

which he regarded as economically and socially harmful, and savings, exemplifying for him an age-old Puritan fallacy; consumption was for him the source of economic growth; he flirted long with Malthusian population theories about "excessive fecundity," for him the cause of revolutions and other evils. True, false, or neither, are not such views and interests natural to a man of Keynes's values and personal predispositions or, to put it more crudely, as Keynes did, natural to a man who found the Arabs of Tunis "wonderful, very beautiful and the first race of buggers I've ever seen," as if their very existence did not demolish his enraptured misapprehension!

To say that Mr. Skidelsky has corrected many misconceptions about Keynes is perfectly true, but a totally inadequate tribute to his achievement. This is not a nitpicking commentary on other people's errors but an artistic triumph, a virtual resurrection, a living portrait of a remarkable man, seen for the first time as a complete whole and alas, thus seen, revealing himself as in some respects woefully incomplete. But not in all respects.

Mr. Skidelsky repeatedly reminds us of how far above his values Keynes continuously rose. Indeed, says Mr. Skidelsky, "many economists have had higher ethical ideals; none have achieved so much practical good." A bit thick this, in a field once graced by Adam Smith—Shakespeare, say, to Keynes's Shaw or Noel Coward. Yet Keynes's loyalty to free trade, his tireless work to create arrangements and institutions favorable to it, did produce for us thirty years of unequalled prosperity, only now in jeopardy. For this new age of the Antonines he deserves our abiding gratitude.

Wherever four economists were gathered together, it was said, there would be five conflicting opinions, two of them advanced by Mr. Keynes. He was infinitely various, fruitfully self-contradictory, often self-correcting. For whatever poisons or quack remedies he recommended, he usually supplied his own antidotes. Dubbed "the father of inflation," for instance, no one of his generation wrote more eloquently or harshly about it and its dire consequences. It was widely rumored that at the end of his life, he was gravely disturbed by some of the possible consequences of his theories, rightly or wrongly interpreted and applied. Never mind, he is reported to have said, there will be time for me to put all that right. But there wasn't. In the short run, alas, he was dead. Wiser are those who think always of the long run, and bear in mind that it may start tomorrow! □

WASHINGTON BEDTIME STORIES: THE POLITICS OF MONEY AND JOBS

Herbert Stein/The Free Press/\$19.95

Melville J. Ulmer

Collections of previously published essays are by definition retreads and justify resurrection between hard covers only to preserve the enduringly worthy—literary gems, classics of humor, philosophical wisdom, and the like. Herbert Stein's *Washington Bedtime Stories*, despite its intriguing title, more closely resembles the scrapbook of a witty and uncommonly skillful economist. As such it is not prone to keep a reader turning pages, nor is its choppy succession of newspaper columns, magazine articles, and addresses likely to prove especially educational. Nevertheless, for those who are fans of this former presidential adviser (under Richard Nixon), the book affords an opportunity to browse nostalgically among these samples of his output; and for others there are a few interesting economic questions raised and answered.

By "Washington bedtime stories" Stein means tales "made up" by his professional colleagues to "amuse or frighten the citizenry," as he puts it in a brief preface. But actually, though there is ample criticism in these pages, there is little if any reference to the publicity-seeking alarm-bell ringers that one might expect from this introductory comment. With just three exceptions—devoted to doomsaying radicals—all forty-four of the essays in the book deal with current economic issues and their proposed solutions—current, I should hasten to add, when Stein wrote them. The great majority of the contributions date back to the years 1980 through 1983, with a few of earlier vintage and a very few later. Hence there is that inescapable risk for author and readers; in the dynamic scene of modern politico-economics, public issues and opinions about them obsolesce almost as rapidly as newspaper headlines.

Nevertheless, there is an underlying theme of seminal interest that in some degree holds together all the otherwise disparate and ephemeral contributions.

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This is the proposition that the practical knowledge of economists is severely limited, so severely, Stein writes, that "on many questions of economic policy there is no bridge between theory and decision. Travel between theory and decision is not a bridge but a flight of fancy. The knowledge of economists is far short of what would be reasonably needed for making a decision."

