A Study Guide to Henry Hazlitt's *The Failure of the "New Economics"*

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Introduction

John Maynard Keynes (5 June 1883 – 21 April 1946) may have to be labeled the most known and famous economist of the 20th Century. His most known, yet little understood work appeared in 1936 as *General Theory of Employment, Interest, and Money*. It literally overshadowed every economist of the past, contemporaries, and its legacy continues to haunt us to this very day in the current legislations, presidential elections and nearly all economics at the higher levels of education. "Keynesian economics serves as a sort of yardstick that can define virtually all economists who came after him."[1] There are few today in the halls of academia or government who are not Keynesians, neo-Keynesians or some variation thereof.

Keynes was the first-born of three children. He was born in Cambridge, England to middle-class parents. John's father was a professor at Cambridge University; his mother was a social reformer. Educated at home in his early years, he attended prep school at St. Faith's from age 9 to 14, where his teachers described him as brilliant, but on occasion, careless and lacking in determination. This may be due to rather poor health and thus poor attendance. His father tutored him to pass his exams for entrance to King's College, Cambridge, where he earned his degree in mathematics in 1905. He studied briefly under Alfred Marshall and Arthur Pigou, whose scholarship on the quantity theory of money led to Keynes's *Tract on Monetary Reform* many years later. He will later spend much of General Theory criticizing his masters' theories. After leaving the University, he worked in civil service in Britain. There he formed many of the elements of his first book in economics, *Indian Currency and Finance*, a detailed description of India's monetary system.

He returned to his alma mater in 1908 as a lecturer, taking shortly a leave of absence and transferring to the British Exchequer. He was the major British monetary representative at Versailles in 1919. He resigned in protest over the "punishment" of the Germans in the Treaty of Versailles. He felt reparations would eventually lead to the destruction of central Europe or another war. Keynes wrote: "The Council of Four paid no attention to these issues [which included making Germany and Austro-Hungary into good neighbors], being preoccupied with others—Clemenceau to crush the economic life of his enemy, Lloyd George to do a deal and bring home something which would pass muster for a week, the President to do nothing that was not just and right." (chap. 6, para. 2).

He returned to teaching. He "joined" the famous Bloomsbury Group of literary greats, which also included Virginia Woolf and Bertrand Russell. In the 1920s Keynes was a believer in the quantity theory of money (monetarism). His writings on the topic were essentially built on the principles he had learned from his mentors, Marshall and Pigou. In 1923 he wrote *Tract on Monetary Reform*, and later he published *Treatise on*

*Money*, both on monetary policy. He firmly believed the way to stabilize the economy is by stabilizing price levels. That is to be done by a lowering interest rates when prices tend to rise and raising them when prices tend to fall.

Keynes's ideas took a dramatic change, however, as unemployment in Britain dragged on during the interwar period, reaching levels as high as 20 percent. He also lost his literal shirt in the crashed of the world markets in 1929, having to rely on his father's support and livelihood by returning to live with his parents during much of the Depression. Keynes experiences and "study" of the causes and results of this economic crisis lead to the *General Theory of Employment, Interest and Money*.

Another war and post-war economic solution brings Keynes again to the forefront. At the 1944 Bretton Woods Conference, where the International Monetary Fund was established, he was one of the architects of the postwar system of fixed exchange rates.

Keynes influence today may be fading in explicit form and theory, but in practice it may be the only economic solution relied upon the most governments as a way to avoid the fix to struggling economies. Many of today's social problems from welfare, unemployment, health care and even industrial development and cap and trade are addressed with Keynesian (liberal) approaches. Fiscal spending, deficit budgets, depreciating monetary values all derive from mainstream Keynesian premises.

Yet, in all the years, there has been little serious critique of his theories, if they may be called that. The only truly comprehensive critique of the Keynes Fallacy has been Hazlitt's 1959 *The Failure of the "New Economics"* a difficult and until recently "lost" treatise. His approach is to literally go through Keynes' work line-by-line, molecule-by-molecule, stating where possible (Sometimes Hazlitt has to "translate" Keynes' illogical tangencies, and quite frankly babble, into simpler form.) Keynes' propositions, and then deconstruct the fallacies and then restate with corrections.

