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Economics - Some Relationships of Theory and Practice

The Failure of the "New Economics": An Analysis of the Keynesian Fallacies, by Henry Hazlitt. (Princeton: D. Van Nostrand Company, Inc., '959, 458 pp.)

The Classical Liberalism, Marxism, and the Twentieth Century, by Overton H. Taylor.
(Cambridge: Harvard University Press, '960, 122 pp.)

The Economic Point of View, by Israel M. Kirzner. (Princeton: D. Van Nostrand Company, Inc., '960, 228 pp.)

REVIEWED BY BENJAMIN A. ROGGE, *Dean, Wabash College*

IN *The Failure of the New Economics* Henry Hazlitt, whose economic analyses and interpretations have become well known over the years, has set himself the ambitious task of exposing the fallacies in one of the major contributions to modern economic orthodoxy-John Maynard Keynes', *The General Theory of Employment, Interest and Money*. Those to whom Keynes' views are sacrosanct are not likely to be impressed by the results. Even those economists who have generally rejected the Keynesian analysis may wish to quibble over some of the handling of technical details of the argument. However, Hazlitt has had the courage to say bluntly what some of these men must often have wished to say, to wit, "The emperor has no clothes."

He charges Keynes with having moved from fallacious premises to false conclusions and outright dangerous proposals for action by government. This would seem to be sufficient, but he also charges Keynes with poor writing, sloppy and inconsistent handling of definitions, and a chaotic development of his theme. Strangely enough, he is able to quote most of the prominent followers of Keynes in support of his complaints about style and use of language.

In brief, the Keynesian argument runs as follows: (1) the level of employment is determined by the level of total dollar spending in the economy; (2) changes in the level of total dollar spending in the economy are largely produced by inconsistencies in the saving and investing decisions in the economy, e.g., if savers decide to save more than investors decide to invest, the result will be a drop in national income and a drop in employment; (3) the automatic adjustment mechanisms (in which the orthodox, pre-Keynesian economists placed their faith) do not work to remove such inconsistencies; (4) the government should stand ready to use its own spending and taxing to correct the inconsistencies wherever they threaten to appear, and thus keep the economy on an even keel at a level of full employment. In addition, Keynes predicted a *chronic* tendency for the economy to fall below the full employment level of total spending (the famous "stagnation thesis"), thus requiring of governments never-ending supplements to the spending stream through continuing budget deficits.

Hazlitt meets Keynes head on at each point in the argument. He charges Keynes with ignoring the fact that full employment can be achieved with *any* level of total spending, provided only that the wage price level is appropriate, both for the whole economy and in each of its sectors. He demonstrates that the Keynesian thesis of the possible inconsistency of savings and investment decisions was arrived at by definitional sleight-of-hand.

He reminds the reader that pre-Keynesian economists had always recognized that their conclusions on saving and investment would not follow if the adjustment mechanisms (particularly the interest rate) were not functioning-and he argues that these mechanisms could work if they were not prevented from working by various government interventions, including inflating of the money supply. Finally, he argues that the Keynesian policy proposals would not only not remove the true sources of instability in the economy (which are said to lie in unwise monetary policy), but would actually prevent the necessary and desirable adjustments in wages, prices and interest rates from taking place. In addition, the Keynesian policies, if long continued, would produce continuous inflation and an ever-more socialized economy.

Hazlitt is a skilled expositor and rarely is the layman given this kind of opportunity to peer over the shoulders of the professional economists as they debate the policies from which he (the layman) will benefit or suffer.

A second opportunity for the non-professional to come to a better understanding of lady's issues is provided in Professor Taylor's book, *The Classical Liberalism, Marxism, and the Twentieth Century*. The book consists of four lectures delivered in 1958 at the Thomas Jefferson Center for Studies in Political Economy at the University of Virginia.

In the first lecture is a genealogy of the central themes in the American tradition-individualism, free market economics, and liberal democracy. He traces these themes back through Adam Smith and Locke, to St. Thomas Aquinas and to their Greco-Roman and Judaic-Christian beginnings.

The second lecture is a similar treatment of socialism, with particular emphasis on the contributions of Karl Marx to the socialist tradition and provides a particularly clear and readable primer of Marxian analysis.

In the third lecture he describes the challenge that modern socialism presents to American liberalism today, including an analysis of the differences between mid-twentieth century communism and classical, Marxian communism. In the final lecture he discusses the need for a revised and revitalized liberal philosophy to meet the communist challenge. In particular, he asks for renewed concern with an "all-inclusive vision of the whole and the grasp of fundamental, general principles without which we lose our way and become victims of growing and multiplying, intellectual and moral confusions."

The third book, Israel Kirzner's, *The Economic Point of View*, can be recommended both to the specialist and to those intrepid amateurs who are willing to struggle with its style and its numerous references to the literature in the field. It is probably the best single reference book now available on the history of the discussion of what constitutes "the economic point of view." Kirzner traces the discussion from approximately the time of Adam Smith, when economics was thought to be a wealth-centered study, through the period when it was thought to be centered on man in his wealth-getting activities, to the more modern definitions of economics as a science of human action (the *praxeological* view of economics, associated particularly with the name of Professor Mises).

Those who are tempted to ask, "What difference does it make how economics is defined?", would do well to read this book and find out. For example, the early definitions of economics in terms of wealth-getting were partly responsible for the low repute of the science. Its concern seemed to be only with the "vulgar" activities of man or when he was operating at his worst. The praxeological view, in which economics is viewed as the study of man in the process of making rational choices among alternatives, relieves economics of much of the stigma that was once attached to it for definitional reasons alone. This is a reference book that every economist, professional or amateur, should have on his shelf-after reading.

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