In perhaps the longest essay in the book, "Bricks Without Straw," Stein provides examples. He quotes one un-

identified source—"a leading government economist"—as saying that he was certain that the upcoming budgetary deficit would have a significant effect on business activity, but he didn't know whether it would push it up or down. That kind of modesty wins Stein's approval.

The same essay points to the familiar allegations that the huge federal deficits, rising so sharply since 1982, would "crowd out" private investment, raise interest rates and inflation too, and Stein concludes that we still really do not know. Perhaps he would be forced to agree, at least, that we know the allegations could not possibly have been true since, as Warren Brookes has pointed out, interest rates have plummeted, the inflation rate has fallen, and ten million new jobs have been created even as the federal deficit has risen to a record high of \$220 billion.

All of which, of course, does not prove that government debt is a good thing. Stein's well-known position is

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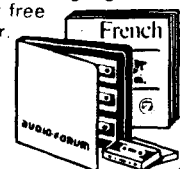
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that the menace of the deficit should be banished as soon as possible by a brisk increase in taxes.

In three of the essays—entitled “Economics at the *New Yorker*,” “Baying at Economists,” and “Industrial Policy à la Reich”—Stein deals with a group of economists whose knowledge, he feels, falls well below the average. These are the radically inclined economic planners whom, in an abbreviated list, he identifies as Robert Reich, Robert Lekachman, Michael Harrington, and Robert Heilbroner. In summary, what these writers have in common is a vision of capitalism as an already feeble system drawing ever closer to its inevitable demise. They seem to rejoice at this, since from the ashes of our present society they see the ascent of their own glowing vision of central planning come to life, with of course unprecedented progress and equal shares for all. They are also

unanimous in urging that reforms begin at once, especially in redistributing income. Concerning Reich’s magnum opus of 1983, *The Next American Frontier*, Stein writes:

This book has three elements: a description of the terrible present state and future prospects of the American economy, a theory of the causes of that dreadful condition, and a prescription for rescuing us. The description of our condition is grossly exaggerated. The theory of the causes of the alleged condition is inadequately supported. The prescription is, with some exceptions, unpersuasive.

Nevertheless, Reich’s voice emanated from that citadel of intellectual authority, Harvard. Moreover, its clarion call came like sweet music to the ears of campaigning politicians hungry for a “liberal” theme. It is no surprise, therefore, that weighty endorsements sprouted like weeds in springtime, including those of Mondale, Hart, and affiliated Democratic

stalwarts. Stein says that he would have found this “frightening” except when he “thought of politicians what Jimmy Walker thought about girls. He never knew one to be ruined by a book.”

Equally brusque is Stein’s response to the other members of this school, as in the closing words of his review of Lekachman’s *Economics at Bay: Why the Experts Will Never Solve Your Problem*:

It is symptomatic that the word “freedom” does not appear in the index of Mr. Lekachman’s book, except as part of the title of a work by Milton Friedman: I do not think that the word appears in the text at all. Similarly, although there is admiring exposition of Marx’s vision, there is no reference to the Soviet Union, the living embodiment of that vision, except as a country to which Richard Nixon sold wheat.

The fragility of economic knowledge once again captures Stein’s interest in his essay on “The Deficit-Dollar-Trade Nexus.” Here he is especially concerned with economic judgments about foreign trade as popularized in the media. Whether he holds reporters or their professional sources responsible isn’t disclosed, but for one who cautions restraint in the expression of opinions, he is forceful about the possible harm done. Contrary to the complaint that American purchasing power has been drained by a predilection for bargain-priced cars, steel, and textiles from abroad, Stein staunchly contends that an excess of imports over exports is a welcome symbol of American prosperity. As he sees it, any possible depressing effect on our business activity or employment can be easily dispelled by a proper monetary policy: specifically, one that would generate “enough demand to absorb all the goods and services produced domestically plus the goods and services imported from abroad.” Q.E.D. Or is it?

Stein uncovers similar bugaboos in the fearful observations that the United States is becoming a service economy and a debtor nation to boot. So what? he asks, and promptly replies:

In the first place, there is nothing particularly wrong with being a service economy. If the rest of the world will simply supply us with steel, oil and other hard goods in exchange for reruns of “Dallas” and essays on economics, and if the terms are good, there is nothing wrong with that situation. In the second place, however, we are not becoming a service economy. In 1984, the output of goods was as large a proportion of total output as it had been in any year since 1957. The output of durable goods was a larger proportion of total output than it had been at any time since World War II.