This study guide is presented to assist the reader in following Hazlitt's map through a rather confusing and often contradictory maze of Keynesian misstatements of Classical theories, his mistaken critique of *laissez-faire* markets, and impossible and illogical views of human nature and economic actions in general.

The summaries for each section are taken from Hazlitt's own as digitized on the Mises Institute's Literature link.[2]

[1]http://www.econlib.org/library/Enc/bios/Keynes.html

[2]http://mises.org/literature.aspx?action=author&ID=170

**Foreword**:

What is Keynes' fame based on according to his supporters?

How do Austrians view Keynes' legacy?

Hazlitt's overall impression of Keynes' was based on examining "theorem by theorem, notion by notion," and coming to the grand conclusion that Keynes was clearly a "fraud." Why?

Why do current political and economic leaders continue the Keynesian mistakes?

**Chapter I**: Though Keynes has been praised as the peer of Adam Smith, Ricardo, and even Darwin, not a single important doctrine in his work is both true and original.

Summarize the supporters' comments on the influence of Keynes.

Cole:

Hanson:

Samuelson:

Harrod:

Dillard:

What were the two major challenges some may give for Hazlitt to not write this book? How does he confront them?

"What is original…is not true; and what is true is not original." Explain Hazlitt's comment about the work of Keynes.

For whom did Keynes write? How do we know?

Outline Chapter One' *one* paragraph. What are the three big errors?

Why does Hazlitt object to the use of "classical" by Keynes?

**Chapter II**: Keynes's effort to overthrow the "orthodox" contention that the most frequent cause of unemployment is excessive wage-rates is unsuccessful. His arguments characteristically rest on *en bloc* thinking that assumes away the individual differences that make up reality. Prices and wage-rates never change uniformly or as a unit but always relatively and individually. "Aggregative" and "macroeconomics" conceal real interrelationships and real causes.

What two (2) postulates of the "Classical Theory of Employment" did Keynes present? Explain the relevancy to Keynes' *General Theory* and how are they not really "classical"?

What are Keynes' three (3) types of unemployment?

What are "wage-goods"?

What is the fundamental theory of unemployment?

How does Keynes explain Labor's attitude towards wages?

Explain the issue of real wages during the Great Depression as proof of Keynes' error in wage adjustment.

Summarize the differences in value productivity and physical productivity.

What is wrong with Keynes' statement "When money-wages are rising…it will be found that real wages are falling; and when money-wages are falling real wages are rising."?

Explain the "three [3] observations concerning Keynes' assumptions.

Why is there no "real wage," nor "general level of wages," nor "general level of prices"?

Why is the aggregate the wrong way to look at wage rates?

Why is Keynes' world non-Euclidean? How does the real world not match his theories? (Or why do his theories not match the real world?)

**Chapter III**: Keynes did not succeed in refuting Say's Law of Markets. His attempted refutation consisted merely in ignoring the qualifications that the classical economists themselves insisted on as an integral part of the doctrine.

What are the two major myths repudiated by Smith and Say?

Restate Say's Law in Mill's four (4) quotes. Why does Keynes tell a half-truth in not quoting all four, but merely the first two (2)?

Summarize Ricardo's restatement of Say's Law as presented by B. Shoul.

Why is Keynes refuted by Ricardo: "…to save is to spend."?

**Chapter IV**: Keynes's thought is honeycombed with contradictions. His central idea of an equilibrium with unemployment is self-contradictory by the very concept and definition of equilibrium.

What does Hahn say about Keynes' use of "obfuscation"?

How does Keynes' view of the entrepreneur flavor his entire theory presented in *General Theory*?

Why is the term "effective demand" in general used incorrectly, even more so by Keynes?

Why is Hazlitt so frustrated by the Aggregate Demand Function?

Describe why Keynes believes consumers' propensity to consume is non-rational or irrational.

What are the eight propositions of basic Keynesianism?

Why is Keynes so disdainful of thrift (savings)?

Why does Hazlitt believe that what Keynes is complaining about the most, are the very things caused by Keynesian policies?

