

Past Economies and Present Policies

The Age of Keynes, by Robert Lekachman (Random House, 324 pp. \$6), assesses the influence of the great economist on present-day policy-makers. Arthur E. Burns is professor of economics at George Washington University, Washington, D.C.

By ARTHUR E. BURNS

IN HIS *General Theory of Employment, Interest, and Money*, John Maynard Keynes said: "... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men ... are usually the slaves of some defunct economist." This was said with misgivings in 1936, for he thought the wrong ideas ruled in public policy.

Now, thirty years later, a devoted disciple, Robert Lekachman, in *The Age of Keynes* casts his mentor in the role of the slavemaster of this generation of policy-makers. Keynes, the gifted pragmatist, would probably dissent, as does this reviewer. The 1960s and the 1930s are worlds apart, as Keynes foresaw before his death in 1946. His eminence in the history of economic theory and policy is secure enough without burdening it unduly.

The first four chapters of this lively, well-written book deal with the early life of Keynes, the gradual development of his theoretical views and policy positions, his extensive artistic interests, his successful financial operations on his own account and for King's College, the controversies over war debts and the resumption of the gold standard by England, Depression policies, and the *General Theory*. This is good reading with a minimum of technical jargon. While the discussion of the *General Theory* claims too much for Keynes's originality, it brings out the salient features of this great work.

In particular Lekachman deftly draws the analytical contrast between the *General Theory* and what Keynes offhandedly terms the "classical theory." Here is Keynes's great analytical achievement: his emphasis on aggregate demand, its determination, and its deficiency in the stagnating economy of Great Britain. The basic ideas are not Keynesian. The Stockholm School, following the early lead of

Wicksell, had worked them out, giving substance to what Gunnar Myrdal previously called Keynes's "unnecessary originality." In less sophisticated form the aggregate demand analysis was fully understood more than a century earlier by Lauderdale and Malthus, and much earlier by another genius, Sir William Petty. Others could be mentioned.

Keynes's achievement was not analytical originality so much as an application of analysis to the Great Depression and what to do about it. Provocative, heretical proposals and slashing attacks on the vested complacencies of the British Treasury and the Bank of England enhanced the already great reputation of the author of the *Economic Consequences of the Peace*. But to no avail: officialdom was enslaved by the ideas of a distant and irrelevant past. Keynes's real influence on British policy had to wait until World War II, when the central problem was no longer unemployment. This book gives a good summary account of Keynes's policy frustrations of the 1930s.

Roosevelt was unimpressed by Keynes's views in 1934; the feeling was mutual. The New Deal spending policies were strictly indigenous responses to crisis conditions. Indeed, well before Keynes wrote the *Means to Prosperity* in 1933, the Hearst papers proposed a big public works program, and Hoover initiated emergency public works in 1932, adding to the deficit that Roosevelt criticized. Once in office Roosevelt called



John Maynard Keynes and Mrs. Keynes—"a superb salesmanship."

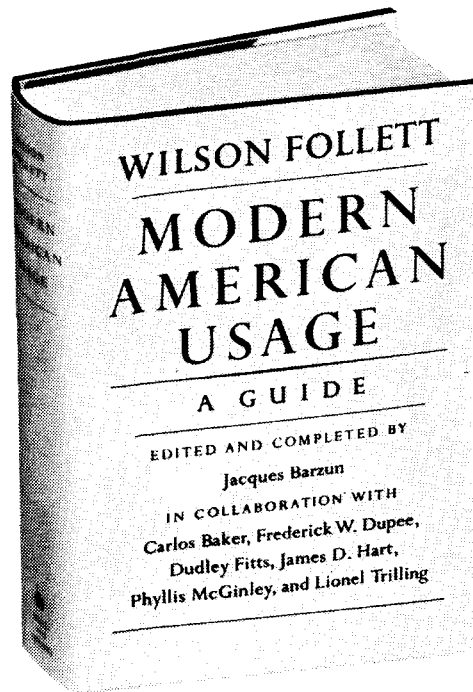
—Wide World.

