Review

Reviewed Work(s): The Critics of Keynesian Economics by Henry Hazlitt

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social groups in the Netherlands. Tinbergen adds a few interesting remarks on forecasting in underdeveloped countries.

The book is likely to be of little interest to U.S. economists except for students of the development of economic thinking in Germany.

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The Critics of Keynesian Economics. Edited by HENRY HAZLITT. Princeton: D. Van Nostrand Co., 1960. Pp. viii, 427. $7.00.

Having failed to breach the Keynesian citadel with his solo attack in *The Failure of the New Economics,* Henry Hazlitt has brought up some heavy artillery in an effort to demolish the *General Theory*. From the voluminous anti-Keynesian literature read in preparing his previous volume, Hazlitt has chosen 19 reviews, articles and miscellaneous selections published between 1936 and 1958, plus selections on the "law of markets" from J. B. Say and J. S. Mill thrown in as background—accessories before the fact so to speak. Included are well-known papers by Jacob Viner (1936), Frank Knight (1937), Franco Modigliani (1944), John H. Williams (1948), and Arthur F. Burns (1954); others are by Hayek, Mises, Röpke, McCord Wright, B. M. Anderson, W. H. Hutt, Jacques Rueff, and Albert Hahn; and the light artillerymen are economic writers Philip Cortney, Gordon Wasson, Garet Garrett, J. S. Lawrence, and M. Palyi. Meriting special mention is Étienne Mantoux's 28-page review (1937), which appears for the first time in English translation.

In Hazlitt's 10-page general introduction no language is too scathing for Keynesian economics, which is denounced as "one of the intellectual scandals of our time." Hazlitt says ". . . all Keynes's recommendations for practical policy are unsound," and: "What is original in the book [*General Theory*] is not true; and what is true is not original." He even denies Keynes the originality of his errors.

Since everyone knows what Hazlitt stands for and what Keynes stood for, let us take a fresh look at the gulf which separates their thinking. Clearly their differences on economic theory stem from different views concerning the nature and behavior of the capitalist system. Capitalism requires cooperation between free workers who do not possess the nonpersonal means of production for self-employment and the so-called capitalists who own or control the nonpersonal means of production. This cooperation takes the form of a wage bargain in which workers offer their labor services to capitalists, and capitalists in turn agree to pay the workers for putting the means of production into operation. Now if some workers remain unemployed and some means of production remain idle, the question arises whether the fault lies with the wage-earners for withholding their labor or with the capitalists for withholding the means of production. Hazlitt and those who think as he does will not concede that unemployment can be a fault of capitalism per se. They blame imperfections in the market, especially rigidities of wages and prices.

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Keynes, on the contrary, maintains that employers withhold the means of production from workers. He calls his analysis of the withholding process the theory of a monetary economy, by which he means that the essential properties of money and interest result in unemployment (*General Theory*, p. 235). In the absence of money, or of any other asset with the properties of money, equilibrium would be reached only at full employment. The most essential characteristic of money is its high liquidity premium, which results because money is the socially recognized form of private wealth. Under the system of production on private account, employers will give workers access to the means of production only if they anticipate that the state of effective demand will result in the conversion of real goods into money on favorable terms. Money in this sense represents, stands for, private property in general. The marginal efficiency of holding money (the rate of interest) will fall more slowly than the marginal efficiency of particular kinds of wealth (the rates of return on real capital assets).

Keynes' fundamental theoretical proposition is that there can be an equilibrium at less than full employment, whereas Hazlitt says that the idea of an equilibrium at less than full employment "is a contradiction in terms" (p. 5). Both are correct! There can be equilibrium at less than full employment within the framework of Keynes' theory of a monetary economy, and there cannot be equilibrium at less than full employment within the framework of Hazlitt's "classical" economics. This conclusion, however, is not very helpful. Equilibrium and disequilibrium have nothing directly to do with the facts of experience and offer no guide to action. In the non-Euclidian (nonclassical) world of Keynesian monetary economics the maxims of the Euclidian (classical) world of real-exchange economics are quite irrelevant. Moreover, rigidity of wages and prices is not fundamental in the Keynesian system of equilibrium because the characteristics of wages and prices are derivative from the properties of money.

