for the state to initiate productive activity *for the purpose* of creating new job opportunities" (p. 217). In 1934 he concluded that the effect of Sweden's recent countercyclical efforts could be "reckoned at zero" (p. 232). Heckscher gave these policies even lower marks, offering empirical evidence for various countries that "the greater the recovery, the milder have been the interventions" (p. 232). Cassel held Keynes's *General Theory* in contempt, maintaining that it had spawned "vastly harmful effects" (p. 235). He and Heckscher viewed Keynesian theory as not general at all but rather tailored to the peculiar and artificial conditions of interwar Britain. Their old-fashioned macroeconomic thinking and their stout objection to the welfare state put the two men ever farther behind the cutting edge of economic and social thinking in the 1930s and 1940s. Late in life, each suffered from despair.

Neither was a dogmatist. Each reconsidered and altered his views from time to time, though Cassel grew increasingly inflexible. Each had certain peculiarities—for instance, Heckscher supported the Georgist policy of taxing away all land rents. Both admitted that in theory the government could effect improvements in economic conditions, but experience convinced them that actual governments would never operate as required by interventionist theories. Long before Harold Demsetz exposed the Nirvana Fallacy underlying neoclassical welfare economics, Heckscher warned that actual policymaking pertained not to "what the ideal state is capable of." Rather, "what is interesting is what the *ordinary* state can accomplish" (p. 94), and in reality little good could be expected. Indeed, the risks of state action were enormous, as one intervention led ineluctably to others, with dictatorship waiting at the end of the road.

Carlson's book, based largely on Swedish-language sources, presents a clear, well-balanced account of substantial value, especially to those who read English but no Swedish. Sweden is often viewed as the archetypical welfare state and an important exporter of the ideas that justify this type of political economy. *The State as a Monster* reminds us that Sweden was also home to two of the twentieth century's ablest defenders of the classical liberal order.

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Hayek and the Keynesian Avalanche, by Brian C. McCormick. St. Martin's Press, New York, 1992. Pp. xiii, 289. $59.95. ISBN 0-312-08359-9.

"When the definitive history of economic analysis during the 1930s comes to be written," said John Hicks in 1967, "a leading character in the drama (it was quite a drama) will be Professor Hayek.... [I]t is hardly remembered that there was a time when the new theories of Hayek were the principal rival of the new theories of Keynes" (Hicks, 1967, p. 203). History is written by the

winners, and F. A. Hayek's business-cycle theory, building on Knut Wicksell and Ludwig von Mises and expounded in journal articles around the time of the publication of the *General Theory*, became little more than a historical footnote to the Keynesian Revolution. Today, of course, the Keynesian consensus of the 1950s and 1960s has dissolved, and economists may learn much from this half-century old debate. Brian C. McCormick's *Hayek and the Keynesian Avalanche* offers a very useful summary of this period. Exhaustively researched and highly detailed, it is not exclusively or even primarily about Hayek or Keynes; rather, it is a general history of the disputes in British economics during the 1930s. As McCormick explains, "the controversy between Keynes and Hayek cannot be divorced from the intellectual claims of their parent institutions, Cambridge and LSE" (p. 259). Therefore, any real understanding of the Hayek–Keynes debate must be framed as a study of these two famous institutions.

The book is organized chronologically, beginning with a brief history of the London School of Economics and its early years under Edwin Cannan and then Lionel Robbins. McCormick relies heavily on primary sources: in the early chapters, for example, he illustrates the contents of various lecture courses by reproducing the original course reading lists, discovered in the LSE archives. Chapter three, "Prices and Production," covers the "first round" of the debate and forms the core of the book. Here McCormick outlines Hayek's 1930 lectures, which introduced the monetary overinvestment theory of the trade cycle to the English-speaking world, and he documents the unfavorable response from the Cambridge economists Piero Sraffa, Richard Kahn, Dennis Robertson, and A. C. Pigou, as well as J. M. Keynes. The subsequent chapters trace the later rounds of the debates ranging over money, capital, socialist economic calculation, and international trade. Also included is the Hicks–Lerner "neoclassical synthesis" and the postwar contributions of the LSE economists, including Hicks's later "neo-Austrian" work on capital and time. A final chapter explores other dimensions of Hayek's research program, including his work on knowledge and constitutions.