for reduced spending, which was the antithesis of Keynesian doctrine. The subsequent spending programs bore no mark of Keynes. The ideas moved from short-run pump-priming, to cyclical compensatory spending, to stagnation fiscal policy. By the end of the decade Alvin H. Hansen had emerged as the principal theorist of deficit spending. Yet in 1937 he said of the *General Theory*, "The book under review is not a landmark in the sense that it lays a foundation for a 'new economics' ... The book is more a symptom of economic trends than a foundation stone upon which a science can be built." The age of Keynes had not yet arrived, as Lekachman notes. By 1940, however, the indigenous New Deal fiscal ideas and national income accounting converged with Keynes. He supplied a missing analytical apparatus, built upon the consumption, liquidity preference, and capital efficiency functions, and a Keynesian school took form under the leadership of Hansen.

BOTH in Great Britain and in the United States the war vindicated the central Keynesian idea: massive government spending and deficits could achieve full employment. But the Germans had shown this much earlier. The anti-Keynesians and those simply innocent of Keynes understood the point. Wars had always been stimulative; if this is Keynesian, then John Stuart Mill, Ricardo, Lauderdale, Malthus, to mention no more, deserve the sobriquet. The wartime problem was not, of course, the bolstering of aggregate demand but restraining it to minimize price controls and rationing and to assure the optimum diversion of resources to the war effort. Keynes's great contribution to British policy was the application of his national income and employment framework to war financing. War financing in the United States was non-Keynesian in spirit; Congress appropriated what was necessary and taxed what it thought politically expedient.

After a brief discussion of Keynes and wartime economic policy, Lekachman considers postwar problems and policies, from Bretton Woods, the Employment Act of 1946, to the Great Society and Harold Wilson's Labour government. Perhaps more than any single person Keynes was instrumental in getting the postwar international financial organizations established. However, his proposed International Clearing Union lost out to the International Monetary Fund proposed by the U.S., and perhaps he was more right than Harry Dexter White. Keynes's ideas were undoubtedly influential in the debate leading to the Employment Act of 1946, but the specter of the 1930s, the fear of postwar stagnation, and the sophisticated national

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At Mr. Follett's death in 1963, the book was two-thirds finished. Jacques Barzun, who had followed the manuscript's progress from the beginning, undertook the task of completing and editing it. He then submitted the work to six collaborators, Carlos Baker, Frederick W. Dupee, Dudley Fitts, James D. Hart, Phyllis McGinley, and Lionel Trilling, who greeted it with enthusiasm and gave it the benefit of their literary judgment.

The result is a book that Mark Van Doren described as one that "any conscientious writer will continue to

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income accounts analysis share in its enactment.

The postwar decades are the "age of Keynes" for Robert Lekachman. This characterization may mean nothing more than that the imprint of Keynes is evident on modern macro-economic analysis, or it may mean that Keynesian analysis and policy prescriptions as furthered by his followers are decisive on fiscal and monetary policy. Lekachman seems to have something of both in mind and as an unabashed Keynesian disciple he overstates both.

Keynes's *General Theory* decisively distinguished the analytical difference between (a) neoclassical equilibrium theory centering on the theory of the firm and the consumer, and (b) aggregative economics—the level of income and employment as determined by aggregate demand. This was a great achievement; the Stockholm group reached it ahead of him. But his genius was a superb salesmanship and a sense of the policy significance of the aggregative analysis. Refined, modified, amplified, made dynamic, and integrated into national income accounts analysis, the composite is modern macro-economics. Analytically this is neither Keynesian nor anti-Keynesian. It could be called Kuznetsian as well, if one has a taste for one-sided labels. The analysis is indispensable for some major policy purposes, and for his part in fashioning and popularizing it a great debt is owed Keynes.

On the policy aspects of *The Age of Keynes* Lekachman is simply unconvincing. Harold Wilson's defense of the pound by raising the bank rate and reducing government outlays is anti-Keynes of the 1920-40 vintage, as Lekachman sadly states. The Eisenhower Administration was non-Keynesian. Walter Heller's conversion of John Kennedy to the tax cut represents for the author the triumph of the "new economics," carried on by Lyndon Johnson's Great Society program. By this time Keynes would be uncomfortable were he alive. Bismarck, John R. Commons, or John A. Hobson are more suitable antecedents, if one is given to oversimplified attribution.

