Post-Keynes & Pre-Keynes

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The General Theory of Employment, Interest, and Money, by John Maynard Keynes, *New York: Harcourt, Brace and World, Inc., 1964. 401 pp. $2.95.*

The Great Boom and Panic, by Robert T. Patterson, *Chicago: Henry Regnery Company, 1965. 282 pp. $6.50.*

IN MANY WAYS it would be difficult to join together for review purposes two more unlikely books than these. They were written some three decades apart by two very different kinds of men, engaged in very different kinds of intellectual pursuits, citizens of different countries, and are aimed at almost completely different sets of readers. Moreover, the volumes are concerned with diametrically opposed things: highly abstruse economic theory on the one hand, and the historical description and interpretation of factual events on the other. Yet, both books have a common ancestor. Neither would have been written at all had it not been for the great depression of the nineteen thirties, with its intensity, ferocity, incredibility, and duration.

The *General Theory* is the first Harbinger edition—paperback—of the most famous (some will prefer infamous) treatise on economic theory in general to appear during the thirties. This is an exact, page for page duplicate of the first edition (London: MacMillan, 1936; New York: Harcourt, Brace and Company, 1936). Nothing seems to have been changed in the slightest way except the cover. Only the cover and the date of the preface—December 13, 1935—give any indication of its prior appearance. Perhaps this is as it should be, for few other books have been considered so influential in altering the political and economic attitudes of the twentieth century by so many people holding rather divergent ideological views. Agreement on the desirability and direction of those alterations would be substantially less. Measured by the number of books, periodical articles, pamphlets, and discussions brought forth concerning its substance and its author, the *General Theory* must be regarded (apart from poetry and fiction) as one of the most remarkable books of all time. This is even more remarkable if one could accurately determine the small number of people who have actually read it, the smaller number of people who have understood it, and the much smaller number of people who have enjoyed it.

In order to recall those days when the *General Theory* first appeared, this reviewer thumbed through his original edition—one first read as an undergraduate under the tutelage of Professor Fritz Machlup and at the time of the first waves of acclamation and critical response, to which Machlup, Haberler, Robertson, Hayek, and Viner contributed so much. In every chapter, and almost on every page, my frustration is apparent from the underlining, questions, comments, and—occasionally—expletives. This is primarily due to the confusing, disjointed, disorganized, way in which Keynes wrote this book, and to the terminology used, concerning which Professor Jacob Viner observed (in 1936), "no old term for an old concept is used when a new one can be coined, and if old terms are used new meanings are generally assigned to them." In one sense, this was the "Keynesian Revolution," for many of the "new-old" terms and the "old-new" concepts have become commonplace—orthodox, if not classical—in our economic literature.

The basic Keynesian thesis is well known: a capitalist economy, *unless stimulated by government action*, can reach a stable equilibrium position of chronic mass underemployment. Any level of income and employment is uniquely determined by the relationship between investment (in the Keynesian, 1935 sense) and the (Keynesian) "propensity to consume." For a more complete—and probably better—statement, the reader may consult almost any current textbook in elementary economics. My italics are intentional. It is not a question of whether Keynes was right or wrong, correct or incorrect. He was a man of destiny, in a sense, a man of his time. Keynes was widely accepted not because of any revolution he accomplished in economic thought but because he provided a fairly consistent, orderly, unified system, justifying (or, if you prefer, rationalizing) the extension of government intervention in the economy—actions which the Keynesians wanted to take, and would have endeavored to take, regardless of the *General Theory* or, indeed, whatever name might have been applied to them: Keynesians, pre-Keynesians, post-Keynesians, neo-Keynesians or ultra-Keynesians—substitute Hansenian in each case, if you prefer, although it doesn't have the swing.

There is nothing in the *General Theory* in the nature of empirical evidence in support of the propositions therein, of the relationship of the variables assumed, of the applicability of the assumptions or, for that matter, of anything else. Everyone will agree that it was long on theory, as the old saying goes, and short on facts. I should add that this omission has provided considerable employment over the past thirty years—mostly for economists, mathematicians, and statisticians. Politicians and political scientists were employed also—but not as a result of omissions.

The Great Boom and Panic, on the other hand, might be described in opposite terms: it is long on fact and short on theory—at least on expressed theory. Dr. Patterson has examined virtually all of the technical and non-technical literature associated with the stock-market boom and its aftermath. From this he has chosen with care, understanding, and a judicious ability to separate the wheat from the chaff. Step by step, and in a highly readable style, he delineates the processes of the boom, the behavior of the financiers, government officials and bureaucrats, flappers and bootleggers in the national euphoria of intoxicating, get-rich-quick, everyone-a-millionaire, prosperity-forever kind of never, never land. The giddy, stock-market prices, (at hundreds of times average earnings), the crash, the panic, the aftermath, the hangover—all are described with skill. He has tempted his reviewer at least to begin work on a volume proving that the entire affair never could have happened at all.

One thing the reader will not find in *The Great Boom and Panic* is an organized treatise on the theory of the business cycle in the technical sense. Patterson's chapter on "Causes" contains a variety of opinions by some very distinguished students of business cycle theory and some modest and understated conclusions of his own. The villain of the piece—if there is one—is the credit expansion of the late nineteen twenties. He writes:

> . . . Much of the responsibility for the credit excesses of the boom, hence for the severity of the panic and the depression, must be placed on the members of the Federal Reserve Board and other high officers of the Federal Reserve System who encouraged the unwarranted credit expansion. . . .
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> Perhaps those who determined the Federal Reserve's policies did not comprehend how dangerous they were; but if they—the nation's top monetary authorities—did not, how could those caught up in the great speculation frenzy have been expected to foresee and understand the dangers? . . . Looking back on the great stock market boom, . . . it is hard to realize how pervasive was the illusion that never again would the nation experience panic and depression. . . .

> It seems that no matter how irrational a widely held belief may appear in retrospect, only a mind of remarkable independence can resist its compelling force when it is flourishing. . . .

This reviewer must disagree with Dr. Patterson on several points of interpretation and inference, but these cannot be aired here. Keynes, or at least the Keynesians, are certain to deal with them in a much more fundamental and pervasive sense. The economists of the period prior to the boom and crash indulged in teaching that was "misleading and disastrous if we attempt to apply it to the facts of experience." (*General Theory*, p. 3). Under the guidance of post-Keynesian wisdom, of course, such things can never happen again—or can they?