**Chapter V**: Keynes's "choice of units" for economic measurement was hopelessly confused. What he calls a "quantity of employment," and puts into algebraic equations as such, turns out, on his own definition, to be not a quantity of employment but a quantity of money received by laborers who are employed.

Explain Keynes' *correct* critique of Pigou's National Dividend of Capital.

What are "non-homogeneous" labor units? How does this reflect on Keynes' earlier critique of Pigou?

How does Keynes back track to Marx on "simple labor" calculations?

What are Hazlitt's objections to the "labor unit" as presented by Keynes? How would this idea be absurd, even more so, when dealing with capital?

**Chapter VI**: There is nothing particularly original in Keynes's treatment of the role that "expectations" play in economic life. He does not, in fact, sufficiently recognize that role. He sees that expectations affect current output and employment but seems to forget that they are also embodied in every current price, interest rate, and wage-rate.

What is incorrect with the idea that Keynes' expectations idea is his most important, new and "vitally significant" element?

How did Keynes not go far enough in his treatment of expectations? Why does his approach prove at best a "special theory"?

**Chapter VII**: The current disparagement of "static" theory is mainly the result of confusion of thought. "Static" theory is necessary not only for the solution of many basic problems but as a preliminary to "dynamic" theory. There is no difference in kind between the methods of "static analysis" and the methods of "dynamic analysis." There is merely a difference in the specific hypotheses made. The appropriateness or utility of any hypothesis depends mainly on the particular problem we are trying to solve.

Why do economists, philosophers and politicians disdain "static" and worship "dynamic"?

Mises used ERE (Evenly Rotating Economy) and Classical economists used "the stationary state." What is the reason for these logical tools?

*Ceteris paribus*, all else constant, is a static tool for economists. Wicksell called it "hypothetical isolation;" Frank Knight "successive approximations." Why are these "tedious preliminaries" often ignored?

Why is an economist's job easier and harder than a physicist's?

Explain Keynes' use of the term user cost?

**Chapter VIII**: Keynes's definitions of his key terms—Income, Saving, and Investment—are merely circular; they are all defined in terms of each other. He so defines Saving and Investment that they are not only necessarily equal, but identical. He repudiates and apologizes for his "confusing" definitions of these same terms as given in his *Treatise on Money*, but absent-mindedly returns to these old definitions in his subsequent discussion, particularly when he tries to prove that investment *increases* employment and that saving *reduces* it. Keynes treated saving with contempt as far back as *The Economic Consequences of the Peace*, in 1919. His *General Theory* was merely his last rationalization of that contempt.

Let's look at some of key Keynesian definitions.

1. Effective Demand
2. Income
3. Savings
4. Investment
5. Cash or liquid capital

What is the purpose of definitions?

Are savings and investment the same?

Define the terms: $Y=I+C$
$S=Y-C$
$I=S$

What is “wrong” with savings?

What is “right” with savings? (Remember the “cake.”)

What is the big joke or “little joke”?

Why don’t anti-Keynesians take the chance to actually reading the *General Theory*? Paul Samuelson says they need to be careful. Why?

How does Keynes love investment, but hate savings?

Why does Hazlitt emphasize the sentence: “The decisions to consume and the decisions to invest between them determine incomes.”?

Explain the parallel analogies of buying and selling, and savings and investment.

**Chapter IX**: “Mathematical economics,” as Keynes and others use it, can at best give precision to purely hypothetical assumptions. To mistake these hypotheses for known or determinable realities leads to a merely spurious precision and compounds error. Keynes's alleged consumption “function,” his “fundamental psychological law” governing “the propensity to consume,” is an unsuccessful attempt to turn a loose truism, known from time immemorial, into a precise and predictable relationship. Even if this relationship existed, it would not have the economic consequences that Keynes attributes to it.

Quick Review. What are the four (4) great difficulties with the *General Theory*?

Explain the volume of employment, Aggregate Supply and Aggregate Demand Functions.

What is the major logical error in these “definitions”?

What are some of the issues with mathematical economics?

How do supply and demand curves relate to the laws of economic thought?

How does Keynes feel about math in economics, as he states in his essays on Marshall and Edgeworth?

What aspect of employment levels do Keynesians forget?

Where does the “propensity to consume” come from? Is it even a propensity?

