

# AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON

MASSACHUSETTS

BOOK REVIEW

SUPPLEMENT

April 26

1954

## *General Economics*

*The Frontiers of Economic Knowledge* by Arthur F. Burns

Princeton University Press, Princeton, New Jersey (\$5)

In our opinion, this book should be required reading for all students of economics, undergraduates as well as graduate, and for those in Government or business as well as for those in academic halls. We believe it to be especially valuable not only for the content of information but also for the practical illustration of sound method that it provides. The author's conclusions regarding "Economic Research and the Keynesian Thinking of Our Times," "The Cumulation of Economic Knowledge," "New Facts on Business Cycles" and the other subjects included in the several essays are well worth careful consideration by every serious student of economic matters.

Dr. Burns, in his present capacity as Chairman of the President's Council of Economic Advisers probably will have little to say for publication in the years immediately ahead. Under the procedures now followed, the Council's reports to the President are not published, and there is no clue in the President's annual Economic Report as to what portions are taken directly from the Council's confidential reports. Therefore, this book also will be useful to many readers, because it seems safe to assume that the Council's advice to the President will reflect the scientific ability and balanced judgment reflected in these essays.

*Economic Anthropology* by Melville J. Herskovits  
Alfred A. Knopf, Inc., New York (\$7.50)

Two quotations, from pages 496 and 502 respectively, will make clear to students of economics why we recommend this book to our readers:

"With the hypothesis of historical materialism, therefore, no social scientist can quarrel. It is, on the contrary, an expression of method toward the realization of which all effort is being continuously directed. Economic determinism, on the other hand, must be rejected as must any other simplistic explanation of culture. This does not mean that the influence of a given economic system on other aspects of the culture of which it is a part is to remain unstudied. On the contrary, this is the crux of one of the most important problems in the entire repertory of the social sciences. We can understand the genesis of the theory with greater insight if its classic statement and the extreme restatements of it encountered from time to time are regarded as the reactions to a particular culture, our own, wherein economic factors are actually of primary importance. That the passage of the years has put finer conceptual and methodological tools in the hands of students of society

and has given them wider horizons is aside from the point. Just because they have these improved devices, it is all the more incumbent upon them to assess the relative weight, in various cultures, at various times, of the several aspects of culture, as their most effective lead in the analysis of the plural factors in social causation."

"As for the economists, certain revisions in the use they make of comparative data, and in their attitude toward phenomena from cultures other than their own, would be highly desirable. It is understandable that much of any change in this direction must await the collection by anthropologists of more materials which can be used by them and presented so that the data can be readily found and analyzed. It would be a distinct gain were economists to divest themselves of their concern with origins, of the concept of 'stages' in the development of culture, of the idea that there are 'types' of economies based on hunting or herding or agriculture, and instead avail themselves of the opportunity to test almost any conceivable theoretical postulate by reference to the different customs of non-industrial societies. In this way, they could take their hypotheses, so to speak, into the laboratory afforded by nonliterate societies, and thus give a firmer base than is now accorded the refinement of concept that is a primary concern."

*Housing Market Behavior in a Declining Area* by Leo Grebler

Columbia University Press, 2960 Broadway, New York 27, New York (\$5.50)

This is the first publication of a series of studies on the behavior of urban real-estate markets undertaken by the Institute for Urban Land Use and Housing Studies at Columbia University. The study is a product of the Institute staff directed by Professor Leo Grebler.

The object of this study is to analyze the long-term changes in the housing inventory and its use, as well as the economic and social factors influencing these changes in a "declining area." As a declining area, the Lower East Side in Manhattan during the first half of the twentieth century has been chosen in view of its decline in terms of desirability as a residential quarter.

The findings of the study undoubtedly will be of great interest to students of land economics and the housing market. Many statistical series referring to different aspects of the Lower East Side economic and social conditions are presented in appendices.

*Modern Economics* by Arthur Edward Burns, Alfred C.

