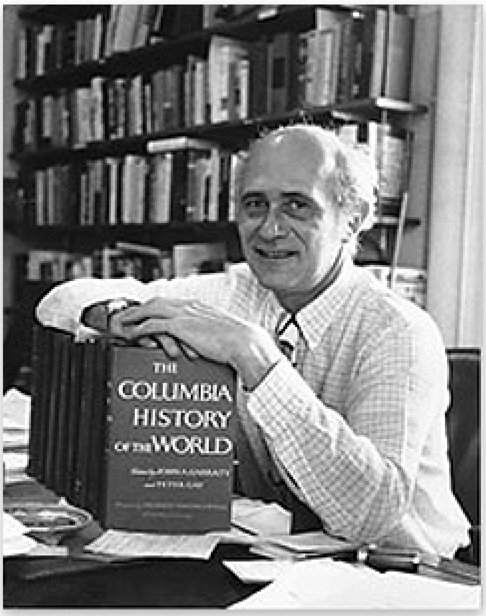
The Distinction between Theory and History

*[*Unemployment in History: Economic Thought and Public Policy *• By John A. Garraty. This review was first published in* Inquiry*, 1977.]*

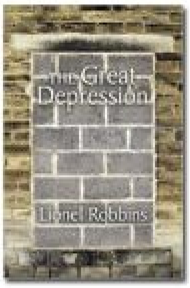
A historian who doesn't understand economics can only write about economic history or the history of economic thought like a behaviorist psychologist dealing with the human mind. He is limited to approaching his topic from the *outside,* as it were, blindly reporting the observed facts without an inner comprehension of what the whole thing is all about. And in framing his conclusions, the historian can, at best, be a judicious eclectic, trying to combine all strands of thought as well as he can. Inevitably, he will end up not totally off the mark, but not very close to the truth.



John Arthur Garraty (1920–2007)

Unfortunately, this is typical of what has generally happened to historians who have ventured into the economic realm. A case in point is Professor John A. Garraty, a distinguished American historian who here essays a history of economic attitudes toward unemployment and their impact on public policy. Typically, when dealing with the great modern debate between the Keynesians and neoclassical economists, Garraty can only record both points of view. And he cautiously, if lamely, concludes that the Keynesians were basically correct for the 1930s, while the neoclassicals are largely right today, now that the Keynesian nostrums have been pushed too far, and have brought about chronic inflation.

This sort of cautious middle-of-the-road approach is the best that a historian who is ignorant of economics can do; and no one is going to get tremendously angry at this book. But Garraty's method is really not good enough. Not *all* theories are moderately correct, and not *all* theoretical problems can be solved by asserting that each competing theory is partially valid. *Some* theories — even in economics — are just plain wrong; others are correct, regardless of the decade or century we are dealing with.



As a case in point, let us consider how Professor Garraty deals with the hard-money, free-market opponents of Keynesianism in the 1930s. Trying hard to present their views fairly, Garraty stresses Lionel (now Lord) Robbins's theory (in *The Great Depression* [1934]) that the government had been prolonging the Depression by propping up prices, wage rates, and unsound enterprises, and that that had to stop. Specifically on unemployment, Garraty notes the view of Robbins, Ludwig von Mises, and Jacques Rueff (a longtime economic adviser to the French government) that wages must not be artificially kept above the market level, an action which generated massive unemployment. So far, so objective — except that Garraty cannot resist appending a snide sentence: "Their proposals thus required further deflation, although by early 1933 prices had been falling for over three years."

It is true that prices had been falling since 1929, but — remarkably in the history of depressions — they were falling faster than wage rates. This meant that *real* wage rates (wage rates corrected for changes in the purchasing power of the dollar or pound sterling) were going up, thereby generating massive unemployment.

None of these hard-money economists advocated further deflation, in the sense either of further contractions of the money supply or of general price levels. On prices, they called attention to the fact that keeping a specific price artificially high can only lead to the piling up of unsold inventory on the shelves and the possible bankruptcy of firms in the industry. On the question of unemployment, they were making the same point with respect to propping up wage rates.