Explain Keynes’ “most notable contribution,” the consumption function.

How does Keynes misuse this “fundamental psychological law”?

What are the two (2) ways can an economic law be established?

What is the value of statistics in inductive economic reasoning?

Keynes said savings depend on what someone earns. What is Hazlitt’s assertion on the amount people tend to save? Is there a general rule of thumb? How did Keynes invalidate this truth?

What is Keynes’ definition of savings? How do savings cause unemployment?

How does Keynes use “sinking funds” to explain economic downturns, e.g. the Great Depression?

Summarize the *General Theory* “in a nutshell.”

**Chapter X**: Keynes's list of eight motives for saving is arbitrary. It could either be expanded to a much larger number, or reduced to one—to build up a reserve against future needs or contingencies. In addition to this motive for “plain” saving, however, we must set down the motive to *capitalistic* saving (to make roundabout methods of production possible), which is quite overlooked in Keynes's eight. His argument that a rise in the rate of interest will diminish investment rests on the fallacy of assuming an arbitrary or *uncaused* rise in the rate of interest, rather than a rise that may be itself caused by an increase in the “demand schedule for investment.”

What are eight (8) explanations of people not spending their incomes?

What is the Ninth reason?

What are the two (2) reasons Hazlitt proposes for savings?

Explain: “I want to be a consumer” in view of Keynes’ hatred of thrift.

**Chapter XI**: Keynes's investment “multiplier” is a myth. There is never any fixed, predictable “multiplier”; there is never any precise, predeterminable, or mechanical relationship between social income, consumption, investment, and extent of employment.

An “equilibrium with unemployment” (to repeat) is a contradiction in terms. No investment “multiplier” can be calculated or even discussed except in relation to the extent of maladjustment or discoördination among prices and wage-rates, or to the state o£ business sentiment. Keynes's implied definitions o£ “saving” and “investment” constantly shift. He tacitly assumes that what is not spent on consumption goods is not spent on anything at all. By “investment” he most frequently means government deficit spending financed by inflation. His “multiplier” easily lends itself to a *reductio ad absurdum.* His belief that gold or money is “sterile” is a relic of medieval prejudice.

What is the difference between the *average* propensity and the *marginal* propensity to consume?

How could there be an infinite multiplier?

What explanation do Keynesians give for the multiplier not working?

What are the most important “leakages”?

What is the “epidemic of optimism”?

What does Keynes assume about employment? Explain “equilibrium with unemployment”?

How could prices rise without limit?

According to Keynes, where does unconsumed income go? If savings is not invested, how does Keynes determine that investment should occur?

What is the true name of investment in Keynes’ world?

Why must prices and wages be inflexible in the “new economics”?

What is Keynes’ objection to gold?

**Chapter XII**: Keynes uses one of his key phrases, “the marginal efficiency of capital,” in so many different senses that it is difficult, if not impossible, to keep track of them. He fails to recognize that interest rates are as much governed by expectations as is “the marginal efficiency of capital.” Instead of using this latter term to cover at least six different possible meanings, he should have been careful at all times to distinguish between these meanings. But if he had, he might not have written the *General Theory* at all.

What is “marginal efficiency of capital”?

Explain the three (3) problems of “vagueness” with Keynes’ definition of this concept.

Distinguish money rate of interest from the real rate of interest.

How does the dynamic marginal efficiency of capital relate to the static rate of interest?

**Chapter XIII**: Keynes's arguments against "liquidity" and against "speculation" are untenable. Speculative anticipations and risks are necessarily involved in all economic activity. Somebody must bear them. What Keynes is saying is that people cannot be trusted to invest the money they have themselves earned, and that this money should be seized from them by government officials and spent or "invested" in the directions in which those officials (seeking to hold on to political power) deem best.

What is the state of confidence? How is it really a tautology?

How does Keynes go too far in his assumptions on human living in a world of uncertainty?

How is the Stock market an illustration of Keynes' view of humanity? How does he forget that men are free and thus fallible?

How are gambling, speculation and all human actions disdained by Keynes?

What is the true difference between gambling and speculation?

How does Keynes recommend eliminating the failures of the market and *laissez-faire* capitalism?

What would be the best summary of "the new economics"?