Neal, D. S. Watson, Edited by A. G. Hart  
Harcourt, Brace and Company, New York (\$5.75)

It is a pleasure to find an economics textbook that makes a serious effort to define the basic terms used. Such procedure has the advantage of providing a foundation on which a sound superstructure of theory might

be built. That the authors of this book have not taken full advantage of their initial procedure provides only one more illustration of the weaknesses in economics as it is taught today.

For example, on page 47 appears the assertion "The United States owes its high rate of capital accumulation chiefly to its wealth of natural resources, especially the energy resources such as coal, petroleum, and water power." At least a half-dozen major continental areas of the globe, some of them occupied for many decades by single nations, have equal or greater natural resources. Is it not then possible that the form of economic organization of our society in the United States is chiefly responsible for the high rate of capital accumulation here? Does anyone think that a society in the United States organized into landlords and peasants as in India or into landlords, peasants, and the bandits who preyed upon both as in China, would have accumulated capital so rapidly?

When men who claim to be economists make assertions such as that indicated above, they abandon the methods of inquiry accepted by scientists. Such views are entitled to no more respect than those of individuals who assert that the world is flat, because the methods of inquiry are in some respects similar.

Also, on page 31, the authors attempt to describe conditions during the early days of the industrial revolution. They refer to "the evils of an uncontrolled laissez-faire economy," apparently without any realization that what they are talking about are the evils of a controlled, semi-free economy, an economy controlled by and for the landed aristocracy of Great Britain and their merchant-industrialist contemporaries. To overlook the vital elements of that control, such as the "Enclosure Acts" of the late 18th and early 19th century, is to be blind to the most obvious and crucial economic facts. Failure to understand that it was not a laissez-faire economy but in large part its opposite that was the breeding ground for the horrible conditions described so well by Dickens and others; failure to understand that a close approach to laissez-faire did not exist in parts of the United States where economic development was most rapid and its fruits were most widely dispersed (and where a "laboring poor" in the British sense practically did not exist); failure to understand those facts reflects the lack of scientific inquiry on the part of the authors.

Similarly, on page 329, the authors apparently accept the Malthusian explanation for poverty in the Far East. They devote not a sentence to consideration of the possibility that other factors, such as the lack of stable governments, religious taboos, organized banditry, entrenched landlordism, etc., have a crucial bearing on the situation.

On a par with the "chemistry" of the early alchemists is the following statement from page 582: "The decrease in national output and employment in 1937-38 showed that the depression itself was more obstinate than many had realized." If this is not, from the scientific viewpoint, childish anthropomorphism, it at least is an "off the cuff" judgment entirely unsupported by citation of facts or theory and made with complete disregard, as far as the reader can discover, of any other possibilities such, for example, as the possibility that the 1937-38 recession was the usual aftermath of inflationary follies.

We believe that many of our readers may be interested in this text as a sample of those widely used in the col-

leges today. Its weaknesses account in large part for the popularity of economic panaceas such as the spend-for-prosperity notions, and the similar weaknesses of predecessor texts perhaps account in no small part for the Hisses and other misguided intellectuals of our times.

### ***Business Fluctuations***

#### *Conference on Business Cycles*

National Bureau of Economic Research, 1819 Broadway, New York 23, New York (\$6)

This publication records papers offered and discussed at a conference on business cycles held in November 1949 under the auspices of Universities-National Bureau Committee for Economic Research. The book provides an insight into the thinking of several of the more important names associated with the study of business cycles. Included among others are Haberler, L. R. Klein, Geoffrey Moore, Tinbergen, Kuznets, Angell, and Wassily Leontief. Those interested in Arthur F. Burns, present chairman of the Council of Economic Advisers, will find an unusually brilliant defense of Mitchell by Burns in answer to criticism by Jacob Marschak.