As regards our novel (for modern times) role as a debtor nation, he argues that the location of a nation’s

assets and the nationality of its creditors are immaterial. What matters is only their magnitude. He concludes: “For the United States there is no disadvantage or danger in that people in the rest of the world find the United States a good place to invest.”

As broad generalizations Stein’s points are well taken, and would require no qualification at all if free trade prevailed as fully in practice as it does in the literature of professional economists. For there is no doubt, as Ricardo was the first to prove, that unfettered trade would optimize allocation of the world’s resources and maximize the supply of goods and services for all. But under pressure from their own mishandling of domestic affairs and embarrassing unemployment at home, our treasured allies and major trading partners have not behaved like the best of friends. They have effectively blocked imports of leading American products and subsidized their own exports to our lush markets. So have the recipients of our financial aid and political comfort like South Korea. The results have not in every instance been happy, as the inhabitants of Michigan, Minnesota, Illinois, West Virginia, and elsewhere can testify. In short, severe disruptions in the allocation of American resources have idled people and machines, and not all of them are justified by the valid shifts in comparative advantage that Ricardo, and now Stein, had in mind. Yet if the latter’s position is, even in part, another bedtime story, adding a dose of protective retaliation would indeed produce a truly grim fairy tale. The need is for a solution of another kind.

If Stein can be held to display a bias in these essays, it would be the understandable one of favoring the more technical members of his craft, commonly called the mainstream. They populate most of the university economics departments today and embrace nearly all the actual or potential Nobel prize winners. Evidence of Stein’s protective instincts, beyond the call of duty as it were, are rare but significant. The first has to do with the wave of social engineering that began with the New Deal and culminated in the ridiculous pretenses for “fine-tuning” fiscal policy, leading to a roller coaster of deepening unemployment and flaring inflation and ending only with the arrival of Ronald Reagan. One might imagine that if professional responsibility were assigned for whatever faults are acknowledged in this pre-Reagan span of economic history, it would lie with FDR’s famed “Brain Trust” and, more definitively, with the highly visible mainstream economists, like Walter Heller and Ar-



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thur Okun, who promoted and applied "Keynesian" theory in a vainglorious effort to make business cycles obsolete. But no. To my utter astonishment, Stein passes the cup of hemlock to John Kenneth Galbraith, of whom he writes: "He promoted, and in some cases originated, many of the ideas which guided that wave [of social engineering] until recently: that fiscal policy should be used to achieve economic stability and high employment."

Now, despite his public eminence, Galbraith has much to answer for in his writing, most grievously his dangerously naive view of the Soviet Union. But he had virtually no influence on policy in the 1930s; during World War II he assisted Leon Henderson in managing price controls; in the 1950s he was out completely; in the 1960s John Kennedy shipped him off to India; and in the councils of government he has not been heard from since. The people who were responsible are the famous names (rarely, if ever, mentioned in Stein's book) who populated the President's successive Councils of Economic Advisers and told the greatest bedtime stories in modern history.

A second evidence of Stein's protective proclivities appears in his essays, "Some Supply-Side Propositions" and "What Happened to the Supply Side?" As most readers will recognize, supply-side economics arose with the Reagan Administration as a response to the "liberal" activist policies that had been increasingly dominant since the 1950s. The new doctrine had two elements. First, under certain circumstances, a reduction in taxes would actually increase total revenue collections. Second, on a broader canvas, the new doctrine questioned the identity of the prime source of economic welfare—not the *only* but the *prime* source. For this role, it would replace government and its capacity for redistributing income and subsidizing favored activities, with private enterprise and its capacity for producing the goods and services people want.

Stein makes no mention of the second element in supply-side doctrine (with which he probably agrees), but bluntly challenges its first, which he interprets as a blatant contradiction of mainstream wisdom. His zeal leads him to overlook three little words in his oversimplified version of the supply-side doctrine, which he states as follows: "A tax reduction, not accompanied by a reduction of government expenditures, will raise the total revenue, and will do so by operating on the supply side of the economy." On that basis Stein reasonably asks, wouldn't that feel so good that we'd

want to do it again and again endlessly? Why, to be utterly absurd, have any taxes at all?