**Chapter XIV**: It is not helpful to explain interest rates as "the reward for parting with liquidity," any more than it would be to explain the price of tomatoes or a house as the "reward" to the buyer for parting with cash for them. Without previous saving, moreover, there can be no 'liquidity" to part with. If Keynes's theory of interest were right, interest rates would be highest at the bottom of a depression and lowest at the peak of a boom, which is almost precisely the opposite of their actual tendency. Keynes is wrong in regarding money as "barren"; it is a productive asset, and productive in the same sense as other assets. Keynes is also wrong in regarding interest as a "purely monetary" phenomenon. His fallacy consists in assuming that because monetary factors can be shown to affect the rate of interest, "real" factors can safely be ignored or even denied. Whatever is true in Keynes's theory of interest was already recognized by Knut Wicksell and is fully taken account of in the work of the best contemporary economists.

What is the "liquidity-preference?

What are the three (3) divisions?

What is the problem with this liquidity-preference concept?

Explain Hazlitt's refutation of Keynes' definition of money.

How do short-term versus long-term rates of interest disprove the liquidity-preference?

Why is interest not merely a monetary concern?

What does Mises say about Keynes' idea of interest as a "gratuity"?

How does Knight add to the debate on money supply, price levels and the rate of interest?

What would happen if Keynes were correct and the propensity to consume were 100%?

**Chapter XV**: Though Keynes attacks "the classical theory" of the rate of interest, there is no uniform classical theory of interest. Current theories of interest might be divided into three broad categories: (1) productivity theories, (2) time preference or time-discount theories, and (3) theories which combine productivity and time-preference. As a borrower of funds in effect buys or borrows *time*, or the use or enjoyment of goods before he could otherwise use or enjoy them, time-preference or "time-usance" must be recognized as the chief factor in explaining interest and the rate of interest. But "investment opportunity," the prospective "rate of return over cost" (or the expected net value productivity of specific new capital goods), also plays a role, because of its influence on the demand for loans and the rate that borrowers are willing to pay. Any complete theory of interest must deal not only with "real" but with monetary factors. At any given moment the rate of interest is determined by the point of intersection of the supply curve of savings with the demand curve of investment (or the supply of loanable funds with the demand for loanable funds). But the chief "long-run" determinant of the interest rate is the community's composite rate of time-discount.

What is Keynes' definition of "Classical Economics"?

What is the problem with a "Classical view" of interest?

What are the five (5), including Keynes', general theories of interest? Summarize each. What are the key differences?

The real weakness of Knight's theory of interest confuses physical yield with value yield. Explain

Borrowers pay interest not for the money, but for what the money obtains now versus later. Explain with some examples.

What are the two (2) pillars of Fisher's theory of interest?

How does Hayek continue Fisher's ideas on the nature of interest?

Discuss the graph of interest rates presented in Section Four. What is the essential thing to remember about these "types of pictures"?

What determines the amount saved and the amount desired for investment? How does their interaction determine the market rate of interest?

What must one do to "fix" all these various theories that Knut Wicksell has already discussed?

How does the Central bank (Our Fed) influence the rates of interest?

Keynes' theory goes all the way back to Aristotle and the Medieval Church. How?

**Chapter XVI**: While Keynes formally defines saving and investment as "necessarily equal in amount" and "merely different aspects of the same thing," his theory repeatedly depends on the tacit assumption that saving and investment are separate and independent. Under the assumption of a constant money supply, saving and investment are necessarily at all times equal. When investment exceeds *prior* genuine saving, it is because new money and bank credit are being created; when ordinary saving exceeds *subsequent* investment, it is because the money supply is contracting. An excess of saving over (subsequent) investment is but another way of describing deflation, and an excess of investment over (prior) saving is but another way of describing inflation. Keynes's assumption that it would be "comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero" is fantastic, and has absurd implications.

Why do people save? What happens to those savings?

Why is money barren to mainstream (Keynesian) economists?

Can there be savings without investment?

What are some of the problems presented on savings and the money supply?

Explain the reason for inflation and on the other hand deflation.

Why is Keynes obsessed with avoiding inflation?

Why is production lengthened or made more "round-about"?

