

Business Cycle Theory

PROSPERITY AND DEPRESSION. By Gottfried von Haberler. New York: Columbia University Press. 1937. \$2.

Reviewed by ELI GINZBERG

IN 1848, Karl Marx, convinced that the periodic depressions typical of industrial capitalism were subject to intensification, prophesied the collapse of the system. Economists, before and after Marx, preoccupied with the study of trends extending from creation to eternity, found little time to analyze mundane fluctuations of shorter duration. Not until the publication of Professor Wesley Sprague Mitchell's "Business Cycles" in 1913 did the alternating periods of prosperity and depression attract the more than passing attention of professional economists.

Neglect quickly gave way to solicitude, a shift conditioned as much by contemporary problems of instability as by insight into the shortcomings of the older theories of stability. So rapid was the growth of the literature on business cycles that in 1930, the Assembly of the League of Nations "decided that an attempt should be made to coördinate the analytical work then being done on the problem of the reoccurrence of periods of economic depression." The inquiry, divided into two stages, is concerned first with a critical evaluation of prevailing theories; secondly, a confrontation of these theories with historical facts. "Prosperity and Depression" presents the results of the first stage; the second is still in process.

Haberler devotes the first part of his book to an outline and criticism of the monetary, over-investment, under-consumption, psychological, and harvest theories of business cycles. In this, he had the benefit of consultation, oral and written, with the progenitors and adherents of these several doctrines. His presentation is as lucid as his judgment is sound; nor can elements of pedantry soaked in the milk of kindly judgment detract appreciably from his achievement.

In part two, he essays the more difficult task of constructing a synthetic exposition of the nature and causes of business cycles. Strategic are factors technological, monetary, and psychological whose interaction goes far to explain the processes of expansion and contraction. To illustrate, optimism about the future sale of automobiles will lead to the employment of men and to the purchase of materials not only in the automotive but also in allied industries; in turn, the banking community will create the money necessary for the hiring of men and the buying of equipment. These factors tend to reinforce each other. Only if new money can no longer be created, or worse, if the expectations of entrepreneurs are proven false, will the process be reversed. Cumulative tendencies typical of the advance will now hasten the retreat. This is the core of Haberler's analysis. He has interpreted the economists correctly, he has chosen wisely from their work. What

does this synthesis imply for economic theory, for practical affairs?

Clearly, economics has not emancipated itself from its philosophical heritage: explanations of reality still proceed in terms of a revealed monotheism, at best a trinitarianism. Elaborate superstructures are forced to balance upon the most fragile foundations. To explain the totality of economic life, Haberler offers us a choice between fluctuations in the prodigality and parsimony of bankers, the inevitability of changes in the rate of growth of important industries, the obliquity of entrepreneurial judgments, manic-depressive tendencies in the business community, and variations in the behavior of Venus.

At this level, economic theory is either bad poetry or worse philosophy. When its propositions are broadly stated, everything in the universe can be subsumed thereunder. One is vaguely reminded of the opening lines of the Book of Ecclesiastes which likewise advance a theory of economic development but in a prose of slightly different quality. In the hands of the meticulous, the statement of a few assumptions and the manipulation of a few additional deductions usurp the stage; the myriad pieces of reality are forgotten, in fact their mutation is overlooked.

Haberler's review of a quarter-century development of business cycle theory is depressing, yet not hopelessly so. For instance, his case material will hasten the demise of the economic theory of old which dealt with eternal verities. The moral is clear: economics must become a study of economic change, and that alone. Perhaps it is true that the rapidity of change in economic events will result in a severe lag between their occurrence and the accumulation and interpretation of the data; perhaps students will be forced to imitate the Red Queen in "Alice"—to run more quickly in order to continue standing still. From this dilemma there is no escape. Men of genius will select for study the strategic variables; the mediocre will continue to collect rubbish. The future of economics, like the future of every discipline, will depend in the first instance upon the quality of its practitioners.

Except for idle men who consider it an idle sport, economics will always be intimately related to politics and if present trends continue the intimacy will grow. The last depression witnessed a substantial increase in the state control of economic life; every government was forced to act. Although the action of democratic governments was determined largely by political compromise—compromise is of the essence of democracy—economic theory was not without influence upon the course of affairs. Only fools act without taking thought and though politicians may be blackguards, they are not fools.

Indirectly, "Prosperity and Depression" throws considerable light upon this association of economics and politics. If the experimentalism of modern governments, above all our own, needs justification, here it may be sought. Mr. Roosevelt's skepticism of economic truths is founded

in facts; Haberler is an invaluable source. Only when Mr. Roosevelt lost the wisdom which was his, and gave hostage to the economic theories of a particular school, was he led far astray.