#### *Business Cycles and Forecasting* by Elmer C. Bratt

Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Illinois (\$8)

In this fourth edition, Dr. Bratt has made substantial revisions. Considerably more space is devoted to the work of the National Bureau and to Keynesian theory and terminology. The comprehensive coverage of the book makes it especially useful for an introductory course. As the author suggests, some chapters may be omitted without doing damage to the general reader's grasp of the business-cycle problem.

### ***International Relations and Policies***

#### *Beyond Containment* by William Henry Chamberlin

Henry Regnery Company, 20 West Jackson Boulevard, Chicago 4, Illinois (\$5)

The author is a well-known journalist and writer on foreign affairs, especially those related to communism in general, and Soviet Russia in particular, where he spent 12 years as a journalist. Among others, he is author of an extensive study of the Russian Revolution of 1917 and of developments during the subsequent years.

In the first two chapters the author describes the unfortunate appeasement policy of the Roosevelt-Hopkins era as well as the personal role of the late President in shaping this ill-thought policy of treating Stalin as "good old Joe." The following three chapters are a history of the cold-war struggle for Europe and Asia since the appeasement policy was replaced by containment.

The last four chapters are devoted to a discussion as to what we should do to meet the Soviet challenge. "A reasonable American position could be summarized somewhat as follows. The United States has not the slightest imperialist ambition in those parts of Europe and the Mediterranean area where a network of military installations has been created. The reason for the creation of this network was the sweeping aggressive expansion of the Soviet Union beyond its legitimate frontiers of 1939.

"We should be willing to relax and diminish our defense efforts if and as the Soviet Government should give convincing tangible proof of renouncing this expansion. Such proof could take only one form: complete unconditional withdrawal of Soviet armed forces, secret police

agents and other instruments of compulsion from all the East European satellite states.”

In view of the fact that in recent months the number of advocates of direct negotiations with Soviet Russia on a high level is increasing and in view of the fact that such negotiations may lead to some form of appeasement, we consider Mr. Chamberlin's book timely and well worth the most careful consideration.

*Unconditional Hatred* by Captain Russell Grenfell, R. N. The Devin-Adair Company, New York (\$3.75)

When a British Naval Officer, one of the directors of the Royal Navy Staff College, in effect denounces Mr. Churchill as an incompetent statesman and argues that neither British nor American participation in either World War I or II was justified, he has at least made news. When the charges are well documented and supported by a broad perspective of historical developments, they deserve the attention of thoughtful men.

The following extracts present a summary of the author's views in somewhat greater detail.

“Had Britain's *vital interests* really been consulted on both these occasions [World War I and World War II], she would have been kept free from these hostilities in any way possible. \* \* \*

“Complete victory has proved an empty triumph for both Britain and the U. S. A. These lamentably unsatisfactory outcomes of an apparently successful war are attributable to one principal cause—to the pronounced partiality of democratic politicians for basing military strategy on oratorical slogans instead of on established principles formulated by experts. Seldom, if ever, do the politicians at war seem to ask themselves the key questions: What exactly is our political object? Is it a good object in the light of history? Is it attainable? Have we resources to attain it? \* \* \*

“But Mr. Churchill was not a statesman seeking always his own country's advantage amid the twists and turns of a dangerous world. He was an international crusader preaching and conducting a holy war for the destruction of the Hitler regime and the German military power at any cost. \* \* \*

“So was President Roosevelt's. We have that revealing interview between Mr. Hopkins and Mr. Churchill mentioned in Chapter 7, when the latter described his American visitor as ‘absolutely glowing with refined comprehension of the Cause. It was to be the defeat, ruin, and slaughter of Hitler, to the exclusion of all other purposes, loyalties, and aims.’ To the exclusion, for instance, of the fact that the United States was not at war with Germany, that Germany had done her, too, no harm, and that Mr. Hopkins' master had just been telling American mothers “again and again and again” that their sons would not be sent to fight in Europe. Mr. Churchill thus shows that President Roosevelt's attitude towards the war had little if any relation to American interests. The President, like the British Prime Minister, was a crusader. \* \* \*