Keynes believes that capital must be "kept scarce." Why? How does he expect to eliminate general scarcity?

What are Keynes' four (4) "triumphant corollaries" of his elimination of scarcity? What four (4) fallacies emerge when these "corollaries" are dissected?

How is Keynes nearly a Marxist? (A familiar question of Hazlitt.)

**Chapter XVII**: Keynes's theories of “own rates of interest” are completely untenable. What he is talking about is not interest rates at all, but merely speculative anticipations of price changes. Keynes's belief that the world is “so poor in accumulated capital-assets” overlooks the fact that at least two out of every three persons in the world today owe their very existence to accumulated capital since the Industrial Revolution.

Explain “own rates of interest.”

From where did Keynes steal this *original* idea?

What is “negative rate of interest”?

Why should wages be kept rigid?

How is it possible to be against both flexibility in money-wages and stability in real wages?

What is the real purpose of a Central Bank and wages?

How has capital and population changed over the years?

What is the major difference between Keynes and Wicksell?

What is illogical about “equilibrium with less than full employment”?

What is the “state of equilibrium”?

How do wages affect employment?

**Chapter XVIII**: Keynes had confused ideas about economic interrelationships. Particularly absurd was his idea that flexible money wages (adjusting to *prior* changes in prices and demand) would cause violent oscillations in prices, and that we could stabilize the economy by trying to hold up wage-rates regardless of what happened to prices. His remedy would unstabilize the economy, and create or prolong the very mass unemployment he professed to be trying to cure.

What is the concern of economics?

Keynes himself states: “The division of the determinants of the economic system into two groups of given factors and independent variables is, of course, quite arbitrary from any absolute standard….” This is one of the very few truisms from Keynes; but, he ignores this. What problems are thus caused for economic analysis?

Explain what Hazlitt means by “what is ‘given’ is determined by the nature of the problem.”

What causes “stabilized unemployment”?

Why is labor demand “elastic”? Is it?

How are wages determined in a free market?

**Chapter XIX**: Keynes is unsuccessful in his attempt to deny the most strongly established principle in economics—that if the price of any commodity or service is kept too high {*i.e.*, above the point of equilibrium) some of that commodity or service will remain unused or unsold. When wage-rates are too high there will be unemployment. Adjusting the myriad wage-rates to their respective equilibrium points may not always be in itself a *sufficient* step to the restoration of full employment, but it is an absolutely *necessary* step. Keynes tried to substitute general monetary inflation for piecemeal wage-and-price adjustment. But without proper wage-price coordination, inflation cannot bring full employment.

Why does Hazlitt call Keynes’ Chapter 19 the worst chapter in the whole of *General Theory*?

What is the necessary, though not the only, step in restoring full employment in a recession?

Summarize Keynes’ view of Pigou’s original “correct view”?

How does Keynes confuse wage rates and wage payments?

What are some of the limits in using elasticity with demand for labor? Even with these limitations, what can elasticity tell us about wage rates and employment?

How do the Keynesians deny their own aggregates when it comes to labor and wage rates?

Explain how a reduction in wage rates actually raises aggregate demand.

How does Keynes promote totalitarian economic control? Refer to his 1936 preface to the German Edition.

How does Keynes, like Marx, turn the free market on its head?

Is there such a thing as a price of labor, a price of steel, a price of coal?

What is Keynes' belief as to the best way to lower "real" wages? How does this violent adjustment defeat his own purposes?

What are the mistakes Keynesians make in their inflationary schemes?

How is *General Theory* the 20th and 21st centuries *Das Kapital*?

**Chapter XX**: There is no reason to suppose that there is a genuine and determinable "functional" relationship between "effective demand" and the volume of employment. There will be full employment with all sorts of changes in "effective demand" if a fluid and dynamic equilibrium exists among prices, wage-rates, etc. There will be unemployment with no matter what "effective demand" if this equilibrium does not exist. Keynes was unjustified in declaring that previous economists had failed to reconcile "value" theory and monetary theory.

How do mathematics and formulae tend to cause problems in economics?

Why doesn't Keynes mention those who have dealt with the issues of value money? Who were those that wrote on these topics, even as Keynes was writing "his"?

