Cranks, Heretics and Macroeconomics in the 1930s

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The Great Depression was a period in which mainstream economists were unusually open to the ideas of monetary reformers whom they would in other times have dismissed as cranks. John Maynard Keynes, who in 1913 had written a dismissive review of a book by John Hobson, concluded Chapter 23 of his *General Theory* (1936, 371) by referring to 'the brave army of heretics- ... Mandeville, Malthus, Gesell and Hobson, who, following their intuitions, have preferred to see the truth obscurely and imperfectly rather than to maintain error, reached indeed with clearness and consistency and by easy logic, but on hypotheses inappropriate to the facts.' Keynes and Irving Fisher, who as Keynes noted endorsed Gesell's stamp scrip plan, were not alone in taking an interest in and establishing communication with monetary heretics. The shock of prolonged mass unemployment, with thirteen million unemployed in the United States, three million in Britain and six million in Germany by late 1932 (Garraty, 1978, 186), caused widespread dissatisfaction with the quantity theory of money and with mainstream business cycle theories. These theories were better suited to explaining the price level rather than output and employment, and real output did not appear to follow regular cyclical variations of constant amplitude, although Joseph Schumpeter (1935) suggested that the Great Depression was simply the coincidence of the troughs of three superimposed cycles, the forty-month Kitchin cycle, the Juglar cycle of nine or ten years, and the Kondratieff cycle of fifty-four to sixty years. This dissatisfaction with the power of existing mainstream economic theory to explain the economic crisis led a number of professional economists to take an interest in the work of nonacademic monetary heretics, whom they would have ignored during a period of Kuhnian normal science.

The interaction of monetary heresies and the emerging discipline of macroeconomics can be seen clearly in the *Economic Forum*, a periodical now so forgotten that it is not mentioned in the American Economic Association's *Index of Economic Journals, 1886-1959*. Its inaugural issue (Winter 1932-33) carried articles by John Maynard Keynes of Cambridge and by William Trufant Foster of Foster and Catchings, its second issue articles by Frank Graham of Princeton and Major C.H. Douglas of Social Credit, and its third issue articles by A.A. Berle, Jr., of Columbia and by the monetary heretic Frederick Soddy. Of Major Douglas, Professor Soddy, Robert Eisler and Silvio Gesell, the 'Four Monetary Heretics' discussed by Hugh Gaitskell (1933), the only one not to publish in the *Economic Forum* was Gesell, who died in 1930.

The *Economic Forum* was the quarterly journal of an organization of the same name, 'an association of men and women who wish to examine current economic, social and political problems, face existing facts, and co-operate through this organization to promote ways and means of effecting sound improvements in our eco-

nomic life. ... In general, the activities of the *Economic Forum* will be conducted at the New School for Social Research which has been most hospitable to the aims of this young organization. The unconstrained and genuinely friendly atmosphere which permeates the New School, the receptivity of that institution to new ideas, its enlightened vision, its own forward looking attitude, and the fundamentally sound manner in which it is conducted, all make for ideal surroundings in which the *Economic Forum* can thrive and grow. The *Economic Forum* places its organization at the disposal of the New School to co-operate in entertaining visiting economists and other men of affairs' (I:1, 104-105).

The first general meeting of the *Economic Forum*, held at the New School in New York on May 12, 1932, was addressed by Alvin Johnson, William McC. Martin, and William Trufant Foster, whose address, 'Is Fiat Money Any Worse Than Fiat Poverty (A Discussion of Bills, Banks, Bonuses and Budgets)', was published in the first issue together with the ensuing discussion. Martin, treasurer of the organization and one of the two editors of the journal, was then a young member of the New York Stock Exchange. He left the *Economic Forum* after its 1932-33 volume to become the first full-time president of the Exchange, brought in as a new broom after the previous president, Richard Whitney, departed for the penitentiary at Sing Sing. Martin retained sufficient interest in the *Forum* to publish a review article in its third volume, but his later career, as chairman of the Federal Reserve System during five presidential administrations, from 1951 to 1970, was of unimpeachable monetary orthodoxy.

Alvin Johnson, the director of the New School for Social Research and the associate editor of the *Encyclopedia of the Social Sciences*, wrote the lead articles (apart from introductory matter) in the first two issues of the *Economic Forum*: 'For an Ordered Capitalism' in Winter 1932-33 and 'War Upon Depression' in Spring 1933. He also gave a Tuesday evening course of ten lectures and discussions on 'The Economics of Recovery' to the *Economic Forum* in the fall of 1933 (advertised in I:4). Although not listed as an editor or officer of the *Economic Forum*, Johnson's influence can be seen in that three authors of review articles in the first issues were identified as assistant editors of the *Encyclopedia* and a fourth as assistant director of the New School, while the two prestigious foreign contributors to the inaugural issue, J.M. Keynes and Sir Josiah Stamp, were advisory editors of the *Encyclopedia*. The editor of the *Encyclopedia of the Social Sciences*, the venerable E.R.A. Seligman of Columbia who had been among the founders of the American Economic Association in 1885, wrote on 'The Development of Economic Thought in America' for the Fall 1933 issue of the *Forum* (I:4). The staid *Encyclopedia* itself contained arguments for monetary reform and a managed currency in articles on 'Credit Control' by Keynes and 'Compensated Dollar' by Irving Fisher, another advisory editor, as well as scholarly contributions from a more radical perspective, in the articles by the Marxist economist Maurice Dobb of Trinity College, Cambridge, on 'Economics - Cambridge school', 'Entrepreneur', and 'Gosplan'.

The connection with the New School for Social Research was crucial is providing a link between academic economists and those whom other academics might shun as heretics. The New School was founded in 1919 by Alvin Johnson and by Columbia professors such as the historian and political scientist Charles Beard, the historian James Harvey Robinson and the economist Wesley Mitchell, disgruntled over Columbia's wartime dismissal of tenured faculty who criticised conscription, an issue

over which Beard had resigned his chair. The iconoclastic institutionalist Thorstein Veblen joined the faculty for a time. The Fall 1933 issue of the *Economic Forum* concluded with a two-page announcement of the opening of the New School's Graduate Faculty of Political and Social Science, a 'University in Exile' of ten German professors dismissed by the Nazi regime, including Gerhard Colm, Eduard Heimann and Emil Lederer. The New School was regarded with suspicion by the Federal Bureau of Investigation: the F.B.I. file on publisher Alfred Knopf recorded his attendance in 1934 at a reception on the anniversary of the New School, and 'the Washington field division [of the F.B.I.] responded that it had derogatory information on [Archibald MacLeish, Librarian of Congress] ... in 1937, he was on the board of trustees of the New School for Social Research' (Mitgang, 1989, 127, 158).

