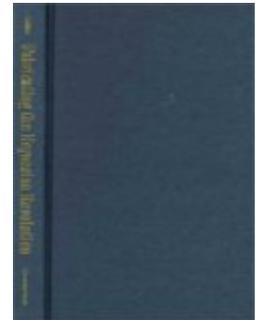




David Laidler. *Fabricating the Keynesian Revolution: Studies of the Inter-war Literature on Money, the Cycle, and Unemployment.* New York and Cambridge: Cambridge University Press, 1999. xvi + 380 pp. \$74.95, cloth, ISBN 978-0-521-64173-9.



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Published on EH.Net (June, 2000)

David Laidler's thesis is just as the title suggests. The Keynesian revolution was a fabrication. By this Laidler means that the putative revolution was neither uniquely Keynesian nor revolutionary. The most transforming development of post-1936 economics was the synthesis embodied in the IS-LM model. The model, while generally and properly associated with Keynes's *General Theory* and the "revolution" that followed, owed more to John Hicks, James Meade, Roy Harrod, Brian Reddaway, and Alvin Hansen than to Keynes. Though the *General Theory* contained an informal version of the model, the ideas that the model was subsequently used to organize were themselves neither particularly Keynesian nor novel.

If there was not a uniquely Keynesian revolution, why organize the book around the idea of such an event? Obviously, one reason Laidler did so is because the book is an exercise in myth debunking. The term "Keynesian revolution" is part of the common parlance among economists, and carries the message that J. M. Keynes fomented a revolution with the *General Theory*. No less a

source than Keynes testified to this. Laidler quotes Keynes from a 1935 letter to George Bernard Shaw: "I believe myself to be writing a book on economic theory which will largely revolutionise - not, I suppose, at once but in the course of the next ten years - the way the world thinks about economic problems" (p. 3). In the decade following publication of the *General Theory* there was disagreement over the particulars of the revolution but little doubt that there had been a revolution and that it was Keynesian.

However, Laidler's message is also that something new and substantial was fabricated from inter-war economics, for which Keynes and his followers were largely responsible. This was a consensus on how to deal analytically and practically with problems of macroeconomic instability. In this sense "fabricate" means "to make" rather than "to make up." The consensus was embodied in the formal structure and interpretation of the IS-LM model. IS-LM provided a convenient, easy-to-learn, and rich vehicle for organizing and comparing ideas. Much of Laidler's book is an account of the inter-war material from which this consen-

sus was made. Laidler shows how in the framing consensus within the formal structure of the IS-LM model portions of inter-war economics were preserved and portions were lost.

The book is organized around several themes in the inter-war literature. The first theme is Wicksell's influence on the divergent ideas in Austrian and Swedish cycle theory. The second is the British literature of the period, with Marshall's heavy influence. The third theme is geographically based -- the diverse American inter-war literature including Irving Fisher's quantity theory, the needs-of-trade monetary policy view that was influential at the Federal Reserve, empirical business cycle research, and underconsumptionism. The fifth and central theme is Keynes's *General Theory* and reactions to it by older and younger economists. Laidler's division of Keynes's critics into older and younger groups provides a clear view of what was new and what was old, what was kept and what was shed, in the "Keynesian revolution."

The IS-LM model was not just a formalization of the *General Theory*. It was both more and less than this. It summarized, for instance, Wicksellian inter-temporal coordination issues and Marshallian quantity theory ideas that were not original to the *General Theory*. And it omitted key ideas from the inter-war period that Keynes emphasized in his book, such as the roles of uncertainty and expectations.

Fabricating the Keynesian Revolution is an effective complement to Laidler's *The Golden Age of the Quantity Theory* (Princeton University Press, 1991). Between the two, he has provided an in-depth account of the development of monetary and macroeconomic theory from 1870 through the 1930s. The books share the same historiographic approach, detailed and nuanced tracing of the development and interplay of ideas from their sources. One difference in their content is that this book has less emphasis on the interaction of institutions and ideas. But the two books

share the same central theme, that economic ideas evolve gradually and without so much drama as is often presumed. The evolution of economic doctrine is complicated, with ideas being created, being lost, and being found. Laidler provided a preview of this book's thesis in *The Golden Age*. So readers who are familiar with *The Golden Age* will not be surprised by *Fabricating the Keynesian Revolution*. They will, however, be amply rewarded for reading it.

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Citation: J. Daniel Hammond. Review of Laidler, David. *Fabricating the Keynesian Revolution: Studies of the Inter-war Literature on Money, the Cycle, and Unemployment*. EH.Net, H-Net Reviews. June, 2000.

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