How does money relate to men always acting "with an eye on the future?

**Chapter XXI**: Inflation is at once an *uncertain* remedy for unemployment, an *unnecessary* remedy for unemployment, and a *dangerous* remedy for unemployment. "Elasticity" of demand is not measurable. The mathematical method is misapplied to it. To try to cure unemployment by inflation rather than by adjustment of specific wage-rates is like trying to adjust the piano to the stool rather than the stool to the piano. The rate of interest is a market price like any other market price, and determined as much by the demands of borrowers as by the offers of lenders.

How are costs and prices determined according to Wicksell, *et.al*?

How are costs and prices determined in the Keynesian world?

How does Keynes feel money affects prices?

How does money affect prices according to Hazlitt?

Discuss the Keynesian idea of the velocity of the circulation of money.

Why is inflation a dangerous tool?

Compare Hayek's version of individual price determination with that of Keynes.

Review some of the drawbacks of elasticity as an economic concept.

How do Fisher, Knight and even Keynes' teacher, Marshall express doubts on the use of mathematics in economics?

How does the concept of supply and demand elasticities compound the mathematics, algebra and supply and demand curves of the mainstreamers?

What is the measure of value of a monetary unit, say one dollar? How is it different than a foot or a pound?

How does Keynes revert to the Middle Ages and the concept of usury concerning the loan funds industry?

From where does the interest rate come?

How positively and negatively do wage rates and interest rates get ripped out of the price system?

Who are the enemies of Marx, Keynes and today's liberals?

**Chapter XXII**: The explanation of an economic crisis as a "sudden collapse of the marginal efficiency of capital" is either a useless truism or an obvious error, according to the interpretation we give the phrase "the marginal efficiency of capital." If this means simply a collapse of *confidence,* the explanation is a truism. If it means a collapse in *physical productivity,* it is nonsense. If it means a collapse in *value productivity,* it reverses cause and effect. The Keynesian cure for crises is perpetual low interest rates. The attempt to attain these would lead to a policy of perpetual inflation. The Jevonian theory that business conditions vary directly with the size of crops is untenable, and particularly implausible in the form maintained by Keynes.

What is Keynes' claim on the pattern of business cycles? How does the data support his proposition?

What about Keynes' explications of the causes of the "crisis"?

Why is the business world "uncontrollable and disobedient"? Who should be in control? To what does this control lead?

What is the orthodox and correct cause of the business cycles? How then can a downturn be prevented? How can inflationary expansion be stopped?

What is the *Great Unmentionable*?

What is the “sun-spot theory”? How does Keynes fail to prove anything about the business cycles in relation to harvests? (Jevons’ theory????)

**Chapter XXIII**: Keynes's “system,” as he came to recognize at the end of the *General Theory*, was actually a reversion to the naive and discredited theories of the mercantilists and underconsumption theorists, from Mandeville and Malthus to Hobson. It was also a reversion to all the inflationist theories of the currency cranks, from John Law to Silvio Gesell.

How does Keynes revert to another “dead and faulty” theory in his “scientific truth in mercantilist theory”?

Why do false theories consistently resurface after centuries of refutation and proven theories of economics?

How does Classical theory deal with unintended consequences of a policy?

What is the conclusion about the workings of the market and optimal outcomes?

What actually is the “new economics” really about?

How does Keynes’ idea of trade deny comparative advantage and lead to tariffs, quotas, and harm to the economy?

How and why do Keynesians resuscitate Gesell and his monetary theory?

What are the two (2) reasons for belief that thrift is the cause of all the economic problems?

Summarize the *Fable of the Bees* of Bernard Mandeville.

How does Malthus add to the view of thrift?

Excepting Malthus’ approach, why are some nations poor?

Contrary to Keynes’ use of Malthus that a nation that produced more than consumed, as misers (labeled irrational), why do we sometimes save our product?

How do savings/investment actually increase consumption, productivity, wealth and wages, allowing the poor (Keynes’ Labor, Mises’ Masses) to benefit?

How does Mill refute Keynes’ approach of government encouraging or stimulating consumption? (Pretty cool, considering it was 100 years before *General Theory*!)