Perhaps in response to such suspicions, section II of the introduction to the first issue of the *Economic Forum* was devoted to dissociating the new journal from Marxism. The first issue also included a 'Russian Chronicle', adapted from the London *Economist*, on the collectivization of Soviet agriculture under the first Five Year Plan: 'The shortage of consumers' goods, heavy taxes and the low prices fixed by the State for requisitioned grain have discouraged the peasant's desire to produce. Last spring seed corn was eaten in many districts. ... [T]he final conclusion on the agricultural discussion is that this year's harvest will be bad, that the current winter will be hard and hungry, and that many of the agrarian difficulties which have been experienced under the Five Year Plan have yet to be overcome. The Russians *say* that classes have been abolished. ... Money incomes are unequal in Russia; unskilled workers, for example, get as little as 65 roubles a month, whereas a high civil servant is paid 800 roubles or more; and the technique of distribution has been so arranged that real incomes are much more unequal than money incomes' (I:1, 84-85). The harsh verdict of this article was in fact an understatement. For example, the *Economist* and the *Economic Forum* wrote that 'The loss of horses is particularly serious; for while 4,000,000 are believed to have been slaughtered throughout Russia, only 600,000 h.p. in tractors have been available in their place' but in January 1934, Stalin announced that the number of horses in the Soviet Union had fallen from 34 million 1929 to 16.6 million in 1933 (Deutscher, 1966, 325).

Alvin Johnson paired Soviet collectivization and famine and the mass unemployment in the capitalist west as unaccepatble in his article 'For an Ordered Capitalism': 'We justly hold Stalin and the Soviet government organization responsible for the plight of the Russian population. Who is responsible for the plight of our own population? The day has gone by when we may calmly say, Nobody is responsible, but our system unfortunately works out to the general misery on occasion. Responsibility must be established, either in existing organs or in new ones to be created; and until the organs have been created responsibility rests with those who have the training and equipment for analysis and social invention' (I:1, 28).

Fiat Money and Fiat Poverty

In 'A New Monetary Policy for England' (Vol. I, No. 1), J.M. Keynes analysed the currency, banking and finance resolutions passed by the annual conference of the British Labour Party. He endorsed the resolutions that monetary policy aim at stable

wholesale prices rather than a stable value of sterling in terms of gold or some other international standard, and that the Bank of England should be nationalized. He urged, however, that the Bank be insulated from parliamentary interference in the carrying out of monetary policy, once Parliament had established the goals of such policy. He also welcomed the third resolution, calling for a National Investment Board, but objected that 'the duties of the Board would be mainly negative, and would have the object, apparently, of protecting the private investor from the abuses of private capitalism' (I:1, 32), like the Securities and Exchange Commission established in the United States in 1933. Keynes held, on the contrary, that the real problem was to secure the right aggregate of new investment and the appropriate amount of foreign lending. The National Investment Board should concentrate, not on regulating new issues of securities by private enterprises, but on the volume of capital expenditure by the central government, local authorities, and public boards such as the Central Electricity Board, the Port of London, or the Metropolitan Water Board, as well as construction financed by the Building Societies, which Keynes viewed as semi-public.

> The task of the National Investment Board, as I conceive it,is, therefore, firstly the maintenance of equilibrium between the total flow of new investment on the one hand,and on the other hand the total resources available for investment at the price-level which we are endeavouring to maintain, i.e., so as to avoid both inflation and deflation; and secondly a division of the aggregate of new lending between foreign and domestic borrowers which is appropriate to the foreign-exchange level best suited to the stability of domestic prices. I see no likelihood of our being able to maintain a stable value for sterling unless this task is attacked with knowledge and authority. For the desired equilibrium is most unlikely to come about of itself; and, failing it, nothing can prevent an instability of the price-level. (I:1, 37.)

Keynes received notice elsewhere in the *Forum*. Commander Frederic Bennett, of the investment banking house Tucker Anthony & Co., concluded the discussion on Foster's paper by urging the audience to read Keynes's article on inflation in the Spring 1932 *Yale Review*, to support the case that higher prices need not necessarily lead to runaway inflation (I:1, 82). Earlier in the discussion, Richard Waldo, president of the McClure Newspaper Syndicate, stated that:

> I belong to a very limited group which believed that John Maynard Keynes was correct when he wrote in May 1930 that the world would soon be confronted with a depression for the parallel of which we should have to turn back to 1873, if we could find it then. Here was a prophet indeed, His *Economic Consequences of the Peace* was a fit background for this neglected article. Today we have before us the situation he predicted. (I:1, 75).

The next issue of the *Economic Forum* carried a full-page advertisement for the *Yale Review* listing John Maynard Keynes as a recent contributor. The advertisement also noted that the lead article in the Spring 1933 issue would be 'Debt and the Devil' by Alvin Johnson, one of the four members of the *Review*'s editorial council.

Keynes's pamphlet, *The Means to Prosperity* (1933), received a substantial review of four and a half pages, 'Mr. Keynes' Way to Prosperity', by H. Heinemann in the Summer 1933 issue of the *Economic Forum* (I:3, 322-326). This review article demon-

strates that the strong sympathetic interest in Keynes's economics taken by the *Economic Forum* group did not ensure comprehension of his theories. Although Keynes's pamphlet was largely an exposition of the multiplier theory of effective demand, the only recognition of this in the review was a mention that the capital expenditure per worker on public works might be less than commonly supposed 'since the material used and its transport also give additional employment, the repercussion going still further as the additional wages go into the purchase of goods and other essentials.' Heinemann suggested that loan expenditure on public works might simply force up prices rather than creating employment, as happened with government spending during wartime. The reviewer forgot that the wartime spending had been in a fully employed economy, whereas Keynes was discussing how to deal with mass unemployment.

The first issue of the *Economic Forum* carried an article on 'Our Price Level Problem' by Sir Josiah Stamp, President of the Royal Statistical Society, Chairman of the London, Midland and Scottish Railway, and a director of the Bank of England. The paper, also published in Stamp's *Papers on Gold and the Price Level* (1932), argued that stablization of the price level was the most important single problem of the age, fundamental to the solution of 'trade depression in the basic industries, unemployment, labour unrest, class hatred, high taxation and the rest.' While the level of business activity does not depend on whether the price level is high or low, a falling price level increases the burden of existing nominal debts, redistributes income to creditors, and reduces employment by raising the real value of a given money wage. Stamp regarded such price level changes as not only unanticipated, but as not even fully understood by businessmen and unions when they occur: 'To clear away what Irving Fisher calls the "money illusion" is *the first necessity of thinking to-day on social questions*' (I:1, 50, 54; Stamp's emphasis).