What, ultimately, accounts for the Keynesian avalanche? McCormick argues for at least seven factors. First, all three of the LSE's senior faculty—Hayek, Robbins, and T. E. Gregory—failed to review or respond directly to the *General Theory* after its publication in 1936. Second, Keynes's system didn't require a theory of capital, allowing him to avoid entirely the confusing debates on capital and interest that raged during the 1930s and early 1940s. Third, Keynes's aggregate approach was better suited to the emerging techniques for empirical business-cycle research. Fourth, the younger LSE economists—Hicks, Abba Lerner, and G. L. S. Shackle, in particular—became supporters of the Keynesian doctrine. Fifth, Keynes died and was canonized, while Hayek was partially discredited within the profession for writing *The Road to Serfdom*, considered a polemic against government planning. Sixth, Keynes's theory rested on firmer methodological grounds than Hayek's. Seventh, Keynes's "vision" of how the economy worked was "more closely attuned to the circumstances of the 1930s" (p. 185). McCormick is persuasive on all these points except the last two, for which little evidence is given and which seem out of place.

Still, the puzzle remains: Why didn't Hayek, the LSE's star theorist and the editor of *Economica,* write a review critical of the *General Theory*? Hayek has stated that he suspected Keynes might simply change his mind, as Keynes had done following Hayek's critical response to the *Treatise on Money*. Hayek also believed he would have to develop the Austrian capital theory further before he could adequately address the problems with Keynes's aggregate approach. McCormick adds that in the 1940s Hayek considered Keynes an ally in the fight against wartime inflation and didn't want to detract from that issue, and that Hayek didn't want to lose his audience for other, more fundamental problems in economics, such as the theory of knowledge, in which Hayek was increasingly interested (beginning with his famous 1937 article "Economics and Knowledge").

The reader may wish McCormick had addressed other explanations for Hayek's silence that have appeared in the secondary literature, such as Bruce Caldwell's (1988) thesis that around this time Hayek was undergoing a fundamental methodological shift, questioning the equilibrium concept itself and moving away from his own earlier explanation of the trade cycle. Similarly, Terence Hutchison (1981) has written of "Hayek I" and "Hayek II," with the break occurring around 1937. Unfortunately, McCormick says virtually nothing about the vast secondary literature on Hayek that has appeared in the last two decades. Consequently he appears to lack an appreciation for the subtlety, ambiguity, and complexity of Hayek's thought. This makes the title something of a misnomer—the book is not really about Hayek, but about the Keynesian avalanche.

On balance, McCormick is not particularly impressed with Hayek as a theorist. Ultimately, he attributes the Keynesian triumph to the inadequacies of Hayek's own theory. "[T]he fundamental reason why Hayek was unable to respond [to the *General Theory*] was that he had no solution to the problem of secondary deflation—to the intense contraction of incomes and output which the multiplier process could produce following the cessation of a boom" (p. 171). But this is not a comparative statement: Keynes's system too left many problems unsolved. Here, as throughout the volume, McCormick covers much ground but provides few satisfying answers. The book is detailed but not thematic, comprehensive but not coherent.

In a few places, the author's admiration for Keynes seems to have distorted some of his impressions. The reader may be surprised to find that "Keynes did possess a considerable knowledge of the writings of earlier economists" and that "he possessed a well developed and well articulated approach to the problems of epistemology and methodology" (p. 185). McCormick claims that Keynes's "vision" better suited the times than did Hayek's (p. 185), but this

seems true only in the sense that Keynesian doctrine rationalized aggregate demand management policies already in place in Britain and the U.S. by 1936. (Furthermore, if the claim is correct, then in what sense is Keynes's book a "general" theory?) Regarding Keynes's scholarship, McCormick explains Keynes's disparaging review of Ludwig von Mises's *Theorie des Geldes und der Umlaufsmittel* (1912) by citing changes between the first and second German editions of Mises's book (p. 173). McCormick dismisses, without addressing it, the more standard explanation that Keynes, having complained that Mises's book was "unoriginal," later admitted that he could read German well enough only to understand things he already knew.

The book could have been improved with a few references to the contemporary macroeconomic literature. To the modern reader, accustomed to an income–expenditure framework, the discussions of fixed and circulating capital, the time structure of production, and capital complementarities must appear a hopeless muddle. Nonetheless, McCormick is to be commended for tackling such an important and difficult topic. The careful reader may learn much about Hayek, Keynes, and the sociology of economics from this book.

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Mercantilism: The Shaping of an Economic Language, by Lars Magnusson. Routledge, London and New York, 1994. Pp. vii, 222. $65.00. ISBN 0-415-07258-1.

In 1985 A. W. Coats entitled an article: "Mercantilism, Yet Again!" Yes, and to our benefit, Lars Magnusson has given us another examination of this much-discussed period of economic literature. What was mercantilism? Was it a "non-existent identity"? Should one take an absolutist approach and interpret mercantilistic literature from the vantage point of modern theory, or a relativist orientation that places the literature in its historical context? What are the relationships between ideas and policies? Was mercantilism largely