Why does Keynes not refer to Mill in his essay on “lying idle” capital? Is full employment of all resources really desirable?

Mill discusses the business cycle as a concept (before the name was applied to the situation). How does his explanation clarify Say’s Law?

How does Mill deal with liquidity-preference as a problem?

Can an economy ever reach a maturity of absolute fulfillment of wants or completion?

**Chapter XXIV**: Keynes's proposals for “the euthanasia of the rentier, of the functionless investor,” were proposals to rob the productive and expropriate their savings. Keynes's plan for “the socialization of investment” would inevitably entail socialism and state planning. Seriously carried out, it would remove any significant field for the exercise of private initiative and responsibility. Keynes, in brief, recommended *de facto* socialism under the guise of “reforming” and “preserving” capitalism. “Domestic *laissez faire* and an international gold standard,” blamed by Keynes as among the “economic causes of war,” were, in fact, powerful forces for peace and international cooperation. It is the national planning policies recommended by Keynes that would tend to provoke wars.

What are Keynes’ “critiques” of modern economic societies?

What are the fallacies of Keynes’ charges?

What is his ultimate goal for humankind and economic society?

What is the chief goal of savings as a source of investment and thus capital goods?

How would he suggest keeping interest rates low and preventing entrepreneurs (*rentiers*) from siphoning off excess wealth?

Why does Keynes refer to both interest and rents as rewards for nothing?

Why does he propose a form of direct taxation (other than pure theft)?

Why does he propose socialized investment?

What are some of the “defects” and “abuses” of individualism?

How does Keynes respond to better than average entrepreneurs?

According to Keynes, what are the economic causes of war?

Restate Keynes’ final paragraph in *General Theory*. Remember it well; it may the only correct and valid one in the entire work.

**Chapter XXV**: Because Keynes was continually contradicting himself, we may not be justified in calling his 1946 article in *The Economic Journal* a "recantation" of the *General Theory*. But his praise of "the classical medicine," plus his reference to "much modernist stuff, gone wrong and turned sour and silly," may have indicated that he was on the verge of recantation.

What value is there in the proposition that Keynes recanted the major elements of *General Theory*?

Might Keynes' 400-page book be merely a giant satirical piece?

**Chapter XXVI**: If we try to use the term with "scientific" or objective precision, "full employment" is not even definable. "Full employment at whatever cost" is not even desirable. It is best either to use the term in a loose common-sense way to mean the absence of abnormal involuntary unemployment, or to replace it by the term *optimum* employment. It is not an end in itself, but a means to, or an accompaniment of, much broader ends, including mainly the maximization of consumer satisfactions. The economic objective of mankind, after all, is not more work but less.

Keynes' "greatest" contribution was his theory of full employment. How does Hazlitt deconstruct the entire concept?

Summarize Pigou's definition of unemployment.

What about William Beveridge's?

And Edwin Nourse's?

Why would full employment as defined by Beveridge be a serious problem?

Do we as a society want full employment or not? What do most societies and people actually want?

**Chapter XXVII**: Efforts to determine the national income in monetary terms have merely a limited usefulness for special purposes. Actually, all estimates of national income rest on certain arbitrary (and sometimes false) assumptions. They are not purely objective or strictly determinate. The present fetish made of such estimates leads not only to confusion of economic cause and effect, but to inflationist and totalitarian policies. Economic forecasting based on "aggregative economics" or "the national income approach" has been almost uniformly bad.

What are some of the issues with the national income approach in "macroeconomics"?

Why is a measure of national income, even in dollars, deficient?

How does the paradox of value—exchange value versus use-value—add to the problems of measurement? (Explain the idea of an economy with no monetary value.)

If there is little certainty or value in national income accounts, how does all this lead to bad, even dangerous, economic and political actions?

How does national income relate to national production? (GDP=C+I+G+X)

**Chapter XXVIII**: It is not true that deficits in the government budget cure unemployment. It is not true that low interest rates cure unemployment. The Keynesian prescription leads to a constant race between the money supply and the demands of the trade unions—but it does not lead to long run full employment.

What are Keynes' solutions to cure unemployment? What is never to be used/

What good are statistics in economic propositions?

How valid are Keynes' two (2) solutions for full employment?