The longest article in the first issue, that by William Trufant Foster, called for an expansion of bank credit, part of which would be used to finance public works, and urged more spending and less saving. Foster recalled that the present Federal administration had asked a conference of state governors, in New Orleans in November 1928, to cooperate in spending three billion dollars on public works in case of a business depression. 'I know something about this, because I went to New Orleans and helped present the plan to the Governors' conference. A telegram from Mr. Hoover at that time asked to have the proposal presented as *his* plan.' When the depression came, however, tax revenues fell because of reduced national income, and any increase in public works spending was sacrificed to attempts at budget balance (I:1, 65).

In the discussion following Foster's paper, Richard Waldo argued, contrary to Foster's proposal for fiat money creation and public works, that continued shortening of the working day was needed to offset increasing productivity due to machinery (I:1, 75-77). Colonel Malcolm C. Rorty, a former vice-president of International Telephone and Telegraph and a past president of the American Statistical Association, endorsed Foster's proposal and referred to his Rorty Plan for subsidizing expansion of private investment, published as 'How May Business Revival Be Forced' in the *Harvard Business Review* (April 1932).

In his *Economic Forum* paper, Foster refrained from discussing the most distinctive feature of the Foster and Catchings underconsumptionist doctrine, 'The Di-

lemma of Thrift' (the title of chapter IV of their *Business Without a Buyer*), which held that saving would increase the gap between consumption and productive capacity because the investment caused by saving would increase capacity. This differs from the paradox of thrift of Hobson and Keynes, which refers to the consequences of a increased propensity to save with a given volume of investment.

Foster and Waddill Catchings, who had been undergraduate classmates at Harvard, acquired unusual visibility for monetary heretics through their Pollak Foundation for Economic Research, directed by Foster. Foster, who held a doctorate in education, had been the founding president of Reed College. Catchings, after practising law, became a partner in the investment banking firm Goldman, Sachs and Company, and a director of Sears, Roebuck, B.F. Goodrich, Continental Can, McGraw-Hill, Manufacturers Trust, Chrysler, Warner Brothers and some twenty other corporations (Catchings and Roos, 1958, dust jacket). His firm's reputation for financial wizardry suffered from the gyrations of the Goldman Sachs Trading Corporation, whose shares, of which there were initially a million, rose from $136.50 to $222.50 in five days, largely due to the Trading Corporation buying its own shares, before declining to $1.75 a share after the stock market crash (Galbraith, 1955, 65-66, 69-70).

At least until the crash, the Pollak Foundation was well financed. In addition to publishing books by Foster and Catchings such as *Money* (1923), *Profits* (1925), *Business Without a Buyer* (1928) and *The Road to Plenty* (1928), the Pollak Foundation also brought out Irving Fisher's *The Making of Index Numbers* (1922), *Real Wages in the United States* by Paul Douglas of the University of Chicago, and *The Problem of Business Forecasting* by Warren Persons of Harvard.

The Pollak Foundation also offered a $5,000 prize for the best criticism of *Profits*, to be judged by Wesley C. Mitchell of Columbia and the National Bureau of Economic Research, Allyn A. Young of Harvard and Owen D. Young of General Electric and of the Young Plan for settling reparations and war debts, rather than by Foster and Catchings themselves. Four hundred thirty five essays were submitted from fifty universities, forty two American states and twenty five foreign countries, and '[a]mong the authors were at least forty authors of books on economics, fifty professors of political economy, sixty accounting experts' (Hayek, 1939, 213). The winning essay by Raymond Souter of the University of Otago, New Zealand, was published by the Pollak Foundation in 1927, together with other essays by F.L. Olmsted, Charles F. Bickerdike (co-discoverer of the accelerator and of the optimal tariff for a large economy), and V.V. Novogilov, and comments by Foster and Catchings. Alvin Hansen's book on *Business Cycle Theory* (1927) originated as a submission that received honourable mention in this essay competition. Clearly, offering money and publication was an effective way of getting the attention of rational economists. The monetary doctrines of Foster and Catchings were also the subject of extended journal critiques in 1929 by D.H. Roberston in the *Quarterly Journal of Economics*, reprinted in A.C. Pigou and D.H. Robertson, *Economic Essays and Addresses* (1931, 139-162), and Friedrich von Hayek in the *Zeitschrift fur Nationaloekonomie*, translated in *Economica* in 1931 and then reprinted in Hayek's *Profits, Interest and Investment* (1939, 199-263). The criticism of Foster and Catchings by academic economists, although sometimes sharp, was courteous and was offered in a constructive spirit. Even Hayek, an opponent of artificial stabilization of the price level as an

impediment to economic efficiency, described *Money* by Foster and Catchings as 'primarily a very able and instructive exposition of the theory of money' (Hayek, 1939, 201).

Foster and Catchings did not address themselves only to the economic profession. Hayek (1939, 216n., 203) reported that 'A popular edition of 50,000 copies of the *Road to Plenty* was published and sold (230 pp., in full clothing binding) for 25 cents!' and that the Pollak Foundation distributed without charge hundreds of thousands of copies of a pamphlet, *The Dilemma of Thrift*, reprinting two articles by Foster and Catchings that appeared in the *Atlantic Monthly* and the *Century Magazine* in 1928. Foster and Catchings were clearly not in the position of an author who had one of his books printed with red ink, saying that he was determined that at least one of his books would be re(a)d.

The support of Foster and Catchings in the 1920s and 1930s for public works and fiat money creation to stimulate output in periods of depression contrasts sharply from the later views of Catchings, writing jointly with Charles F. Roos, in works published by the Econometric Institute, founded by Roos in 1938. Roos was the founding secretary-treasurer of the Econometric Society in 1930 and its president in 1948, research director of the National Recovery Administration 1933-34, research director of the Cowles Commission 1934-37, and author of the first two Cowles monographs. Catchings and Roos won the George Washington Honor Medal of the conservative Freedoms Foundation in 1953 for their book *Money, Men and Machines*, written '1. To make clear that the Federal Government in managing the stream of our circulating money, exercises vast powers over the daily economic life of the United States. 2. To show that our officials today, in exercising these regulatory powers, are interfering with the successful operation of our economic machinery. 3. To state why our economic leadership is taking us away from economic freedom, and toward more and more Government control of economic life.' (Catchings and Roos, 1958, xv.)

The first issue of the *Economic Forum* carried a review of Gustav Cassel's *The Crisis in the World's Monetary System* by Le Baron R. Foster of Standard Statistics Company, the stock market forecasting firm with which Joseph Mead, one of the two editors of the *Economic Forum* and chairman of the *Economic Forum* organization, was associated. The list of pamphlets received in the September-October 1934 issue (II:3) includes 'How Easy Are 'Easy Payments'?' by William Trufant Foster and Le Baron Russell Foster, reprinted from the *Journal of Home Economics* (March 1934).