Economics is not a revealed, nor even a historical, religion. It is a way of thinking. In a world such as this, in which the problems demanding attention and solution tax beyond endurance the abilities of the men who created them, economic theory has a role to play, though it be minor. Upon occasion, its analytical tools can facilitate the process of separating sense from nonsense; it can aid in the support of the good and in the destruction of the foolish. But it must not be forgotten that death is the reward of inaction. Though the courageous cannot escape, they have a right to venture.

Mr. Ginzberg, the author of "The House of Adam Smith," is a member of the department of social science of Columbia University.

Modern Warfare

EUROPE IN ARMS. By Liddell Hart. New York: Random House. 1937. \$2.50.

Reviewed by R. ERNEST DUPUY,
Major, F.A., U.S.A.

WHEN Liddell Hart, like the peddler named Stout, moves out on the King's highway of war, the professional soldier feels kinship with the little woman in the nursery rhyme whose petticoats were cut so short that "... she began to cry, 'Oh! deary me, deary me, this is none of I!'" This provocative author's shears of rationalization are still busy in his latest work—a loose compilation of articles previously published in newspapers and periodicals here and abroad.

Taking very sketchily the Spanish fury as symptomatic of the general trend of modern warfare, Captain Hart makes the amazing statement: "Fighting spirit itself is a factor of diminishing importance." Had he supported this theory by historical example of Franco's initial march on Madrid, stressing it for what it was—primary lesson from Spain that untrained enthusiasm cannot cope with trained discipline in open campaign—one might partly forgive the remark. But no; he ignores this lesson completely. Later on he declares that the Abyssinian campaign has shown the general staffs of the world the "fallacy of their argument that machines are not a substitute for men," bringing us squarely back to the original Liddell Hart apologia for the machine, without consideration of the human brain which must direct, the human body which must control, and the limitations of human flesh and blood which must affect any and all mechanization.

His comment on the Italian reverse at Guadalajara that a mechanized force "should be trained to keep off the roads, to move on wide fronts, and to maintain a state of controlled dispersion" is a masterpiece of theory untrammelled by consideration of the earth's surface. He correctly analyzes this Guadalajara offensive as one of motorization rather than mechanization but has almost entirely over-

looked the one real lesson taught—the vulnerability of a motorized column to air attack.

Of his rambling dissertation upon the shortcomings in training and higher education of British officers, including a partly erroneous comparison of Sandhurst to West Point, but one item is of interest to the American reader—the necessity for analytic study of military history. Far too many professional soldiers on this side the water also dodge the subject, one stressed long before Liddell Hart's time by the greatest of captains—Napoleon. Incidentally, Captain Hart proves in his discussions of capital ships and sea power that he himself could with advantage devote some study to the works of the greatest expositor of sea power—Mahan.

Catch-phrases and clichés paraphrasing many principles of war spring from the author's facile pen in his discussion of the modern tactical problem. His confusion of the terms—*offense* and *aggression* in relation to the art of war—a fallacy common today amongst pseudo-tacticians—clouds the argument. Any generalization that defense is superior to offense ignores the basic fact that the winner of any fight is he who delivers the decisive blow—an act of offense and not defense; that in so doing he is or is not defending himself from aggression is beside the point.

A really sound conclusion of Captain Hart is that the trend of modern warfare is away from the "nation in arms" and towards smaller, highly professional armies—in other words to the "nation at war," with massed resources supporting the armed forces. His discussion of the Mediterranean question is perhaps the best part of the book. A map would help here—even the roughest of sketch-maps—as also in other parts of the work.

Captain Hart touches upon the highlights of present major-nation armament without becoming too technical and with wisdom avoids prophecies. He is perhaps a bit optimistic in giving consideration to the possibility of Soviet Russia ever mobilizing 6,000,000 men in a fortnight, and perhaps a bit too pessimistic in his estimate of the German high command. He clearly notes the moral rather than physical effect of parachute-dropped forces in a future war, and punctures the fantastic bugaboo of gas-terror from the air. He omits all reference to the highly important factors of Poland and the Little Entente.

Major Dupuy's own book, "If War Comes," written in conjunction with George Fielding Elliott is to be published in October by the Macmillan Company.

Contemporary Nationalism

NATIONALISM AND CULTURE. By Rudolf Rocker. New York: Covici-Friede. 1937. \$3.50.

