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THE IMPACT OF THE GREAT DEPRESSION ON ECONOMIC THINKING

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In discussing the effect of the depression of the thirties on economic thinking, I am going to confine myself to the so-called "Keynesian revolution," for two reasons. In the first place, this movement coincides so closely with the Great Depression as to make a prima facie case for causal relationship of some sort. To be sure, none of the constituent ideas of the new theoretical pattern is itself a novelty. But the suddenness with which the pattern developed in the early thirties, the extraordinary rapidity with which it gained adherents, and the amazing response which was extended to *The General Theory of Employment, Interest, and Money*, all point to a shift of conviction and attitude of such a magnitude as to be inexplicable except in terms of a disturbance of comparable magnitude.

My second reason for concentrating on this impact is its superlative importance. The Great Depression has had many effects. But in the field of ideas no other is comparable to this one. As the common use of the expression, "the Keynesian revolution," goes to show, this fact is now generally recognized. Thus Sir William Beveridge speaks of "a new era of economic theorizing" having been "inaugurated by the publication" of *The General Theory*. There can be no question of the importance of that book. No economic treatise has enjoyed such a reception since the publication of *The Wealth of Nations*. Nevertheless we do not credit the classical way of thinking to the sole agency of Adam Smith, and doubtless Lord Keynes would be the first to insist that we should view his work in a similar perspective. As everybody knows, the movement which is now commonly identified with his name was in full swing before the appearance of *The General Theory*. The author of that book, whom I shall henceforth identify as J. M. Keynes after the example set by Sir William Beveridge, has provided us with a number of striking phrases: "the marginal efficiency of capital," "the propensity to consume," and the like; and these expressions now occur with amazing frequency throughout the current literature of economics. But I doubt if we shall understand the impact of the depression if we define our project in such terms. The Keynesian deviation has split the ranks of economists on a scale larger than that of any division since the time of Adam Smith because it cuts deep into the basic preconceptions on which all economic thinking rests. I venture to doubt whether even Marxism cuts as deep. What is now going on is a revolution in economic thinking comparable to the Darwinian revolution or even perhaps the Copernican revolution.

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Catastrophic as they were, the events of the thirties could not have been the sole cause of a movement of this character. Doubtless that depression was uniquely educational. Doubtless, for example, the saturation of frontier regions in America and throughout the world threw mass unemployment into bolder relief than was ever the case before. Perhaps the open economic warfare of the period, sharpened as it was by world political chaos, emphasized the physical facts of overproduction. The decline of competition similarly spotlighted price rigidity and curtailment of output in the industrial field and the contrasting plight of agriculture. Meantime the development of central banking made the accumulation of excess reserves more conspicuous than ever before. It is also true that our educational facilities—statistical services, research institutes, and the like—were more nearly adequate to the pedagogical task than was the case on any previous occasion. The Federal Reserve Board index of physical production had its first depression workout, and studies such as the Brookings Institution's series on *America's Capacity to Produce, America's Capacity to Consume* and *The Formation of Capital* were widely read and unquestionably made a deep impression.

Nevertheless two considerations make it difficult for us to regard the Keynesian revolution as the direct result of these specific causes. One is the fact that none of these conditions was altogether new or even newly discovered, and the other is the difficulty of tracing the new trend of economic thinking to any particular discovery or insight. One of the most puzzling discoveries of this period has been the rediscovery of forgotten heretics. As we now see, they have been both more numerous and less misguided than we had supposed. I am especially impressed by the frequency with which businessmen have appeared in the role of heretic. Perhaps the most vocal heretic in the decade preceding the depression was Mr. Waddill Catchings. It was a businessman who set J. A. Hobson on the path of heresy. Then, too, there is the case of Silvio Gesell. Professor Gordon Hayes has recently reminded us of the Boston attorney, Uriel H. Crocker, who published a little book in 1884 entitled, *Excessive Saving a Cause of Commercial Distress*.[1] There is even something very suggestive in the "fear of goods" from which, as Professor Heckscher shows, the mercantilists suffered, with its accompanying belief "that unemployment was an effect of the surplus of goods" and eagerness for a perennial excess of exports over imports as a means of avoiding the dire threat of abundance, all of which "went back at least to the middle of the sixteenth century, and, from its beginning was connected with the need for employment."[2] This record, I believe, could be made continuous, and what it would show is that every now

[1] *Spending, Saving, and Employment* (New York, 1945), pp. 148–152.
[2] *Mercantilism*, Vol. II, pp. 121, 122.

