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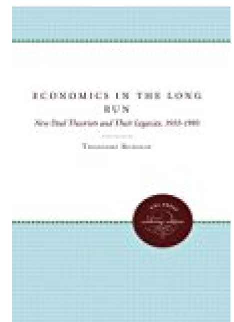
Theodore Rosenof. *Economics in the Long Run: New Deal Theorists and Their Legacies, 1933-1993.* Chapel Hill: University of North Carolina Press, 1997. ix + 223 pp. $34.95 (cloth), ISBN 978-0-8078-2315-6.



Reviewed by Michael Perelman (Department of Economics, California State University at Chico)
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This book tells a complex story about the development of the economic theories of Keynes and Schumpeter, along with those of Alvin Hansen and Gardiner Means, in the context of the Great Depression. While Schumpeter preferred to let the depression run its course, the other three advocated a more activist approach. Although Keynes's specific policy prescriptions at the time were vague (Perelman 1989), his basic approach was to let business be free to do as it would choose, while creating a macroeconomic climate in which investment would be brisk.

Hansen concurred, although the context of his policy was quite different. For Hansen, the long run process of secular stagnation had diminished investment opportunities so much that massive government spending was required in order to stimulate business. At times, Keynes seemed to agree with Hansen, but for the most part, he was vague about the particulars. Moreover, throughout the *General Theory*, Keynes emphasized the role of subjective expectations rather than objective economic conditions.

Just as Hansen dropped Keynes's concern with the subjective element in the investment equation, Hansen's followers in the United States ignored his concern with the long run forces that shape the economic environment, giving rise to the sterile economics of the neoclassical synthesis, which Rosenof classifies as short run Keynesianism. By the time that World War II arrived, this stripped-down version of Keynesianism had carried the day within the economics profession. Activist macroeconomic policy meant little more than infusions of government spending to keep the business cycle in check, with no concern for the long-run economic environment.

Although Gardiner Means's role is less familiar today, in the early years of the Roosevelt administration, he was probably the most influential economist among policymakers. His influence suddenly waned with the disillusionment regarding the National Recovery Administration and the outbreak of the depression within the depression in 1937-38. The torch then passed to the aggregative economic policies advocated by Alvin Hansen.

According to Means, industry consists of two unequal sectors. On one side, highly competitive industries, such as agriculture, live in a world of flexible prices. On the other side, industries inhabited by a few large corporations enjoy sufficient power to set prices at levels of their own choosing. Because these high prices restricted demand, employment rather than prices fall in this sector whenever a negative shock hits the economy. In contrast, prices collapse in the competitive sector, restricting buying power from within that sector, compounding the deflationary shock.

For Means, the Depression required something like what we now call industrial policy. The New Deal implemented industrial policies, but not in a fashion that won Means' approval. Instead, the New Deal consisted of a variety of agencies, each operating in its own bailiwick. In contrast, Means's industrial policy would take the entire economy into account, rather than a few specific industries.

Although Means thought he found support in Keynes for his writings, he was sadly disappointed by Keynes's response. Ironically, each thought that the others' economic theory was merely a special case of his own more general theory. In time, Means came to see Keynes as an adversary. He even proposed that expansionary monetary, rather than fiscal policy would remove the pressures that created the imbalances between the competitive and the noncompetitive sectors of the economy.

The appearance of inflation in the late fifties led to the reemergence of Gardiner Means in economic analysis and public policy advocacy. Means no longer called for a monetary expansion. Instead he advocated a return to the policies associated with the National Resources Planning Board, where he once wielded enormous influence. Means's modest rehabilitation could have never returned him to the center of power. By that time, McCarthyism was in full bloom. Economists who questioned the efficiency of private enterprise were coming under severe attack (Leeson 1997, p. 125). The safest course was to follow the lead of the neoclassical synthesis and put questions of corporate power aside. In the midst of Cold War hysteria, Means's approach was not likely to find a warm reception in influential circles.

Even Hansen's fiscal policies were too dangerous for the times. By 1945 the Federal Reserve Board dropped Hansen as an adviser. According to press accounts, complaints by bankers were a major factor. Soon thereafter, the Eisenhower Administration purged Washington of Democratic Keynesians (Tobin 1976, p. 35).

The slow growth of the 1950s also lent some credence to Hansen's theory of secular stagnation. As the postwar boom wore on, Hanson and Means were largely forgotten again, and Keynes's star dimmed significantly, while for some admirers of the prosperity of the time, Schumpeter has became an almost cult-like figure. With the stagflation of the 1970s, Means again achieved a modicum of attention, since short-run Keynesianism seemed at a loss at the time.

Each of the four authors under study recognized a part of the totality. None seemed willing to incorporate the insights of the others, except for Alvin Hansen, who was the least original of the group. Hansen enthusiastically incorporated one side of Keynes, but not the other side that emphasized subjectivity. Similarly, he disregarded Means, at least until the 1960s, when they were no longer rivals for power. Rosenof attributes this failure of communication to a resistance to on the part of his subjects to make a sufficient break with orthodox economic theory (p. 174).

Rosenof notes that John Kenneth Galbraith managed to incorporate both the Means and the Keynes-Hansen approach to economic theory (pp. 126-27), stressing the need for macroeconomic policies to expand demand while paying close attention to the nature of corporate power. Galbraith also has affinities with Schumpeter. Both have successfully drawn upon a sociological style of writing. However, most economists today put a premium on tight theoretic modeling regardless of the realism of such efforts. In this environment, the broad sweep of Galbraith's writing appears as a defect rather than as a strength. Because Schumpeter's ideas resonate with the current political climate, economists tend to forgive him for his sociological style.

Rosenof cites Paul Samuelson to buttress his case. Samuelson noted that American Keynesians such as himself did believe that "imperfections of competition" were "an important part of the Keynesian under-employment equilibrium story." Upon reflection he realizes that "Keynes-cum-Chamberlin-and-Means would have been better than Keynes alone" (Samuelson 1983, p. 217; cited on p. 134).

The author's own preferred synthesis would combine institutionalism and post-Keynesianism. Many economists might find that mix too atheoretical for their preferences, but Rosenof makes a strong case that the more rigorous economics commonly practiced today is too restrictive to account for the complex world in which we live.

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Michael Perelman's most recent books are *The Invention of Capitalism: The Secret History of Primitive Accumulation* (Duke, May 2000), *Transcending the Economy:*

On the Potential of Passionate Labor and the Wastes of the Market (St. Martin's Press, May 2000), *The Natural Instability of Markets: Expectations, Increasing Returns and the Collapse of Markets (St. Martin's Press, 1999), and* Class Warfare in the Information Age_ (St. Martin's Press, 1998).

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