Sound Inflation

The second issue of the *Economic Forum* in Spring 1933 is noteworthy for papers on 'Sound Inflation' by James Harvey Rogers of Yale, 'The Creation of Employment' by Frank Graham of Princeton and of the Institut Universitaire des Hautes Etudes Internationales, Geneva, 'Stabilized Reflation' by Benjamin Graham of Columbia, and 'The Premises of Social Credit' by Major C.H. Douglas. Rogers, a young Sterling Professor at Yale, had been a student of Irving Fisher and of Vilfredo Pareto, and had expressed scepticism about the benefits of adhering to the gold standard in *America Weighs Its Gold* (1931). He later became a special advisor to President

Roosevelt, and showed an openness to New Deal reforms not shared by such other Yale economics professors as Fred Fairchild, Edgar Furniss, and Norman Buck (see Fairchild, Furniss, Buck and Wheelden, 1935). Rather than rely on Federal Reserve open market operations alone, which might simply increase the excess reserves of the banking system and cash holdings of the public, Rogers urged increased government financed by bond issues, with Federal Reserve intervention to support the price of government bonds.

> During the early months of the War, through an average expenditure of approximately $700 millions a month, tremendous business activity was stimulated. Soldiers' clothing, munitions, foods, and a thousand other articles were bought and consumed in large quantities. Soon the country's economic machine was working almost at capacity. Similar activity could certainly be accomplished by like government expenditures. Why not say to the unemployed, "We will give no doles, no bonuses; but we will give a job to everyone willing to work. Wages will be at a minimum. All the government offers is a sanitary, healthful, active living, until a private job appears." ... Finally, by increasing our *national* capital equipment at really zero cost, America could be made a much more pleasant place in which to live. Naturally, the funds used in the prosecution of such public works should be regarded as the capital expenditures they would be. Hence only interest and amortization upon them should be charged to current account. (I:2, 127-128.)

Rogers did not, however, offer any explanation of how such public works would stimulate private job creation, beyond noting the experience of wartime full employment. He was greatly concerned that currency expansion might inflate prices without increasing employment, unless government spending channeled the new money into job creation through public works. Rogers returned to the *Economic Forum* in Summer 1935 (III:2, 149-154) with 'A Supreme Court of Money: A Bulwark Against Inflation', discussing how a properly structured Federal Reserve Board could contribute to monetary stability in a country off the gold standard.

Frank Graham's paper on 'The Creation of Employment', which was also published in Europe in the *Annals of Cooperative Economy*, expounded a variant of the plan offered in his book on *Abolition of Unemployment*. Unlike Rogers, Graham felt that 'It would be vain ... to rely very heavily on public works in the early creation of employment. In the first place it will take a very long time to get a greatly enlarged volume of public works started and a still longer time must elapse before the effects thereof will be communicated in any full measure to industries not directly involved. We can, moreover, be far from sure of the extent to which it will ever be so communicated.' (I:2, 152.) Given his doubts about the multiplier effect of public works, Frank Graham proposed that the Reconstruction Finance Corporation or some other government corporation place 'orders with all responsible manufacturers of storable goods of every variety' sufficient to employ those firms at 80% of capacity for several weeks, to be supplied out of new production, not existing stocks. The Corporation would pay for the goods, and store them, with title remaining with the producer, who would give the Corporation a demand note for 2% more than the purchase price, to paid off as the producer met private orders from this stock. If the goods were released from storage within a month, the Corporation would place a larger order at a price 2% higher. For each month the goods remained in storage, the

Corporation would deduct 1% from the producer's liability, thus subsidizing production for stock. 'The money paid out to eager consumers in the course of production is certain to be used in the purchase of goods of some sort. But the present precipitate flow of goods to any purchaser, however reluctant, will be restrained' (I:2, 148-151). Graham emphasized the direct employment and output effect of the R.F.C. orders, with only the sentence quoted above on the consumption expenditure resulting from incomes generated in producing goods for R.F.C. storage. Graham presented essentially the same plan again in the *Economic Forum* in Summer 1935 (III:2, 194-202) under the title 'Why Should Relief Cost Money?' His proposal for massive government intervention was in sharp contrast to the much more cautious and conservative views by E.W. Kemmerer and other Princeton economists in *Facing the Facts* (ed. J.G. Smith, 1932).

Benjamin Graham, then a lecturer in finance at Columbia, propounded in his *Economic Forum* paper on 'Stabilized Reflation' his first version of the commodity reserve currency plan of his *Storage and Stability* (1937), to which Alvin Johnson wrote an introduction. In place of Federal Reserve Notes backed 40% by gold and 60% by eligible commercial paper (which could be obligations backed by warehouse receipts for staple commodities), Benjamin Graham proposed a monetary system based on Federal Notes, to be backed 40% by gold and 60% by commodity units 'comprising proper relative amounts of *all* the *basic storable commodities* dealt in on public exchanges.' Monetary policy would then stabilize not just the price of gold, but rather the price in Federal Notes of a bundle of commodities, which would be only 40% gold. Unfortunately, Graham added that Federal Notes 'shall be redeemable at the holder's option in gold, as at present, or in the combined gold and commodity units deposited against them.' This option would mean that the Federal Reserve would continue to peg the Federal Note price of gold, as well as the Federal Note price of the bundle of gold and other commodities. It would thus be committed to buying and selling commodity units in an attempt to peg the gold price of the commodity unit. This would burden Graham's scheme with the same problem that undermined the bimetallism of William Jennings Bryan's 1896 presidential campaign, under which paper currency would be redeemable for either a certain weight of gold or a specified weight of silver, so that there would be a unique relative price of gold and silver at which the monetary authority would not be drained of all its reserves of one or the other metal. Alfred Marshall's symmetallism, on the other hand, would have made sterling redeemable in a bundle consisted of fixed weights of gold *and* silver. Graham's Federal Note proposal would, if the option of redemption in gold alone was removed, be an extention of Marshall's suggestion from two to several commodities. Graham also failed to consider the volatility of prices of primary products (whose supply would be subject in many cases to the effect of weather on harvests) in terms of other goods and services. Stabilizing the price of the commodity unit would mean destabilizing other prices when there were supply shocks in the primary sector.

The 'New Economics' - Douglas, Soddy, Eisler

The Spring 1933 issue also had an article by Major Clifford Hugh Douglas of Social Credit, described by Keynes (1936, 371) as 'a private, perhaps, but not a major in the

brave army of heretics.' The following issue stated that the *Economic Forum* 'is the first magazine in America to publish a paper by Major Douglas, and we hope to hear more from him. A healthy society can benefit from any good in new ideas and effectively repel any which it believes harmful to its well-being. In an impartial manner, this publication (insofar as space limitations permit) will give economic ideas a public forum, and will welcome intelligent negative or affirmative criticism of them.' The editors noted that 'Mr. R.G. Hawtrey, of the British Treasury, evidently considered the movement sufficiently important to publicly debate with Major Douglas recently; and we are told that Professor Robbins of the London School of Economics (that "incubator of abstract deflationist theory") devoted the major portion of his British Association address to an analysis of Douglas' theory of costs' (I:3, 'In This Issue ...').

