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The Demolition of Keynesianism*

That there still are giants in the world happily is no fairy tale. At least, in the field of economics an intellectual giant has appeared whose stature hardly can be disputed. He is Professor W. H. Hutt of the University of Cape Town, Republic of South Africa. The vast range of his intellectual effort, coupled with incisive exposition nevertheless marked by what we believe is evidence of sincere modesty, has provided much appreciated reading for this reviewer. Here at last is what should be the ultimately successful effort to demolish the Keynesian dogmas that have become so popular in college textbooks and in the political arena, where those modern "medicine men," some of the world's politicians, pursue their calling.

As long ago as 1938, Dr. Arthur Marget's first volume of *The Theory of Prices*† exposed in the text and in its unusually extensive footnotes a multitude of fallacies in the Keynesian notions. Anyone who took the trouble to read Dr. Marget's scholarly exposition surely must have realized that Keynes had contributed nothing new to the literature provided by the money-credit visionaries of the past few centuries and that Keynes' attempt to breathe new life into old fallacies could resuscitate them only in intellects conditioned to the acceptance of illusions.

In our 1938 review of Dr. Marget's first volume‡ we said, "In the light of Dr. Marget's careful analysis and proof, Dr. John Maynard Keynes' contributions to the subject during recent years have been thoroughly discredited. This is indeed a body blow for the theories of the perpetual motion mongers who followed in Dr. Keynes' footsteps and whose Alice-in-Wonderland theories and bootstrap-lifting devices have been accepted by our gullible Government * * *. It is too much to expect that Dr. Marget's work will immediately lead to a return to sanity on the part of those responsible for monetary manipulation in this country, but it is probable that his book will in the long run contribute to that desirable outcome."

Dr. Marget's second volume did not appear until 1945. At that time our review of it§ said in part:

"Professor Marget's 1371 pages contain an over-

whelming indictment of the knowledge, intellectual integrity, and capacity of the Keynes-Hansenites. He discusses the claim that the Keynesian theories have revolutionized monetary theory, and shows this to be a 'myth.' But the indictment does not end here. Marget demonstrates that Keynes' 'alchemy' has not produced anything new; that much of the Keynesian phraseology serves merely to disguise ancient platitudes; that it obscures rather than illuminates monetary theory; and that, in effect, much of Keynes' work and that of his followers consist of explorations of blind alleys long since investigated and marked as such by earlier workers in the field.

"Dr. Marget modestly says, 'It will be the workers of another generation, possessed of a later and broader perspective than our own, who will decide where the victory lay in the great "Keynesian controversy"—one of the greatest, if not the greatest, of the internecine controversies that have ever split the ranks of economic theorists.' If he means by 'victory' success in persuading the public to try or not to try their theories, we must of course wait for the verdict of that coming generation. But if he means by 'victory' successful application of the scientific method, we are ready to announce now that Professor Marget is the winner, at least of the rounds debated to date."

Nearly 14 years elapsed before another major book critical of the Keynesian notions appeared.|| This likewise was reviewed by us.|| In part, our comments were:

"The author's primary purpose in writing this book was to analyze the Keynesian notions and expose the fallacies in Keynes' arguments. As Mr. Hazlitt soon discovered, his self-imposed task was such as to make Hercules' cleaning of the Augean stables seem like an afternoon's picnic. Nevertheless, he persisted and has produced a comprehensive refutation of the Keynesian notions that we believe to be far more useful than any other that has appeared, at least from the viewpoint of many economists and most laymen interested in these matters.

"This is the first book-length refutation of the Keynesian notions that can readily be understood by readers who have forgotten most of what they may once have learned about economics."

A few months later, the same publisher made available Henry Hazlitt's compilation of articles from the economic journals of recent decades under the title

||Henry Hazlitt, *The Failure of the New Economics*, D. Van Nostrand Company, Inc., Princeton, New Jersey, 1959 (\$7.50)

||*Research Reports*, July 20, 1959

**Keynesianism — Retrospect and Prospect* by W. H. Hutt, Henry Regnery Company, 14 East Jackson Boulevard, Chicago 4, Illinois (\$7.50)

†Arthur W. Marget, *The Theory of Prices*, Prentice Hall, Inc., Route 9W, Englewood Cliffs, New Jersey, 1938 (\$6)

‡*Research Reports*, "Book Review Supplement," October 3, 1938

§*Research Reports*, August 6, 1945

The Critics of Keynesian Economics. We pointed out** that "this volume makes readily available material not obtainable in most libraries; and even those who have access to the few major libraries in the United States will find this anthology a timesaver as well as a guide for further explorations."