Schumpeter once said, "... practical Keynesianism is a seedling which cannot be transplanted into foreign soil: it dies there and becomes poisonous before it dies." Lekachman says: "The New Economics of the 1960s is the triumph of an idea. And the idea is above all the product of the creative genius of a single man—John Maynard Keynes..." If both are right we are, indeed, in for trouble. But both overstate their cases, just as Keynes was wont to overstate his own. If read in this spirit, in the knowledge that great figures often suffer from the zeal of their biographers, the book will be well worth the time.

A Time for Catching Up to Change

***The Dynamics of Modernization: A Study in Comparative History*, by C. E. Black (Harper & Row. 207 pp. \$5.95), attempts to classify and explain the modernizing process in the world's currently existing political entities. Crane Brinton's numerous books include "Ideas and Men: The Story of Western Thought," and "Modern Civilization: A History of the Last Five Centuries."**

By CRANE BRINTON

THIS is an important book, and one that deserves more attention from the reading public than its somewhat subdued title is likely to attract. C. E. Black is concerned with the contemporary world-wide transformation of the fundamental conditions of human life, which he prefers to call "modernization" and others have called "Europeanization," "Westernization," and even, by no means without some justification, "Americanization," as well as "industrialization" or "revolution of rising expectations."

All of us are aware of some phases of this transformation, most obviously of the incredibly rapid changes effected in travel, communication, medicine, and other fields where scientists, civil servants, technologists, economists, and businessmen have combined to score their triumphs. Almost all of us are aware, though much less sharply, of the unequal distribution of these triumphs throughout the modern world, as well as of the psychological difficulties the transformation entails for many individuals. But we lack for the most part the perspective a historical view of change in human existence can afford.

Professor Black makes no claim to invention here; but he has at least the originality of Poe's detective Dupin, who located the purloined letter which was concealed by its very conspicuousness. He points out three great changes in human existence: our break with the arboreal life of our distant ancestors; the so-called "neolithic revolution," which produced agriculture, domesticated animals, cities, organized states, and some extraordinary inventions such as the wheel; and, finally, "modernization." The simplest single measure of these changes, by no means a master key to all history and cultural anthropology

but still a clear yardstick, is the amount of human effort necessary to sustain life—basically, to secure food.

Before the neolithic revolution practically all human effort was so directed. After that, and right down to the eighteenth century in the West, the food-raising efforts of a great majority of the population, even of the most advanced societies, was necessary to release a small minority to pursue the arts and crafts, to govern, to trade, and to make war. But now, after several long lifetimes of this latest and in many ways greatest series of changes, a very few farmers, ultimately if not already using the latest methods, can release a great majority of the population for—well, let us adopt Professor Black's subdued tone and say, simply, for a variety of other activities.

Now, again to insist on the obvious, this last revolution differs from the preceding one in a most important respect. Awareness of the attractions it affords is presently spread all over the globe, to peoples who had never really shared in the civilizations that developed out of the neolithic revolution. No doubt barbarians and nomads during the last few thousand years, drawn by the culture of advanced neighboring societies, did from time to time make incursions into their territories. But these were comparatively episodic, not sustained, and failed entirely to reach wide areas of the earth where the Stone Age cultures had not been transcended. Many of the primitive peoples—North American Indians, for example—who were touched by the first expansion of Europe seemed indeed singularly unattracted to much, beyond firearms and whisky, that the white men brought to them.

All this has changed. Men in Ouagadougou want what they know, roughly at least, men have in Paris. The underdeveloped peoples seek "modernization." Perhaps they wish—certainly they ought to wish—to preserve their own culture, their own identity; but, save among some of their intellectuals, this desire does not seem to be as strong as that for modernization. Professor Black devotes the greatest and the most original and suggestive part of his book to an attempt to classify and explain this process in all the existing political entities of the globe, from those he regards as the pioneers in the process, Britain and France, to those which, he holds, began modernization only yesterday, or have not yet