Whether a situation of large unemployment is described as one of equilibrium or disequilibrium is not important. The issue of unemployment can be joined only by discovering the operational meanings of these two systems and by testing the workability of the respective remedies. Theory and practice are systematically linked in the thought of both Keynes and Hazlitt, which is more than can be said of economists like Pigou and Patinkin, who seem to accept Keynesian remedies while rejecting Keynesian theory. As is well known to every reader of the weekly press, Hazlitt attributes economic evil—be it unemployment, inflation, gold outflows, or what not—to the behavior of trade unions and to New Dealish labor legislation. Presumably he believes a state of bliss would come to pass if trade unions were broken and labor legislation repealed. This is a testable hypothesis, but not one likely to be tested. The political temper of modern democratic societies renders Hazlitt's position unrealistic in the sense that it calls for a more or less complete return to the never-never land of nineteenth-century *laissez faire*. Henry Hazlitt reminds one of the Japanese soldier who was found on an isolated Pacific isle a decade or more after the end of the second world war, unwilling to accept the fact that the war was long since over, and lost. Courage and perseverance in the face of

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opposition are qualities not to be taken lightly, but there is also merit in knowing that the war is over and in what century one is living.

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Industrial Pricing Policies: An Analysis of Pricing Policies of Danish Manufacturers. By B. FOG. Amsterdam: North-Holland Publishing Co., 1960. Pp. viii, 229. $4.75.

This is a welcome translation of the 1958 original, which reports an investigation made in 1951-55. The following remarks seek to supplement rather than duplicate the perceptive review of the Danish edition by Goran Ohlin (this *Review,* March 1959, pp. 165-67) and to relate the book to some very recent work in the field.

Professor Fog's study is mainly a comparison of marginal and full-cost pricing in Danish manufacturing of footwear; radio and television; and paint, dyestuffs, and varnish. Because the connection between full-cost pricing and oligopoly is crucial, we regret that to preserve anonymity he had to omit a case study of an industry "with very few members." Actually, the author studied 139 firms in more than 18 branches of industry and used much supplementary material as well (some from America). An apparent innocence of modern survey sampling methods reduces the value of the data for generalization, but, on the other hand, the care and skill with which he conducted his interviews greatly enhances it. In particular, he was not misled by differences between business and economic terminology. If his cases are less reliable than full-dress industry studies would be, they are nevertheless far superior to studies based on mere questionnaires, oral or written.

Full-cost formulas come in many variants, and the most interesting part of the book is a fascinating collection of examples of how they are in practice modified to take account of market conditions (Ch. 5 and 6). No student will want to miss these. Fog concludes that full-cost pricing is common as business *procedure,* yet marginalism often adequately describes the *results* of business decisions. Thus although he greatly enlarges the evidence, his results are like those in Heflebower's 1952 review paper (published in *Business Concentration and Price Policy,* 1955). This inspires confidence in both works, though it diminishes the novelty of the later one.

While this reconciliation of the two pricing approaches was occurring, there has been re-examination of the central concept, profit maximization. Most economists now reject, as too restrictive, maximization of profits by means of objectively-known, short-run marginal revenue and cost functions. But when the principle is broadened, it sometimes tends to become vague or tautologous. Probably this is why a number of recent studies[1] propose other, presumably more definite, goals of business behavior as bases for prediction: goals which also are said to be more "realistic." Wiles, asserting "it is purely a matter of

[1] Here we examine: P. J. D. Wiles, *Price, Cost and Output* (Oxford, 1956), Ch. 5; W. J. Baumol, *Business Behavior, Value and Growth* (New York, 1959), Pt. I; and R. F. Lanzillotti, "Pricing Objectives in Large Companies," this *Review,* Dec. 1958, *48,* 921-40, and discussion, Sept. 1959, *49,* 669-87.

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