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and again businessmen have responded to realities of the economic process.

But isolated observations and fragmentary insights have not led to a general theory precisely because they were fragmentary and isolated. In this connection I am reminded of the anomaly of Hobson and Veblen. The inability of these two social philosophers to understand each other has puzzled me for years. For not only were their ideas mutually complementary; if they could have been put together they would have anticipated the thinking of the thirties and even, I think, have gone beyond our present position. But Hobson was completely impervious to Veblen's principal idea. Even after his adoption of Mummery's underconsumption heresy, he could still assimilate Sombart's essentially pecuniary theory of the evolution of capitalism, and this interposed a fatal barrier between his conception of the flow of income and Veblen's conception of economic progress which, as I shall try to show, might have been the foundation of a general theory of income and economic progress. Veblen likewise suffered from a fatal astigmatism. He failed to see the significance of underconsumption. One of his earliest essays was a reply to Professor Hayes's friend, Uriel Crocker. It was a highly instructive failure, and I shall therefore come back to it later on. But at the moment my only point is the impossibility of accounting for the intellectual revolution of the thirties in terms of any particular incident, financial or intellectual. Recent developments have vindicated J. A. Hobson and his fellow heretics, but the present revolution is not their doing. The coincidence of the new era of economic theorizing with the great depression is too striking to be set aside, but no clear connection can be traced between any particular economic reality and the general theory which has been emerging at this time.

Apparently something had already happened to the economic thinking of our generation before 1930—something less obvious than open criticism of previously accepted dogma or open acceptance of long-familiar heresy, but something pervasive enough to render a great many professional economists and a large part of the literate public susceptible to the promptings of events which would otherwise have had no effect on economic thinking. This ripening, whatever it was, must have been largely unperceived; otherwise we should now be in no doubt of its identity. It must also have been very general; otherwise it could have had no such general effect. At the same time it must have borne directly on just such events as those the thirties ushered in. Otherwise how could those events have impacted on our economic thinking as they unquestionably did?

This can only mean that some very general and considerable change

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was going on for some time prior to 1929 in the region of the basic preconceptions upon which all economic thinking rests, or even in the region of the social attitudes and apprehensions of which such postulates are the rationalization. That is, it must have transpired somewhere below the level of abstraction on which for the most part economic analysis now takes place. The problem is how to penetrate to this subliminal region. In the effort to do so, and at the risk of seeming to recapitulate the obvious, but fortified by Professor Hayek's recent example, I shall therefore ask, as he does: What is our basic problem? What are the issues to the resolution of which all economic analysis is addressed? In his recent article Professor Hayek gives the following answer: the problem, he says, is that of "how to secure the best use of resources known to any members of society, for ends whose relative importance only these individuals know."[3] This is, of course, a clear and succinct statement of a proposition which enjoys wide currency at the present time. As such it seems to me to be a highly sophisticated expression of current habits of thought. Surely its essentially static character, which seems almost to imply the qualifying phrase, "at any given moment," can only be a projection of the equilibrium analysis which has resulted from the efforts of several generations of economists to understand and demonstrate the functions performed by the price system, with which, indeed, Professor Hayek is explicitly concerned in this article. But wherever it may end, surely economic thinking does not begin with price equilibrium. Surely it begins with matters that were insistently present to the naïve apprehensions of men who had not yet begun to think in terms of the allocation of scarce resources.

It seems to me that two such matters were so present, and I am interested to find both clearly stated in a recent article by Professor von Mises. One is the matter of economic growth. When Professor von Mises says, as he does in his recent address to the American Academy of Political and Social Science, that "the only means to increase a nation's welfare is to increase and to improve the output of products,"[4] he has stated a proposition with which I should expect every economist to agree. In contrast to Professor Hayek's dictum, this proposition is virtually timeless. It might have been quoted from the literature of a century ago, or two centuries ago, or even three or four. Even when a nation's economic welfare was identified with its stock of precious metal, the means of increasing that stock was understood to be the increase and improvement of its output of products.