Gaitskell (1933, 281n, 289), who quoted from Douglas's remarks in his debate with Hawtrey, noted that the Social Service Section of the Congregational Union asked the Macmillan Committee on Finance and Industry to hear evidence from Major Douglas, and that two books by Douglas were set as text-books for Economic Honours at Sydney University in Australia in 1921. R.F. Irvine, the first Professor of Economics at Sydney University (whom Gaitskell did not mention by name), was influenced by Veblen and Hobson, and later by Foster and Catchings and Douglas. Unpopular in some circles for his criticism of the gold standard and espousal of a more elastic money supply, Irvine remained an active writer on monetary issues after his resignation, which was ostensibly for personal reasons (Groenewegen, 1979, 180-181, 209).

Douglas was also influential in New Zealand, both through the Labour Party in the mid-1930s and through a Social Credit Party, which won 11% of the vote in the 1954 election (Sinclair, 1959, 257-258, 281-282). As early as 1923, Douglas was invited to testify before the Banking and Commerce Committee of the Canadian House of Commons at the instance of William Irvine, a United Farmers of Alberta M.P. (Macpherson, 1962, 144n.) The high-water mark of Social Credit influence came when William (Bible Bill) Aberhart's Social Credit Party won fifty-six of the sixty-three seats in the Alberta legislature in 1935, and carried all fifteen of Alberta's seats in the federal House of Commons later that year, along with a couple of seats from Saskatchewan. Major Douglas had been appointed 'Principal Reconstruction Adviser to the Government of Alberta' by the preceding United Farmers of Alberta administration, and his relations with Aberhart's Social Credit regime were uneasy (Macpherson, 1962, 163-164).

'The Premises of Social Credit' as expounded by Major Douglas in the *Economic Forum* (I:2, 167-171, 178) had strong roots in the medieval scholastic theory of the just price and condemnation of usury. The basis of Social Credit was the A + B theorem, which held that the price of output had to cover both A payments (wages, salaries, and dividends) and B payments (bank charges and interest, and purchase of raw materials and intermediate goods), but that only the A payments would create income to purchase the output. The deficiency in purchasing power could be made up by creation of money. Ezra Pound, who contributed a strongly favourable comment on Douglas's paper to the next issue of the *Economic Forum*, summarized the Douglas theory in Canto XXXVIII of his epic, *The Cantos* (Pound, *Selected Poems*, 1957, 133-134):

"I have of course never said that the cash is constant"
(Douglas) and in fact the population (Britain 1914)
was left with 800 millions of *'deposits'*
after all the cash had been drawn, and
these deposits were satisfied by the
printing of treasury notes.
A factory
has also another aspect, which we call the financial aspect
It gives people the power to buy (wages, dividends
which are power to buy) but it is also the cause of prices
or values, financial, I mean financial values
It pays workers, and pays *for* material.
What it pays in wages and dividends
stays fluid, as power to buy, and this power is less,
per forza, damn blast your intellex, is less
than the total payments made by the factory
(as wages, dividends AND payments for raw material
bank charges etcetera)
and all, that is the whole, that is the total
of these is added into the total of prices
caused by that factory, any damn factory
and there is and must be therefore a clog
and the power to purchase can never
(under the present system) catch up with
prices at large,
and the light became so bright and so blindin'
in this layer of paradise
that the mind of man was bewildered.

As academic critics of Social Credit repeatedly pointed out, Douglas and Pound forgot that when a firm purchased raw materials or intermediate goods from another firm, that created a demand for the second firm's output, and the second firm would pay wages and dividends as a result of producing for sale to the first firm. Interest payments and bank charges would also end up as factor income. The recipients of wages for working in a bank, of dividends on bank shares, and of interest on bonds and bank deposits have income to spend. Such criticism was not well received: 'When F.S. Flint wrote for the *Criterion* a technical article against Douglas's theory [T.S.] Eliot send it to Pound for his comment. Pound replied in a rage that Flint ... had no right to discuss a subject like algebra which was far above him. But as Flint was a mathematician employed in the statistics division of the Ministry of Labour he had at least as much right as Pound to an opinion on Douglas's formula on costs and purchasing-power' (Stock, 1970, 428).

Pound embraced the monetary doctrines of Silvio Gesell as well as those of Major Douglas, advocating those causes, and that of Fascism, with such energy that in 1934 alone he contributed more than one hundred pieces on economic and political reform to periodicals (Stock, 1970, 399-400). Both Major C.H. Douglas and Ezra Pound are among those thanked by Irving Fisher in the preface to the first edition of his *100%*

Money (1935, xv) for 'very helpful' suggestions on the manuscript (together with Frank Graham, Robert Eisler, John R. Commons, Joseph Schumpeter, Representative Wright Patman, *Economic Forum* editor Frank A. Vanderlip, and many others). In March 1933, Pound delivered a series of ten lectures entitled 'An Historical Background to Economics' at the Universita Commerciale Luigi Bocconi in Milan, described by Wechsberg (1968, 186) as 'Italy's foremost center of economic studies'. The lectures were published that year by Faber & Faber in London as *An ABC of Economics* (reprinted in Pound, 1973, 203-234). The invitation to Pound to give the lectures was suggested by Angelo Sraffa, a jurist and professor at Milan University who had been rector of Bocconi University, and who lived, like Pound, in Rapallo (Stock, 1970, 392). Angelo Sraffa was the father of Piero Sraffa of Cambridge University, and there were other links between Bocconi and Cambridge: Lord Kahn noted, in his Raffaele Matteoli Lectures at Luigi Bocconi University (Kahn, 1984), that his famous 1931 article on the multiplier was discussed in a Bocconi publication within months of its appearance. The lectures at Bocconi were not Pound's only interaction with mainstream economics in Italy, for Stock (1970, 445) also mentions 'his recent success [in 1938] in having monetary articles published in *Rassegna Monetaria*, a serious journal of monetary economics published in Rome'.

Social Credit had too large and too vociferous a following to be ignored by academic economists, and so received many critiques such as Gaitskell's 'Four Monetary Heretics' (1933), E.F.M. Durbin's *Purchasing Power and Trade Depression* (1933), Alvin Hansen (1938, 88-110), and Hawtrey's debate with Douglas. This literature was far more hostile than the criticisms of Foster and Catchings. This may have been due to the Social Credit propensity for deriding academic economists as hirelings of banks and insurance companies. Thus Ezra Pound in his *ABC of Economics* (1973, 232) offered what he considered an expression of Social Credit doctrine 'simple enough to be understood by almost anyone, save possibly Maynard Keynes or some paid mouthpiece of British Liberalism. ... Keynes may have found it out by now; he was incapable of understanding it in 1920, and until he makes definite public acknowledgment of the value of C.H. Douglas, I shall be compelled either to regard him as a saphead or to believe that his writings arise from motives lying deeper in the hinterland of his consciousness than courtesy can permit me to penetrate'.

