made.

In order to investigate this possibility, we introduce into the picture a financial intermediary of some sort (say, a banking system or a system of pension funds) which is assumed to exist concurrently with *all* generations. People are now able to save by holding the liabilities of this financial intermediary, which they will in fact prefer to do if by holding such liabilities for one period they can earn a positive rate of interest. Now, the intermediary can, in fact, offer holders of its liabilities a rate of interest of n per period simply by using the output deposited with it by generation t to redeem the liabilities which are held by generation $t-1$. The result is that all output available in period t is in fact consumed in period t , partly by generation t and partly by generation $t-1$. Generation $t-1$ receives whatever generation t decides to save as payment in full (principal as well as interest) of the debt incurred to it one period earlier by the financial intermediary. There will no longer be a carryover of output from period to period and, as a result, efficiency will be restored. Indeed, optimality will be restored as well, because in response to a rate of interest of n per period people will choose to save exactly the amount which leads to the optimal distribution scheme.

The outlook seems rosy until one takes a brief look at the balance sheet of our financial intermediary, where things are rather unfortunate: The balance sheet as of the end of period t shows zero assets and liabilities of $s(1+n)^t$, where s is the (stationary) saving ratio of people in their first period of life. This means that at the end of period t the net worth of the intermediary is given by $-s(1+n)^t$. Now by not doing anything (that is, by shutting down) the intermediary can guarantee itself a net worth of zero, and so one might argue that it will never choose to engage in the aforementioned transactions. On the other hand, it might be argued that the intermediary should be looked upon as a social security system which is not privately owned, so that its networth position is of no concern (or should not be of any concern). This is what Lerner seems to be saying when he decries (1959, p. 517) "those of the accountants who insist on the 'solvency' of the Social Security Administration." Later, Lerner seems to be taking a 180° turn by insisting on the very accounting practice which he had previously decried: "'Business is fine,' said the optimistic contractor. 'It is true that I lose money on every contract, but I always start a bigger one and get an advance that more than covers the loss on the old one'" (1959, p. 523).

Be that as it may, it is certainly the case that a privately owned financial intermediary will not rescue the economy from inefficiency. In other words, decentralization and competitive behavior still fail to result in efficient behavior.