"Among those whose writings are included in this book are: Frank H. Knight; Etienne Mantoux (the distinguished French economist and author of *The Economic Consequences of Mr. Keynes*); Franco Modigliani, whose article published in 1944 was one of the most effective in exposing fallacies of the Keynesian notions; Benjamin M. Anderson, whose articles in the bulletin of the Chase National Bank have become collectors' items; Jacques Rueff, distinguished French economist; John H. Williams, one of the few Harvard professors of recent decades who has revealed ability to see through the Keynesians' pretensions; L. Albert Hahn, Keynes' predecessor who adopted the managed-money panacea in his youth but subsequently revised his immature judgments; Wilhelm Roepke, adviser to Adenauer and Erhard; and W. H. Hutt, Dean of the Faculty of Commerce at the University of Cape Town, South Africa."

For the fact that Marget's magnificent scholarly effort failed to eliminate the Keynesian notions from the textbooks we can find no other reasons than the cultural lag so pronounced in economics and the fact that Marget's work is difficult reading. The meticulously extensive footnotes fill a major portion of the nearly 1400 pages in the two volumes, and readers who skip the footnotes miss much of the more important aspects of Dr. Marget's work. For the generation of economists it was offered to it was, we suspect, a scholarly effort beyond their powers of concentration and appreciation. (For some decades the ranks of economics undergraduate majors, the potential teachers of economics, had been recruited in large part from the rejects from science and engineering courses; in other words, there is reason to believe that the profession suffered greatly from a long-continued process of adverse selection that resulted in a preponderance of professors whose facility with words was not adequately supported by familiarity with and application of modern scientific methods of inquiry.

As for Henry Hazlitt's work, many academic economists seem to view it with disdain as the work of a journalist-columnist and discount his writings without troubling to read them. At least, the economic gospel according to Keynes continued to prevail in a great majority of college textbooks, although some evidence of doubts among the dedicated Keynesians began to appear.

Now we have Professor Hutt's major contribution to the decades-long controversy. It is much easier to read than Dr. Marget's two volumes, and the academic qualifications of Professor Hutt are beyond question. A few quotations will illustrate the effectiveness of the demolition job that has been done:

"I have already pointed out that, for inflation to

succeed it is essential continuously to mislead the public." (page 409)

"I have found it impossible not to wonder, at times, whether some Keynesians do not recognize that the system they advocate is, as Bronfenbrenner has shown, a useful means of destroying the institutions of the free economy, and hence a method of building up a totalitarian, Marxist State." (page 414)

"As representative democracy was allowed to develop into what Mises terms 'omnipotent government,' no limits were placed on the power of the group of men who form governments to compete with their rivals in the purchase of office from the politically dominant sections. Inflation has continued because it has facilitated that process; because Keynes' teachings made it respectable; because the people who suffer have so far been successfully fed with the notion that governments conduct an unavailing fight against inflation; because electorates have failed to realize that modern inflations are, in practice, *engineered* with reluctance, but nevertheless with skill and with careful calculation of the rate at which the parties who suffer will not squeal too loudly." (page 418)

"Hence, unless other countries step up their inflations in harmony, or unless technological progress happens to validate monetary policy and high production costs, or unless a wave of successful lock-outs protects the flow of uninflated wages and income from labor union aggression, the confidence created is likely to peter out to a sudden crisis within a few years, successive Presidential re-assurances commanding diminishing trust. Either deflation or a dishonoring of the President's pledge [not to devalue the dollar] will then become necessary; and deflation will force the United States policy makers to choose between unemployment and the politically even more difficult decision to permit the economy to rely upon the co-ordinative mechanism of the price system." (page 419)

"But a large part of the argument which I have submitted amounts to a plea for the rejection of much of the rationalized version of Keynesianism which Wright now offers. For instance, whereas he tries to persevere with the Keynesian tools, I have urged that the whole of that apparatus should be abandoned; and whereas he claims that Keynes' models 'were merely convenient headings under which to group the important forces shaping the economy,' I have maintained throughout that they are *models which tacitly assume away the important forces shaping the economy.*" (page 436)

This volume merits the widest possible circulation, especially among those teaching economics today and among the economists whose talents have been consciously or unconsciously prostituted in the interests of political expediency. That economics as it is taught in all too many American colleges soon will become a useful subject for most harrassed undergraduates is too much to hope, but W. H. Hutt has made a major contribution to that end.

E. C. HARWOOD

**Research Reports, December 5, 1960