The *Economic Forum* followed Douglas's article in the Spring 1933 issue with comments by Geoffrey Biddulph and Ezra Pound, headed 'Con' and 'Pro' respectively, and review article, 'The Huxley of Social Credit', by Social Credit sympathizer Gorham Munson, all in the Summer 1933 issue. Munson wrote about C. Marshall Hattersley, explaining that 'The claim has been made abroad that Major Douglas is the Darwin of economics and that Mr. Hattersley is his Huxley' (I:3, 333). Munson was identified as American representative of the Social Credit periodical *New English Weekly*, a lecturer at the New School for Social Research, literary reviewer for the *New York Evening Post*, and author of several books. Biddulph also published a review article entitled 'Douglasismus', reviewing Holter's *The Douglas Manual*, in Vol. III, No. 3, of the *Economic Forum*.

The issue also contained 'Wealth, Capital and Money - A Resume of My Theories' by Frederick Soddy, Professor of Chemistry at Oxford University, a Nobel laureate in chemistry, and one of Gaitskell's 'Four Monetary Heretics'. The editors observed that 'The origins of the theories used by the Technocrats a few months ago to rouse

the populace can be traced to Professor Frederick Soddy of Oxford. ... Professor Soddy's concepts belong to the so-called "New Economics" school of thought, of which Major C.H. Douglas is the premier exponent, but with whom Soddy is not in accord on many major issues.' In Winter 1934, the *Economic Forum* published 'An ABC of Economics — An Introduction to Soddy' by Baron N.E. Bruggen (II:1, 100-112).

Soddy (I:3, 293-294) argued that:

> 5. Poverty now is maintained artificially to maintain the old type of civilisation, wherein the many were governable by fear of want and of insecurity of livelihood; because (i) those well off now would be less well off relatively if everyone was as well off as they are (Ruskin's Theory of the Relativity of Riches), (ii) because of the fear of what the poor would do with leisure if they had it, (iii) because those governing now, by the fear of want, distrust their own ability to govern an economically free nation, (iv) because those most nearly concerned with the direction of production distrust their ability to get the world's work done without the weapon of economic pressure, and (v) because the Press depend for their existence largely on advertisements and a continuance of the existing arrangement whereby it costs more to sell goods than to produce them.
>
> 6. The practical instrument whereby (5) is effected is modern money — falsely so-called. ...
>
> 11. In Individualistic societies everything of value in existence has individual owners and the nation as such owns nothing worth considering collectively of consumable and usable wealth. The Government expropriates from the owners what it wants for its consuming services by taxation. The provision of capital is at the expense of individuals who forego their private consumption (save, invest) to defray the cost of its provision. They own the capital and the rest of the nation owes for it and pays interest (dividends, profits) for the use or profits of it. Capital is national debt not wealth.

Soddy opposed any changes in the price level: 'If the price-level falls it ruins the producer and permanently benefits the rentier, living on the interest, etc. of national and other debts; if it rises, it temporarily benefits the producer and permanently benefits the rentier. Money, as the nation's promise to repay in wealth, is dishonest if its value in goods, or the price-level changes. It should be a permanent promise, not a rotting promise as the Gesell school advocate' (297). Soddy proposed outlawing any issue of money by private organisations (banks) and requiring banks to own national money equal to their entire demand deposit liabilities. The banks would be required to pay for all the national money that they would need when switching over to this 100% reserve scheme by transferring to the government for cancellation national debt securities of equal value, saving the taxpayers the interest.

Irving Fisher advocated a similar scheme in his '100% Money and the Public Debt' in the Spring 1936 *Economic Forum* (III:4) and in his book *100% Money*, reviewed in the Summer 1935 *Economic Forum* (III:2). After the first volume, William McC. Martin's place as one of the editors had been taken by Frank A. Vanderlip, a former president of the National City Bank of New York, who had long been associated in Fisher's campaigns for monetary reform. Fisher recalled that 'On March 8, 1920, Mr.

Frank A. Vanderlip gave me a dinner to which he invited the leading presidents of banks in New York City. I addressed them on the subject of my book *Stabilizing the Dollar,* copies of which he had sent them in advance. The criticisms were mostly adverse, although President Hadley of Yale, who had from the first approved my proposal, spoke in its favor' (quoted in I.N. Fisher, 1956, 189-190).

Fisher's article provoked a letter from Soddy in the July 1937 issue (IV:1, 4): 'I do not know whether it is considered the right thing in your country for one of your public men to put forward as his own scheme one that had been published ten years before without acknowledgement. So far as I understand it Irving Fisher's 100% Money is identical with my £ for £ reform of *Wealth, Virtual Wealth and Debt* (published 1926), except that he thinks the bankers should be compensated for loss of revenue and I think they should be impeached and made to give an account of their acts.' The October 1937 issue, the last to appear, carried letters by F.R. Windegger, Robert Eisler, Soddy and Fisher. Windegger and Eisler pointed out that Fisher never claimed 100% reserve banking to be his own scheme, and that in *100% Money,* Fisher quoted from Soddy's 1926 book, and listed in his bibliography not only three books by Soddy but also four previous 100% banking schemes, from Thomas Joplin in 1823 to Ludwig von Mises. Eisler mentioned that he wrote 'as the one who called Professor Soddy's attention to Professor Fisher's book and vice versa' and had contributed the references to early advocates of 100% reserve banking to Fisher's bibliography. Soddy gave no ground, admitting neither that Fisher had cited him nor that he had any precursors, and stating that 'I find it almost impossible to credit [Fisher's] statement that he is as ignorant of what in this country has been an intellectual cause since the War, as he would have me believe.' An editor's note followed, promising Fisher and Soddy space to present their accounts of the origin of 100% reserve banking in a subsequent issue, but there were no subsequent issues - and already in 1937, correspondence on monetary reform looked out of place in a journal taken over by business puffery.

Robert Eisler of Paris and Vienna was, along with Douglas, Soddy, and Gesell, one of Gaitskell's 'Four Monetary Heretics'. Eisler wrote on Epictetus and on freethinkers in the *Encyclopedia of the Social Sciences,* and contributed 'Reduce Long-Term Interest Rates' to the Winter 1935 *Economic Forum* (II:4, 458-468), which was endorsed by Vanderlip in an editorial entitled 'Save One-Half Billion in Interest' (II:4, 469-474). Eisler argued that the relative prosperity of Britain and Australia was due to their leaving the gold standard and refunding national obligations at lower interest rates, and that monetary expansion was needed to make up an existing deficit of purchasing power, which Eisler estimated at seventeen billion dollars in the United States at the end of 1933.