Reviewed by CRANE BRINTON

THERE ought to be a word for this sort of book, but there isn't. Within certain limits, the reader knows what to expect when the reviewer analyzes for him a novel, a poem, a play, or even a biography or a history. Mr. Rocker, however, is writing about political philosophy, economic theory, metaphysics, history, anthropology, literature, theology, sociology, and a lot else. One is tempted to use Mr. Sorokin's recent unblushing coinage, "physico-psycho-sociological" writing, lumbering though it be. Perhaps, for lack of a better word, social philosophy will do.

Mr. Rocker's solution of the social problem is the anarchist one—a solution rarely reached by a German. Hitler's Germany is no place for anarchists, and this book is not in a properly dated from Croton-on-Hudson. Mr. Rocker escaped from the Nazis in 1933 with nothing but the German manuscript of this book in his possession. Its publication in the original was obviously out of



LIDDELL HART

the question, but after many difficulties the loyal efforts of friends have borne fruit in an excellent English translation by Mr. Ray E. Chase. The book is an interesting addition to the literature of philosophical anarchism and a rather pathetic evidence that even in these authoritarian days the moral fire that inspires the anarchist movement has not quite died away. It is a long book, nourished on the omnivorous reading so often found among the countrymen of Spengler, and so preoccupied with getting to the bottom of things that it frequently gets lost. Its core is a destructive analysis of contemporary nationalism, which has certainly been done more incisively by others, but not more exhaustively and not more bitterly. Mr. Rocker will not make converts, but one may assume that he hardly hopes to do so.

Two forces, in the author's own terminology, are contending over man's destiny—religion, which is bad, and culture, which is good. The root of religion is the will to power, the root of culture the will to coöperation and freedom. Religion has assumed various forms, originating apparently in primitive animism, and passing through fetichism and theism to its modern form, the worship of the State. In all its forms it has been the means by

which a power-hungry minority has secured the obedience of a cowed and deluded majority. With religion Mr. Rocker finds associated the things he dislikes—social castes and classes, resistance to change, intolerance, pride, war, cruelty, formalism, and so on. Power, hardened into religion, ends by corrupting its holders. The ruling minority becomes too stupid and unenterprising to rule, and is overthrown by another minority, which in its turn goes through the same process.

On the other side the forces of light are to be found in the benign and natural tendencies of the free human spirit, which lead men to wish to live and let live, to build their better impulses into culture, to join with their fellows in the search for more varied outlets for these impulses, to tolerate to the utmost the differing and fertile capacities of human beings uncursed by power politics. Mr. Rocker is a bit hard put to it to find a concrete society of this sort on earth, but he is inclined to see in the free urban communities of the Middle Ages something approximating his desires. This good political situation he calls federalism, as contrasted with evil nationalism. *Ecrasez l'infame* means today "crush the State." The outlook may seem dark, but the revolutionary energies of the last four hundred years, though often led astray, have really been directed towards true freedom, and we must not let them lag. One, or a few, more efforts and the incubus of State-Church-Politics will be lifted.

There is no more use in trying to "refute" Mr. Rocker than in trying to refute Keats or Mary Baker Eddy. Either Mr. Rocker's words evoke in you agreeable emotions of consent, or they don't. But it may be worth remarking that the anarchist temperament is generally faced with an unpleasant choice. Either the bad—authority, government—is incorporated in a minority of wicked men who have by force and fraud secured control over a majority of good men; or else the bad is incorporated in a majority of wicked or stupid men, the Hitlers and the Babbits, against whom a minority of good men are waging a hopeless, but ennobling and necessary, struggle. Not all anarchists face this dilemma squarely, but most of them are uncomfortably aware of it. Mr. Rocker is quite firmly on the first or democratic side, and holds the doctrine of the natural goodness of man in a pretty uncompromising form. This makes him a follower of Godwin, Fourier, Kropotkin, and other optimistic anarchists, who trust John Jones—up to a point—and look forward to "true" democracy. The second or aristocratic anarchist is a much more unhappy person, since his contempt for the masses is often contradictorily mixed with hope for their salvation. Nietzsche was clearly this sort of anarchist, and so, one suspects, is Mr. Bertrand Russell. The point of view embodied in the late lamented *Freeman*, and even the *American Mercury*, was an American variant of aristocratic anarchism.

It is perhaps possible to approach the study of man in society without ethical preoccupations, to be unmoved by such grand words as freedom and coöperation. This attitude, however, is even rarer than anarchism, and particularly rare among Germans.