To be sure, awareness of and concern about economic growth do distinguish modern from medieval society. Therein lies the importance of

[3] "The Use of Knowledge in Society," *American Economic Review*, Sept., 1945, p. 520.
[4] *Vital Speeches*, May 1, 1945, p. 442.

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economic growth. Surely it is one of the two basic facts that gave rise to economic inquiry at the very dawn of modern times and still condition it today. The other, I think, is the fact of economic inequality. When Professor von Mises says, as he does in the sentence preceding the one I have just quoted, "all that good government can do to improve the material well-being of the masses is to establish and to preserve an institutional setting in which there are no obstacles to the progressive accumulation of new capital and its utilization for the improvement of technical methods of production," some of his phrases rattle the bones of controversy. But if he were to state the issue as one of an institutional setting that imposes no obstacles to the growth of industrial plant and the improvement of technical methods of production, all would agree. The questions are: What institutional setting does this? Does that of capitalism do so, or does it do precisely the reverse?

In stating the problem in this way Professor von Mises seems to be in exact agreement with J. M. Keynes. For both, the central problem of economics is that of the relation between economic inequality and economic growth. This is the issue with respect to which the old way of thinking and the new reach precisely opposite conclusions. Professor von Mises has stated one of these very clearly and succinctly in the following sentences: "The inherent tendency of capitalist evolution is to raise real wage rates steadily. This outcome is the effect of the progressive accumulation of capital by means of which technological methods of production are improved. Whenever the accumulation of additional capital stops, it comes to a standstill."[5] This is the position which J. M. Keynes identified in the second paragraph of the concluding chapter of *The General Theory* as "the belief that the growth of capital depends upon the strength of the motive towards individual saving and that for a large proportion of this growth we are dependent on the savings of the rich out of their superfluity." Keynes' own position is of course the opposite of this, and is stated on the following page in these sentences: "Thus our argument leads toward the conclusion that in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed."

The field of argument by which these two positions are divided is of course that of the income pattern. That is, both ways of thinking regard the flow of income as the causal link between the social structure and the process of economic growth. According to both, this process may be impeded or accelerated by the occurrence or removal of constrictions in

[5] *Loc. cit.*, p. 443.

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the flow of income. They differ most specifically with regard to the location of the critical point. According to one, the point at which the flow of income is most liable to be deficient is that of saving, or capital accumulation. According to the other, it is that of outlay, or offsets to saving, with some difference of emphasis on investment and consumption. Obviously this emphasis is what has led to the identification of the latter point of view by such tags as those of "oversaving" and "underconsumption," and to the now universal adoption of the Marxist tag of "capitalism," at least in common usage, to identify the former.

In their attempts to resolve this controversy by establishing what actually happens to the flow of income, economists have lately engaged in microscopic analysis of the details of saving, investment, and consumer spending. But the belief in the dependence of economic growth upon the accumulation of funds did not originate in any such analysis. It did not even originate in a theory of saving and investment. On various occasions J. M. Keynes has referred to what he regards as an implicit belief on the part of classical economists generally that aggregate savings and aggregate investment are necessarily equal. Considering this idea within the frame of reference of the income pattern he has attributed it to the presumption that "every act of increased saving by an individual necessarily brings into existence a corresponding act of increased investment."[6] But the virtual identity of saving and investment was not a scientific discovery at which economists arrived in consequence of detailed analysis. It was, as J. M. Keynes has said, a belief, implicit in subsequent analysis in the quite literal sense of a prior conviction to which subsequent analysis as a whole gave intellectual expression.

That prior conviction preceded and conditioned the concept of capital itself. How this happened is suggested in a very remarkable article, written only a short time before his death, by Professor Edwin Cannan. He began by pointing out that the concept of capital gives expression to the attitude of individualism which has underlaid the commercial culture and conditioned it at every point. In effect he attributed the traditional doctrine of capital to a confusion of the personal with the impersonal aspects of economic process by what Professor Whitehead might have called the fallacy of misplaced generality: "Thus in regard to capital and the heritage of improvement, the economists worked outwards from the individual to the nation and society, rather losing interest as they went, without testing results by working backwards from society to the individual, and the consequence has been that capital, unduly glorified, has been allowed to usurp the place which should properly be occupied by the heritage of improvement, to the great detri-

[6] *General Theory*, p. 178.