The English underconsumptionist John Hobson did not publish in the *Economic Forum* but after the publication of critiques of underconsumption by Lionel Robbins and by Evan F.M. Durbin, a young Labour Party activist and lecturer at University College, London, *Economica* published Hobson's "Underconsumption. An Exposition and a Reply" together with a reply by Durbin and a rejoinder from Hobson (*Economica,* 1933, old series, Volume XIII, pp. 402-427).

Monetary Experiments

The Spring 1934 issue of the *Economic Forum* (II:2) featured one of the approaches to macroeconomic theory that has subsequently been accepted as mainstream rather than heretical, the Stockholm school. In that issue, Bertil Ohlin, who was to share the Nobel Prize in economics in 1977, wrote on 'Knut Wicksell, Father of the Swedish Experiment' (159-168) and Erik Lindahl wrote on 'Sweden's Monetary Experiment' (169-181). In Spring 1935, the *Economic Forum* published 'The Flies in Amber', a review article by Emile Despres on Howard S. Ellis, *German Monetary Theory 1905-1933* (1934). Books by Ralph Hawtrey of the British Treasury were the subjects of two review articles, by L.A. Osborne (I:2) and by Geoffrey Biddulph (II:1). In Summer and Fall 1933, the *Economic Forum* published a two-part article, 'Pareto: The Karl Marx of Fascism', by Richard V. Worthington, a student of James Harvey Rogers at Yale, but this dealt only with Pareto's 1200-page treatise on sociology, not with his contributions to economics.

In Spring 1935, the *Economic Forum* carried 'Economics and the Crisis of Capitalism' by Paul M. Sweezy, a student of Schumpeter who had won the David Wells Prize for his doctoral dissertation at Harvard and had become a promising young Marxist economist. According to Sweezy (III:1, 74), 'The fact is that Marxian economics and "capitalist" economics have entirely different spheres of application. The former offers us a theory of economic development, the latter a theory of economic equilibrium. *They are complementary and not mutually exclusive.* Each is supreme in its own field. This is a point of absolutely first rate importance and strangely enough it is recognised by neither school of thought.' Sweezy rejected the practicability of central planning, citing Ludwig von Mises (III:1, 77) and quoting at length from Leon Trotsky (78-79). He proceeded to argue that 'Marxian economics is essentially the economics of capitalism, while "capitalist" economics is in a very real sense the economics of socialism.' A socialist economy could be organised efficiently by relying on the market and equilibrium economics, instead of on central planning. For further exposition of this case, Sweezy referred readers to the *Review of Economic Studies* for a recent article by Abba P. Lerner and a forthcoming article by Oscar Lange. Sweezy was, together with Lerner and Ursula Webb (later Lady Hicks), one of the managing editors of the *Review*.

John R. Commons of the University of Wisconsin, author of *The Legal Foundations of Capitalism* (1924), examined 'The Gold Clause Decisions' of the U.S. Supreme Court in the Spring 1935 *Economic Forum* (III:1, 23-34). Commons held that Justice McReynolds was mistaken in his exclamation that 'the Constitution is gone' when the Court ruled that the word value in the Constitution need not be taken as meaning weight of gold. He pointed out that 'The change in meaning is not unusual. The Court, forty or fifty years ago, had changed the meanings of other fundamental words in the Constitution, such as the meanings of property, liberty, due process of law, and even the word person from a Negro to a corporation' (III:1, 23). Prices in terms of gold were about 41% lower in the United States in 1933 than in 1926 or 1929, a 69% increase in the buying power of gold. The Roosevelt Administration's 41% reduction of the gold weight of the dollar in 1933-34 was a restoration of the value of the dollar in terms of purchasing power, eliminating the 'unjust enrichment' of creditors by deflation.

In the Summer 1933 *Economic Forum*, Sir Basil Blackett, a director of the Bank of

England and author of *Planned Money* (1932), wrote on 'Sanctity of Contract and the Gold Standard', approving President Roosevelt's decision to leave the gold standard, raise the price of gold, and refuse to honour the gold clauses in the Liberty Bonds and other debt securities. Given the fall in the price level, 'Social equity and the very life of the nation demanded the intervention of the State' (I:3, 250). Blackett was a wartime colleague of Keynes and Hawtrey in the Treasury, represented the British Treasury in the United States from 1917 to 1919, and from 1922 to 1928 was Finance Member of the Viceroy's Council, in effect finance minister of India. The presence of Blackett and Sir Josiah Stamp on the Court of Directors of the Bank of England does not appear to have had much effect on the policies of Montague Norman, the Governor of the Bank.

The *Economic Forum* put out two special issues by British economists. In June 1934, it issued a 117-page report, 'China and Silver' by Sir Arthur Salter, who had for ten years directed the Economic and Finance Section of the League of Nations and who in February 1933 delivered the first series of Alfred Marshall Lectures at Cambridge. This issue, a condensation of his report to the Chinese Government, examined the problems of a country on a different monetary standard from that of the rest of the world. In 1935, the *Economic Forum* and the London *Economist* issued the 70-page pamphlet, 'The Road to Recovery with Special Reference to the Problem of Exchange Stability and the Restoration of the International Gold Standard' by Sir Henry Strakosch, chairman of the Union Corporation, member of the Council of India, and member of the Financial Committee of the League of Nations. Strakosch emphasized the need for cooperation among central banks in restoring the pre-Depression price level, and held that restoration of internal equilibrium was a prerequisite for restoration of an international monetary standard of fixed exchange rates. The *Economic Forum* carried not only the views of monetary herertics, the economic underworld of Foster, Soddy and Douglas, but also the ideas of those established pundits, such as Blackett, Salter, Stamp and Strakosch, who felt that the international monetary system could be reformed and improved.