“One of the strangest phenomena of our time is the refusal of the United States to believe in its own enviable safety. It is, in truth, one of the least vulnerable nations of history. With the biggest navy and air force in the world, with ample man power and bountiful supplies of all the most important raw materials, with an unrivalled industrial productivity, and guarded by thousands of miles of ocean on both sides, Americans can afford to sit tight and watch other people's squab-

bles with an amused detachment and economical advantage. \* \* \*

“One of the most striking manifestations of the American vulnerability complex is the fear of being atom bombed, which, by all accounts, seems to have the nation in its grip. That the United States is immune from such bombing no one would be so foolish as to say. But it is as certain as anything can be that the country will not be defeated by such means. \* \* \*

“The former strong American instinct for the strict avoidance of foreign entanglements seems to have given place to the almost opposite urge for the United States to push its way into any outside trouble wherever in the world it may occur.”

We recommend this book because we believe that the author's views deserve serious consideration. To many readers, not a few of the points made will seem like a dash of cold water in the face. Perhaps it is precisely this sort of thing that is needed if there ever is to be an adequately realistic appraisal of the present danger and what should be done about it.

### *Investments* *Monetary History*

*The French Franc Between Wars, 1919-1939* by Martin Wolfe

Columbia University Press, New York (\$3.25)

This history of the French franc between 1919-39 discusses the economic, political, and institutional changes in France that led to successive devaluations of the French franc until its value in terms of gold at the beginning of World War II was only 9 percent of its value in 1914. The author describes in detail how these devaluations occurred, what the apparent reasons were, how politics interfered with sound monetary management, and how the “stubborn” faith of a Frenchman in the automatic functioning of monetary laws was abandoned during the interwar period in favor of state monetary manipulation.

Of interest to readers probably will be the following table showing the extent of each devaluation period to 1939:

<i>Date of Devaluation</i>	<i>Popular Name of the Franc</i>	<i>Value of the Franc in Milligrams of gold</i>	<i>Value of each Franc in terms of “Germinal” (%)</i>
1914	“Germinal”	322.58	100
June 1928	“Poincare”	65.5	20.2
Oct. 1936	“Auriol; elastic”	49.0	15.2
July 1937	“Bonnet; floating”	43.0	13.3
May 1938	“Sterling”	27.6	8.6

Although the book will be of great interest to all students of the history of inflations, it does not investigate the effect of the successive devaluations on savings, incentive to work, and long-term development of the economy. However, the author achieved his more limited objective, which was “to help with the work of marshalling \* \* \* facts into a coherent pattern and thus to explore one of the important strands of French economic history between the wars.”

*The Lawyers' Investment Manual* by Kenneth Redden and Alexander V. Thelen

The Michie Company, Box 57, Charlottesville, Virginia (\$10)

This book differs from the majority of texts on the subject of investments in that the emphasis is on the op-

eration and mechanics of investing rather than on the theory of security analysis or portfolio management. The authors' purpose is to give "the lawyer familiarity with the modern securities market." However, the book is written in clear, nontechnical words and would be a useful handbook to any individual who must cope with the problems of investment. Topics which are discussed include the characteristics of different types of securities, the markets for stocks, bonds, and commodities, the mechanics of investing, and the operation of brokerage accounts, as well as regulatory and tax problems. A comprehensive glossary of investment terms also has been compiled.

### Statistics

*First Course in Probability and Statistics* by J. Neyman  
Henry Holt and Company, 257 Fourth Avenue, New York 10, New York (\$3.75)

This book presents the elementary theory of probability and elementary mathematical statistics designed as a textbook for undergraduate and graduate students of mathematical statistics. Although a knowledge of only high-school algebra is indicated by the author as a prerequisite, somewhat more mathematical training as well as mathematical aptitude on the part of the student is desirable for an adequate understanding of all the material covered. The material presented in this textbook has been given by the author and his colleagues for several years as a course in statistics at the University of California in Berkeley.