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ment both of economic theory and of public policy."[7] Since this confusion still persists, Professor Cannan's scolding is deserved. But he must be presumed to have known that it did not originate with the present generation and that this makes a great deal of difference. Obviously the conclusion reached by any such transformation of particulars to universals must be greatly affected by what the particular is that is so transformed; and equally obviously the particulars of five centuries ago were significantly different from those of the present day.

We have only to imagine this error as being made at the present time to see how different the case would be. What appears at the individual level in this case is now clearly seen to be the exercise of authority. In the institutional setting of capitalism the "activation" of any given enterprise depends upon command of capital funds; and since this is so, the procurement of funds is the critical necessity for all individual businessmen and firms, everywhere and always. Obviously the possibility of an enterprise being undertaken also depends upon scientific knowledge, the state of the industrial arts, and the pre-existence of industrial plant capable of sustaining such an enterprise. But it is evident to all beholders today that this is dependence of quite another sort. The individual enterpriser who is seeking the funds necessary to float his project has already taken account of the physical possibility of the proposed enterprise and therefore of the technological circumstances which make it physically possible. No one could be so misguided today as to suppose that what makes an enterprise physically possible is the extension of funds. Under the institutions of capitalism the provision of funds, on specified conditions and at specified rates, makes the enterprise possible in a sense that would now be clearly recognized as political; that is, it is an extension of authority to proceed.

This is what would be universalized if economic reasoning were to generalize from the individual case as it is understood today. The aggregate of funds available for investment would be clearly distinguished from the advancement of science, the state of the industrial arts, and even from the totality of existing industry which previous investment might be presumed to have made possible. The political, that is to say authoritarian, character of funds would be no less apparent in the aggregate than in the particular case.

Under these circumstances it seems very unlikely that invested funds would ever have been identified with the physical instruments of production or that interest on invested funds would have been identified with the so-called "earnings" of those physical instruments. The cost of obtaining official consent to conduct an enterprise might perhaps be reckoned as one of the costs of the enterprise, much as taxes have come

[7] "Capital and the Heritage of Improvement," *Economica*, Nov., 1934, p. 381.

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to be so reckoned. But nobody, not even Professor von Mises, now suggests that a benign government is a factor of production or that the expenses of the benign sovereign are one of the economic costs of production, in amounts that might perhaps be measured in units of marginal benignity. The power represented by the aggregate of funds differs only in being an aggregate.

All this would be quite evident today in the absence of previous theoretical commitments. In particular it would be obvious that the aggregate of economic power, like the aggregate of all power, is of indefinite magnitude. Consequently the belief to which J. M. Keynes refers could never have arisen under present circumstances. The funds from which that aggregate is formed derive in part from savings; but they also derive from a variety of other circumstances, and their value both as a source of income and as an instrument of power impels their accumulation in amounts that have no direct relation to the volume of real investment, present or expected. It would be utterly fantastic to suppose, under the circumstances known to us today, that every act of increased saving by an individual necessarily brings into existence a corresponding act of increased investment.

This can only mean that present-day theoretical difficulties such as those underlying the Keynesian revolution owe their origin to the circumstances of another day. It is not my business in this paper to try to resolve a major theoretical confusion, nor to try to trace its sources. But it is necessary to try to see the nature of the problem and to identify the process of its development, since that process must have conditioned the impact of the recent depression, which therefore cannot otherwise be understood. To my mind the explanation of the impact of the depression upon current economic thinking lies in the very great difference between present-day circumstances and those of five centuries ago, and also in the very considerable change our economic thinking had already undergone before the onset of the depression.

