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Money, Trade and Economic Growth. By H. G. JOHNSON. (London: Allen & Unwin, 1962. Pp. 199. 25*s*.)

THE centre-piece of this volume of papers and lectures is Professor Johnson's already famous address on the " General Theory after Twenty-five Years." Unluckily, he was just the wrong age to make such an appraisal. A younger man would have felt obliged to do some research to find out the orthodox theory that Keynes was attacking; an older man would himself have once been submitted to it. Professor Johnson, who grew up amid the controversies around the *General Theory*, thinks that he knows what it was all about, but actually he does not discuss the changes which Keynes' theory made in economic thought; he is confronting it with its own bastard progeny.

To take a single example, in the old teaching the distinction between real and money wages was extremely vague. Strange as it now seems, the question: What would be the effect upon the general level of prices of an overall revision of money-wage rates? was simply never put. (Marx had put it long ago, and come out with the wrong answer.) Professor Hicks, discussing trade-union policy, could dismiss the point with the hasty aside: " By wages, we mean real wages " (*Theory of Wages*, p. 186). It was taken for granted, what Professor Meade has now articulately expressed, that any given quantity of " capital " could employ any number of workers, because unemployment would cause real wages to fall, so making it profitable to employ more labour per unit of " capital," until all the available workers were absorbed. The general price level had nothing to do with costs of production. It was treated in a separate volume and another course of lectures, under the heading of Money. This was the setting into which Keynes irrupted with the contention that the price level was mainly connected with the level of money-wage rates, while the monetary system was mainly connected with the rate of interest.

The bastard Keynesians criticise him in terms of arguments which are purely Keynesian (though formalistic and silly), showing how the effect upon prices of changes in money-wage rates reacts upon liquidity preference and the propensity to consume.

Professor Johnson reproaches Keynes for the influence that Marshall had upon him, for he does not appreciate Marshall's good points. Marshall inherited from Ricardo two qualities which are lacking in the branch of the neo-classical school that derives from Walras. He had (though confusedly) a sense of time. The short period is here and now, with concrete stocks of means of production in existence. Incompatibilities in the situation—in particular between the capacity of equipment and expected demand for output—will determine what happens next. Long-period equilibrium is not at some date in the future; it is an imaginary state of affairs in which there are no incompatibilities in the existing situation, here and now. Secondly, Marshall had a sense of the structure of society. His world is peopled with types (though idealised in a way which nowadays sometimes seems comical) who have different parts to play—the business-man, the worker, the householder—each with his own characteristic motives and problems.

The bastard Keynesians point out that Keynes assumed that money-wage rates are rigid—more accurately, that the supply of liquidity is very much more flexible upwards than money-wage rates are downwards. Of course he did. The contemporary world, inhabited by bankers and financiers (who do not depend upon a fixed physical quantity of gold or cowrie shells to carry out monetary transactions) and managers and trade unionists (or, for that matter, mistresses and charwomen) is not reflected in a model in which money-wage rates can fall indefinitely, or in which the quantity of money remains constant when they are rising.

But the bastard-Keynesian model is not only silly. It is seriously defective in logic. Any arbitrarily fixed quantity of money (demarcated in any relevant way) is compatible with full employment, in conditions of short-period equilibrium, at some level of money-wage rates, the level being lower the smaller the postulated quantity of money, and the larger the labour force to be employed. This is supposed, in the pseudo-Keynesian argument, to justify the contention that falling wages and prices are good for trade.

As far as inflation is concerned, Keynes' theory led to the prediction that a *high* level of employment would be liable to lead to *rising* prices. Monetary control, in so far as it was effective, would be able to operate only by reducing employment. This was seen as a dangerous unsolved problem which, however, was not immediately urgent. Now, after more than thirty years (for it dates from the Macmillan Report) Keynes' theory of wages has suddenly become orthodox and acceptable (though a practical solution is still to seek). In this respect Professor Johnson's address (which pooh-poohs wages policy and hankers after some kind of refurbished Quantity Theory) has dated since it was delivered.

In the above, the treatment of money and real wages is chosen as an example. Similar remarks apply, *mutatis mutandis*, to the discussion of the rate of interest, of employment and of money.

The lack of a sense of economic life as a process (or rather the deliberate, self-imposed aversion from it) which makes Professor Johnson under-rate Marshall, shows up in the other papers in this volume.

The discussion of *Planning and the Market in Economic Development* blurs the distinction between the allocation of resources existing to-day and the form in which resources should be created through accumulation.

The chief contribution to the economic theory of an *Opulent Society* is to throw into one category, as investment, education for a richer life, training for a better job, the acquisition of a washing machine by a housewife and building a factory by a firm.

The discussions of *Trade and Growth*, set out in the usual two-country, two-commodity, two-factor models, are conducted in terms of comparisons between full-employment equilibrium positions with balanced trade. Such exercises are a necessary stage in analysis, but as lectures delivered in Pakistan they must have given a dusty answer to the questions that the audience was concerned about.

These remarks are directed to the whole school of latter-day neo-classicals, who flourish after twenty-five years with honour and respect, rather than to Professor Johnson in particular. In that line, he is one of the most energetic and deft of practitioners. " For those who like this kind of thing, this is the kind of thing that they like."

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The Market Economy in the World Today. By P. JACOBSSON. (Philadelphia: The American Philosophical Society (Independence Square), 1961. Pp. x + 77. $1.50.)

IN these Jayne Lectures to the American Philosophical Society in February and March 1961, Per Jacobsson makes many wise comments on the monetary system, business fluctuations and international finance.

It is encouraging to find that he attributes the rise in prices through the 1957/58 recession in the United States, which caused so many to fear that inflation had become truly endemic, to non-recurring factors—the lack of competition from Europe, still suffering from the effects of the Suez crisis, and a hang-over belief by business-men that increased costs could always be passed on in higher prices.

He sets out clearly his view that the gains for economic development from inflation are only temporary:

> " It has been argued that credit expansion of an inflationary character can produce ' forced savings,' and thus provide additional resources for investment. This, however, is only true as long as earnings increase more slowly than prices and the public is willing to hold a more or less normal amount of cash. Once people wake up to the hurt inflicted upon them by rising prices, they will press more vigorously for higher wages, and hasten to buy whatever they can to avoid a loss of real earnings. Then not only may the forced savings disappear, but the normal flow of voluntary savings will be reduced and what is left will be increasingly diverted into speculative and non-productive ventures. But without a ready flow of savings no economic progress can be sustained " (p. 29).

It is a view that commands respectful consideration.

When planning for continuous inflation is still fashionable it is refreshing to read the blunt comment—