*A Primer of Statistics for Political Scientists* by V. O. Key, Jr.  
Thomas Y. Crowell Company, 432 Fourth Avenue, New York 16, New York

The author of this book is probably most widely known for his earlier publication, *Politics, Parties and Pressure Groups*. A professor of Government at Harvard University, the author makes no claim to be a statistician. His purpose is to acquaint the student of politics with some of the more helpful and more easily acquired statistical techniques. As far as possible he has attempted to "translate statistical language into the tongue the rest of us use."

### Public Policies

*Economy in the National Government* by Paul H. Douglas  
The University of Chicago Press, 5750 Ellis Avenue, Chicago 37, Illinois (\$3.75)

The author is an economist as well as a Senator of the United States. In this book he presents many constructive and valuable proposals as to how to decrease Federal expenditures by eliminating waste, subsidies, and extravagance from the civilian and military budgets and how to increase revenues by closing tax loopholes. Although his specific proposals for greater economy in Government refer to the 1952-53 Federal budget, many of his arguments and general proposals can be applied to the present as well as to future Federal budgets.

*The Welfare State* by Jules Abels  
Duell, Sloan & Pierce, Inc., 270 Madison Avenue, New York, New York (\$3)

Here is a book that provides cogent material for those who see danger in the advance of the so-called "welfare state" but who find themselves so often in the position of being on the defensive. The author strikes out effec-

tively, if not always scientifically, at advocates of both "New Deal" and "Fair Deal" policies.

*Economics in the Public Service* by Edwin G. Nourse  
Harcourt, Brace and Company, New York (\$6)

The Employment Act of 1946 may be considered the first attempt of the American people to create a continuing public agency that would provide guidance in economic matters. As such, it reflected optimistic assumptions as to the status of scientific inquiry in the field and an almost naive hope that the agency thus established might function scientifically rather than politically.

Dr. Nourse's experience seems to demonstrate that both the assumptions and the hope were unjustified. That the Republic needs to find a means by which the advice of experts freed from political influence can be obtained seems obvious. The author suggests certain changes that he believes would be helpful in this respect.

Less emphasis is placed on the need for much higher standards in the profession before the knowledge so urgently needed will become available. We suspect that both higher standards of proficiency in application of modern scientific method and freedom from political and other influence will be required for a satisfactory solution of the over-all problems in the long run.

The record of Dr. Nourse's experience strengthens our belief that a sound solution of the problem remains to be found. Nevertheless, his recommendations deserve careful consideration by all who are interested in this vital problem.

### Biography

*Two Lives* by Lucy Sprague Mitchell  
Simon and Schuster, 630 Fifth Avenue, New York 20, New York (\$5)

Mrs. Mitchell presents in this book a carefully written, full, combined biography of herself and of her late well-known economist husband, Wesley Clair Mitchell. She has paid special attention to the ambitions and the life-work of each, but at the same time she has also described their life together, their relationship to each other and to their children.

Of special interest are her excerpts from Wesley Clair Mitchell's letters, outlines of courses, and notes on the organization of the National Bureau of Economic Research, of which Mitchell was the Director for 25 years. Her work was in education. She was chairman of the Bureau of Educational Experiments (now the Bank Street College of Education) for many years, and she is the author of several books for and about children.

Of their common aim Mrs. Mitchell says: "He and I had the same broad end in mind—the betterment of social organizations. And we both believed in the same means of accomplishing that end—a scientific study of human beings and their behavior. \* \* \* In the last analysis his work \* \* \* was to try to change socially harmful cultural patterns within our money economy, and to change them in the light of new knowledge, about human beings and their behavior, that had come from scientific investigations. \* \* \* His means of accomplishing this end were to gather as large a body as possible of scientific data on economic behavior and to analyze the relationships among these data through statistical treatment."

The human appeal of the personalities in the book is heightened by the inclusion of an illustration section as a preface to the text. This section gives the reader glimpses of the characters through selections from the "family album."