As Professor Cannan would surely have agreed, the individual case which was projected to the societal level so as to affect the traditional conception of capital was very different from the sort of thing we know today. That conception was fully formed long before the emergence of classical theory as a coherent body of ideas, and what it embodied was the pattern of business activity at the dawn of modern times. At that time no clear distinction was drawn between savers and investors because such a distinction scarcely existed in fact. The accumulator of capital funds was himself the investor and the active participant in the enterprise which his grant made possible; and since accumulation occurred very largely if not altogether in the form of a physical accumulation of bullion, not only were capital funds confused with capital equip-

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ment, real wealth was confused with money. Indeed, these circumstances suggest strongly that our present-day confusion of saving and investment is in literal truth an echo of the most egregious error of the mercantilists.

But this is not the whole story. Along with these positively conditioning circumstances there went a still more general deficiency. Even if individual experience still failed to suggest a distinction between grants of funds and other factors of production, it is unlikely that present-day thinking would tolerate a theory of economic development along pecuniary lines. What makes it impossible is our present general awareness of the identity of industrial progress with what Professor Cannan called "the heritage of improvement." As he used it this phrase refers to the state of the industrial arts and behind that the whole process of development of science and technology, including all the techniques of organization, especially those of communication and transport, and the whole array of physical appurtenances in which the past development of science and technology find embodiment and by virtue of which the present world differs from that of our remote ancestors who, in Professor Cannan's words, "regarded Wookey Hole as a delectable habitation."

In the past, capital funds were identified with their supposed embodiment in the physical properties employed in the production of wealth only because no social process such as that of the heritage of improvement was then understood. Nobody ever questioned the ability of society to make constructive use of all the funds which thrift, prudence, abstinence, and a highly inequitable distribution of income might provide, since nobody made any distinction between the exercise of power and any other kind of causation. Such a conception of economic process was not only possible but inevitable for a community which held the patron in higher esteem than the artist, one which viewed the scientific discoveries of the time almost exclusively in the setting of theology with virtually no general awareness of their industrial importance, one which paid so little attention to the industrial advances of the time that historians now have the greatest difficulty in tracing them. To the reflective mind of the sixteenth, seventeenth, and even eighteenth centuries the commercial aspect of the modern economy was paramount. Merchants were fast supplanting feudal lords as the power behind the throne. At the same time economic development was sufficiently rapid to be generally and progressively apparent. What could be more natural under these circumstances—when the progress of opulence was the subject of increasingly general discussion—than for the whole development to be conceived as a commercial phenomenon, dominated by merchants, conditioned by the width of the market, and "made

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possible" by the sum of the accumulations of liquid wealth, command of which in any individual case did indeed make it possible for a particular merchant to engage in trade?

Once the heritage of improvement had been clearly identified as such, the case was completely altered. By 1934 it was possible and, I think, inevitable that we should take quite a different view of the whole process of economic growth, and should therefore deplore the traditional view as a mischievous error. Such, at all events, was the spirit in which Professor Cannan declared in the same article from which I have already quoted: " . . . immense mischief has resulted from the fact that by their failure to insist on the difference between the aggregate of capital and the whole economic heritage combined with their somewhat excessive glorification of capital, the eighteenth century and nineteenth century economists gave rise to a widespread impression that the capital of society is much the same thing as the whole heritage, so that alterations in its magnitude must be regarded with the same favour and disfavour as increases and decreases of the whole heritage."[8] So far as I know, this rebuke has been accepted without protest. Indeed, Professor Cannan wrote, somewhat apologetically, that "a very short time ago these remarks would have seemed to me to be trite and unnecessary." Nevertheless he made no reference to any earlier exponent of this significant distinction, not even to Veblen whose articles "On the Nature of Capital," first published in 1908 and reprinted in *The Place of Science in Modern Civilization and Other Essays* in 1919, were explicitly addressed to this very point. The truth is, I think, that understanding of the heritage of improvement is not a specifically economic achievement which later economists receive from earlier economists. It is rather a corollary of the comparative study of societies and cultures. That is the source from which Veblen drew his insight into the process of economic development, and the same was probably true of Edwin Cannan. What he called "the heritage of improvement" is virtually identical with what anthropologists call "the material culture." Economic change is an aspect of social change, and our understanding of it is bound to be affected by a broader understanding of the larger process, just as the whole conception of social process was affected by Darwinian evolution and by modern scientific developments generally.