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There are other grave flaws in Garraty's treatment of these economists, not so much errors of commission as of omission; thus, he leaves out crucial explanations of their theoretical frameworks. Garraty never explains their analysis of why the Western world was plunged into the Depression in the first place — a topic of equal import to the problem of how to get out of it. While Garraty briefly summarizes other business-cycle theories held at the time, he omits the main competitor to the Keynesian theory, the view adopted by Robbins and the others: the "Austrian" business-cycle theory of Ludwig von Mises and F.A. Hayek. The Austrian theory, which sees the root of the boom-bust cycle in government stimulus to inflationary bank-credit expansion, is not even mentioned. In fact, Mises is only mentioned briefly, and then not for his business-cycle theory. And, astonishingly, Hayek (now a Nobel-laureate in economics), who elaborated Mises's analysis into a full-scale explanation, is not cited at all, even though he was the best-known and most influential opponent of Keynesianism in the 1930s. The great Swedish economist Knut Wicksell, whose theories provide the basis for the Mises-Hayek-Robbins doctrin, is only noted in passing. Garraty fails to discuss Wicksell's major contribution to the cycle theory: his insight into the importance of interest rates and their effect on the cycle.

The neoclassical economist W.H. Hutt is another glaring omission in Garraty's treatment of the opponents of Keynes. Hutt's notable but unsung *The Theory of Idle Resources* (1939) brought forth the concept of "withheld resources" as an explanation for resource unemployment, including the unemployment of labor.

In the October 1973 issue of the *American Historical Review*, Professor Garraty published a highly illuminating article on the Nazi attitude toward the early New Deal. He showed that the Nazis admired the Roosevelt administration for putting much the same corporatist, national-socialist economic policies into effect in the United States as the Nazis were applying in Germany. Admirers of the article who might be expecting its incorporation or expansion in this book will be sorely disappointed. The only remnant of that approach is Garraty's likening of the Civilian Conservation Corps to the Nazi youth camps, since bother were designed to mobilize unemployed youths and keep them off the streets.

American academia in the 1930s and 1940s was rife with paeans to Hitler's alleged triumph in having solved Germany's unemployment problem during the Great Depression, and in having done so at a time when the United States and western Europe were still mired in chronically heavy unemployment. Garraty mentions this achievement, but he fails to offer an explanation. He admits that Germany, scarred by the runaway inflation of the early 1920s, refused to become Keynesian during the Depression. And unemployment had been eliminated by 1936, before any large-scale rearmament program got under way. The missing causal link, which Garraty does not mention, was Hitler's order that German women leave their jobs and go back into the home. Thus Hitler was able to pursue his women-in-the-home ideals while helping to cure unemployment; for there is nothing that will "cure" unemployment faster (or at least make the statistics look better) than *prohibiting* a large chunk of the labor force from working.

My strictures against history which lacks any sound theoretical base are not meant to be an act of intellectual imperialism on behalf of economics and against history or other disciplines. Quite the contrary; the economist who ventures into the historical arena armed only with a few equations and mathematical razzle-dazzle has wreaked far more damage than the uninspired and slightly bumbling historian. For the economist, particularly the latter-day "cliometrician," aims to flaunt his arrogant "scientific" pretensions of encompassing and explaining all of world history by means of a few mathematical symbols. The economist who knows no history understands far less than his opposite number in the historical profession; but his claims are far greater. Therefore, he is much wider off the mark. A book such as Professor Garraty's may not convey the most important insights into his subject matter; but at least some of the historical record is carefully and fairly conveyed to the reader. The cliometrician cannot even lay claim to that.

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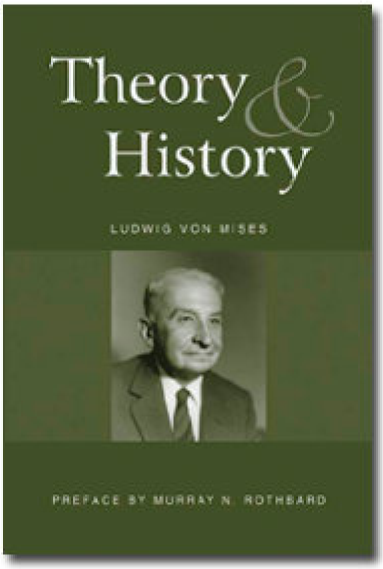

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