The three little words omitted from the supply-side dictum are "under certain circumstances." Quite accurately, Paul Craig Roberts, Bruce Bartlett, Arthur Laffer, and others judged that the circumstances were especially propitious for a tax cut at the end of the 1970s. Partly because of bracket creep, the advance in taxes in the preceding ten years had been unprecedented, strangling business investment, individual enterprise, risk-taking, and productive effort in general; encouraging tax shelters, other forms of tax avoidance, and the illegal activities of the underground economy; reducing the cost of leisure to make goofing off a national pastime. A brisk reduction in the tax burden was intended to reverse all these effects. The tax cut of 1981, although smaller than proposed,

did in fact expand federal revenue and restore prosperity. Why the budget deficit rose is another story.¹

A final example of Stein's concern for the repute of his mainstream colleagues requires a return to his critique of the radical economists described above. There he properly points out that Lekachman's book does not mention the word "freedom" even once. What he fails to note is that the same word is missing from the works of Arthur Okun, James Tobin, and Lester Thurow—mainstreamers all—who happen to share the radicals' zeal for planning and income equality. The fact is, no matter who is writing, combining freedom with equality of result makes no more sense than applying whipped cream to a dill pickle. □

¹See my "Open Secrets of the Deficit," *TAS*, July 1985.

ERNIE'S WAR: THE BEST OF ERNIE PYLE'S WORLD WAR II DISPATCHES

Edited by David Nichols/Random House/\$19.95

Kent Owen

Had Ernie Pyle not been assigned to cover World War II, he might be recalled today, if at all, as a journeyman feature writer for the Scripps-Howard syndicate. During the thirties he entertained his readers with folksy local-color stories about the odd characters who used to people America. Pyle struck just enough of the quasi-rube pose to bring off a squinty-eyed innocent's view of his country as one big happy small-town family with plenty of eccentric relations. At the time it was competent, amusing, run-of-the-mill work, pretty good for what it was.

Instead of finishing a career in semi-obscurity, Pyle went to war, found his great subject, and filed dispatches that millions took to heart. Off and on from December 1940 until April 1945, his words made Americans understand how the war was being fought and who was doing the fighting, and more than that, what it felt like to be there—what the war meant in human terms.

Pyle came to stand for decency, honesty, sincerity—the moral qualities Americans wanted to find in their soldiers and in themselves. With no special talent for saintliness, he was taken to be a moral witness to the war,

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called on to give evidence about its conduct. In a trade quick to make much of its own heroes and martyrs, Pyle's death by a sniper's bullet in the last days of combat was enlarged into epic

tragedy, as if Homer himself had been slain before the walls of Troy.

It was also Pyle's fate to have been born a Hoosier. Which meant that among a people hungry for recognition, let alone respectability, he would inevitably get turned into a folk hero, fit to take his place with Davy Crockett, Jesse James, and Casey Jones in the Pantheon of the Common Man. Or in Indiana's own shrine of the immortals with Abe Lincoln, James Whitcomb Riley, Eugene V. Debs, and John Dillinger. Even though he chose to settle in New Mexico, the mark of the Hoosier was on him, unmistakably so. It wasn't so much his style, which used to kid around in the manner of George Ade, Kin Hubbard, and Don Herold, indulging in playful exaggeration and rib-nudging irony—the humor was still there to leaven the war reports, but in a subdued tone. Rather, it was his way of standing aslant of everyday life and looking at it on the angle, thus being at once involved and somewhat detached. Hoosiers developed this form of self-protection early on, like the quills of a porcupine or the stink of a skunk.

Even at that, Pyle had in common with old-stock Hoosiers an unwillingness, indeed inability, to regard anyone impersonally. Like his landmen, he found it hard to deal with human beings as so many commodities or inanimate objects, deprived of essential, inherent worth. This doesn't suggest that Pyle (or, for that matter, Hoosiers in general) hurried to embrace his fellows with outpouring affection; only that he sized up persons as singular in-

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