This process of intellectual reorientation has been as gradual as it is pervasive. That is why the impact of the Great Depression was so sudden and so marked. After all, the incidence of the evolutionary way of thinking was not upon the rubrics and formulas of price analysis with which economists have chiefly concerned themselves but rather upon

[8] *Loc. cit.*, p. 389.

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the underlying preconceptions or beliefs which economists share with the community at large. These do not appear overtly in the formulas; and consequently it has been possible for economists to concede substantial changes in the larger area of social process while ruling such matters out of their professional consideration as lying outside the field of economics.

Even so, the climatological change has been considerable. One evidence of it is the insistence—quite general for something like half a century—upon a clear distinction between dynamic and so-called "stationary" situations, and the general recognition of the importance of what even Professor von Mises calls "technological methods of production" in the dynamic situation. There has even been some disposition, of which Professor Schumpeter's work is perhaps the most notable example, to credit business enterprise not merely with the progress of opulence in the traditional manner but with the heritage of technological improvement. Still more important, I believe, is the recent tendency to rest the case of economic orthodoxy on the administrative indispensability of the price system. This shift of ground is more significant than has yet been generally appreciated. To say that we must entrust the conduct of our affairs to the operation of the market, cheerfully accepting whatever anomalies of wealth and poverty may then ensue, because no other social instrumentality is equal to the task of allocating resources, etc., etc., is a very different matter from saying, as we have traditionally done, that society should be positively grateful to the rich for having such large incomes and for using them to make possible the enterprises upon which all others depend for their employment. The administrative indispensability argument, I submit, is incomparably the weaker of the two and would never have gained currency except in tacit recognition of the growing incredibility of the stronger case. The same is true in even greater degree of the bogy of totalitarianism. To represent the police-state as the only alternative to classical laissez faire is virtually to admit that traditional commercialism can no longer be loved for its own sake.

Such changes are very significant, but they are changes only of atmosphere. In the passage I have quoted from the last chapter of *The General Theory* the author speaks of his argument having led to the conclusions he then states. As I have tried to suggest, it was the whole drift of modern thought which had been leading us towards such conclusions. But this was not apparent. So long as nothing happened to call in question the traditional belief that economic development depends upon the savings of the rich out of their superfluity, it was not apparent that such a belief is contingent upon economic development being conceived in wholly pecuniary terms and consequently that it

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loses force in direct proportion to the extent to which economic development is conceived in terms of the heritage of improvement.

But the depression made this clear. That, I think, is the explanation of its extraordinary impact upon economic thinking. By 1929 the whole community had become machine-conscious to an unprecedented degree. Consequently the depression figured in the imagination of the community at large and also in the researches of economists as an affair of idle machines and mass unemployment, drastically reduced industrial production and vast accumulations of farm products. So conceived, this situation revealed with dramatic suddenness the complete implausibility of the reasoning which attributed such a situation to a deficiency of abstinence and thrift. The time had therefore come for a revolution in reasoning. The traditional analysis was ancillary in the first place to a previously established conviction that the progress of opulence was contingent upon the accumulation of capital funds by virtue of extreme inequalities of income; and present-day analysis is likewise ancillary to the reversal of conviction which was the general and immediate consequence of the impact of the depression upon a technologically conditioned world. All the various theoretical efforts of what Beveridge calls "the new era" have the common purpose of ascertaining exactly how the growth of the heritage of improvement is impeded by a feudally-conditioned propensity to consume.

Considerations of space and time forbid even the briefest review of these theoretical efforts, but in closing perhaps I may venture an opinion. It is my opinion that the Keynesian revolution is more revolutionary than most of its participants yet realize. In the first place, the differentiation of the heritage of improvement from the accumulation of funds will oblige us to carry the renovation of our thinking about capital much farther than it has gone as yet. Thus J. M. Keynes has spoken in various places[9] of "increasing the stock of capital until it ceases to be scarce," and this eventuality has been the subject of general discussion. Indeed, although Keynes made no mention of Professor Cannan in this connection, the very remarkable article of which I have been making so much use contains the following sentence: "If we could improve our knowledge and organization in such a way as to wipe out the value of all the things which now form our real capital, how happy we should be!"[10] Both of these statements seem quite clearly to refer to industrial plant and materials. But the problem they pose can be relevant only to funds. To see this we have only to think of a completely new industry, such as the use of atomic power may some day bring.

[9] E.g., *The General Theory*, p. 325.
[10] *Loc. cit.*, p. 392.

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What procedures could society now employ to insure a profusion of equipment and materials for producing atomic power? Obviously no one knows. We could easily provide against lack of funds being an obstacle to such a development. Indeed, that is what we did in the development of atomic energy for military purposes. We can and eventually will purge ourselves completely of the idea that the (wholly supposititious) aggregate of funds is a limiting factor in the process of industrial growth and will therefore conceive and treat ordinary peacetime growth as we already conceive and treat the prosecution of war. To do so is indeed implicit in the Keynesian position. But it means completely disentangling our thinking about funds from our thinking about the industrial process.

The logical consequences of this resolution are indeed momentous, more so than most contributors to it have yet seen—or said. To be sure, J. M. Keynes has boldly faced the possibility of the disappearance of the rentier. But he derives this eventuality from his theory of the progressive decline of the marginal efficiency of capital. This is quite sufficiently disturbing. But the complete dissociation of the institutional pattern by virtue of which capital funds are accumulated from the technological process by virtue of which capital equipment proliferates —a dissociation toward which, I believe, we are being carried by the logic underlying the whole Keynesian movement—means the nullification of the idea by which alone the institutional framework of capitalism is supported.

The intellectual consequences of the Keynesian denial of the supposedly natural sequence of saving and investment are therefore more revolutionary than those of Marxism. After all, there is nothing particularly revolutionary in the intellectual sense about rebellion. Throughout the ages rebels have always sought to remedy their wrongs by liquidating their masters, on the presumption that whatever is wrong will surely be righted if the liquidation is sufficiently drastic. As Veblen saw, the Marxian dialectic does no more than dress up the perennial exasperation of the disinherited.

Strangely enough, Veblen's own exasperation nevertheless found the same outlet. I have already mentioned the anomaly of his failure to connect with Hobson, whose proposals for socializing demand—Veblen also cites an essay by Smart with the title, "The Socializing of Consumption"—he dismissed as "palliatives" in a footnote in *The Theory of Business Enterprise.*[11] To be sure, Hobson put Veblen off by his failure to understand the process of industrial growth, in consequence of which, as I have noted, his underconsumptionism was a structure without foundation. Consequently Veblen failed to realize that modifying the

[11] *Op. cit.*, p. 257.

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flow of income so as to achieve an institutional setting in which there are no obstacles to the full utilization of the heritage of improvement is directly in line with his own conception of the impersonal process of industrial growth. Indeed he virtually contradicted himself in the same footnote in which he stigmatized the socialization of demand as a "palliative" by going on to declare that it is also "manifestly chimerical in any community . . . where public policy is . . . guided by business interests with a naïve view to an increase of profits."

The great weakness of all palliatives is contained in the definition of the word—they mitigate evils without removing them—and the great weakness of violent rebellion, as Veblen seemed elsewhere to realize better than anyone else of his generation, is the failure of understanding which makes truly remedial action impossible and rebellion therefore a counsel of despair. Truly remedial action flows only from understanding such as that toward which we now seem to be finding our way. Implicit in the Keynesian revolution is the conviction, stated by J. M. Keynes himself in the closing paragraph of *The General Theory*, that "the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas." According to this way of thinking, the real obstacle to the achievement of an institutional setting consonant with full production has been the general belief that such an institutional setting already existed. Rejection of that belief does not necessarily mean the immediate and total collapse of the present institutional structure, much of which is very well worth saving for quite different reasons. But it does mean the opening of the way to whatever institutional adjustments may be necessary in order to remove the obstacles to the full utilization of our heritage of improvement. In this sense the present intellectual revolution is more revolutionary than any protest against injustice or against the violation of the supposed rights of the protesting party.

The effectiveness of this intellectual challenge owes much to the cogent reasoning of the movement's leaders. It also owes much to the impact of the depression. But no less important is the susceptibility of the present generation's thinking to such an impact. Insofar as our generation has been susceptible to such influences and ready for such intellectual leadership, that is because over a period of several generations the community has gradually learned to understand the progress of opulence and the heritage of improvement.

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