There is much else of interest in the pages of the *Economic Forum*. In Summer 1933, Adolph A. Berle, Jr., wrote 'An Introduction to the Economics of Organization' (Vol. I, No. 3), his and Gardner Means's *The Modern Corporation and Private Property* having been reviewed in the previous issue. William McC. Martin wrote 'The Nemesis of a Stable Society', a review-article of a book by Berle and Pederson (III:1). The monetary theories of George Warren and Frank Pearson, agricultural economists at Cornell who placed great stress on raising the price of gold, also received attention, with short reviews of their *Gold Prices* (III:2) and *World Prices and the Building Industry* (IV:2), and a review-article by K.B. Walton of Charles O. Hardy's *The Warren-Pearson Price Theory* (III:3), which provoked a letter from Hardy and a reply by Walton in the next issue. Coverage of unorthodox monetary theories in the *Economic Forum* included Robert R. Doane's 'Our Search for Abundance' (II:3) and S. Rubin's review article on Doane, 'Gauging America's Wealth' (in the same issue), Bassett Jones's 'The Relation of Economic Forces and a Corresponding Credit Theory' (I:4) and an unfavourable review article, 'An Engineer Turns Economist' by L.M. Faulkner, on two of Bassett Jones's books in the next issue. More mainstream monetary contributions included Seymour Harris of Harvard on 'Monetary Policy and Recovery' (I:4) and Carl Snyder of the Federal Reserve Bank of New York and the New School for

Social Research on 'Industrial Growth and Monetary Theory' (I:3), lavishly illustrated with charts. Richard T. Ely, who had been the founding secretary of the American Economic Association in 1885, discussed 'What Henry Ford and His Automobile Have Done to Our Economic Thinking' (III:4). Sir Henri W.A. Deterding, the head of Royal Dutch/Shell, wrote on 'Silver: Its International Position' (II:2).

Decline and Fall

A marked change in the character of the *Economic Forum* began to appear with A.E. Borneman's 'A Model Holding Company: The A.T. & T.: Its Record, Earnings and Achievements' in Summer 1935 (III:2, 203-217), and with the anonymous 'The Chemical Industry in America' in Fall 1934 (II:3), uncritical paeans to corporate leadership adorned with many photographs evidently provided by the companies under discussion. The Winter 1936 issue (III:3) showed the change very clearly. An article by Edward L. Bernays, public relations counsel and nephew of Mrs. Siegmund Freud, on 'How to Restore Public Confidence in Business and Finance' was interrupted by eight pages of photographs and excerpts from speeches from the congress of the National Association of Manufacturers. Joseph Mead's editorial, 'Public Relations', endorsing Bernays's call for more corporate spending on improving the public image of business, had in the middle of it seven pages of photographs and speech excerpts from the American Bankers Association's meeting, along with an eighth page that was explicitly a bank advertisement. Philip Cabot's address, 'Business - The servant of Society', delivered to the Executive League of America, was printed in the same issue. Boxed excerpts from an attack on pump-priming by Winthrop Aldrich of the Chase National Bank and from an attack on the agricultural processing tax by the president of the National Association of Manufacturers appeared elsewhere in the issue. Along with the speeches calling for reductions in government spending, borrowing and taxes, the issue carried an article on 'The Revival of Thrift', praising saving where earlier issues had presented underconsumptionist analyses. Frank Vanderlip was no longer listed as an editor.

The last two issues, July and October 1937 (IV, Nos. 1 and 2), each carried an 'Estate Builders Section', divided in each issue into three articles on investments, insurance, and home finance. The readership that could afford to build the stately homes whose photographs illustrated this section was not likely to be the same readership to whom earlier issues had appealed. The July 1937 issue carried denunciations of public ownership of electrical utilities, especially the Tennessee Valley Authority, in Gus W. Dyer, Ph.D., 'Government Ownership vs. Regulation', and William F. Austin, Jr., 'T.V.A. - Yardstick or Rainbow?' For a Canadian reader, Dyer's article is interesting for his claim that public power is shown to retard industrial growth because Ontario, with public power, had in recent years a smaller percentage increase in industrial output than Quebec, which then had no public power. Dyer took care not to mention the dollar amounts, which would have shown that Ontario was the centre of Canadian industry while industrialization had barely begun in Quebec. The October 1937 issue opened with a guest editorial on 'Labor Diplomacy' by George Sokolsky, a syndicated columnist and consultant to the National Association of Manufacturers. The issue also carried 'A Primer of Capitalism' prepared

by the J. Walter Thompson Advertising Agency, which used cartoons with such labels as 'This is a cow' and 'This is the ghost of a calf' to show that eating a cow (taxing wealth which could have been added to capital) reduces the growth of output (the ghost of the calf).

As the U.S. Government partially followed the N.A.M. program, reducing its spending and borrowing but also raising taxes and raising bank reserve requirements to sop up excess reserves, the economy slid into the severe recession of 1937-38. The *Economic Forum*, having presumably alienated its original readership, vanished in the recession. Before its decline into corporate puffery and fatuity, the *Economic Forum* provided an extraordinary channel for communication of ideas among monetary heretics, the more innovative established monetary economists, and the business community. It provided a striking demonstration of the openness of the emerging discipline of macroeconomics to unorthodox ideas in a period when Ezra Pound was invited to lecture at Luigi Bocconi University, John Hobson was published in *Economica*, and John Maynard Keynes and Irving Fisher found merit in Silvio Gesell's stamp scrip proposal.

Heresy and Mainstream

Hugh Gaitskell (1933, 280) noted that 'Economists disagree about some things. But they agree about many others. A heretic, as we interpret the word, is one who holds different views even about these latter. Two further qualities have been required [for inclusion in his paper] - public recognition and an amateur status.' Keynes's relegation of Major Douglas to the rank of private in the brave army of heretics indicates a distinction in his mind between heretics such as Hobson or Gesell, who analysed the economy on the basis of premises other than those of the mainstream, and cranks whose divergence from the mainstream simply reflected analytic error. In normal times, an economics profession confident of the adequacy of its theories could disregard heretics as cranks, but the Great Depression shook this confidence.

At the time when the *Economic Forum* was published, as in no later period, the demarcation between members of the economic profession and amateur economists was arbitrary to the extent that it was not determined, at least in Britain, by degrees, employment or even position in professional associations. Major Douglas and Bassett Jones were engineers without degrees in economics, but then Keynes and Hawtrey had degrees in mathematics, Richard Kahn in mathematics and physics, and Roy Harrod in classics, rather than in economics. G.D.H. Cole, the Reader in Economics at Oxford, began his academic career teaching philosophy, and in 1944 gave up his readership to succeed Sir Arthur Salter as Chichele Professor of Political and Social Theory. Salter was a civil servant, like Hawtrey and Blackett, and had no academic affiliation before his election to the Chichele chair at Oxford in 1933. Keynes did not hold a lectureship at Cambridge after 1919, and his principal affiliation was given by the *Economic Forum* as chairman of the National Mutual Assurance Society. Sir Josiah Stamp, chairman of the London, Midlands and Scottish Railway and president of the Royal Statistical Society, was clearly a professional economist, but Colonel Rorty, who had been a vice-president of International Telephone and Telegraph and president of the American Statistical Association,

appears as a monetary heretic. Classification of writers on economics in the early 1930s as accepted members of the profession or not is in part a retrospective classification, reflecting whether their analyses were absorbed into the mainstream.

The economics profession in the United States was more institutionalized, but the *Economic Forum* shows the openness of such innovative economic theorists as Irving Fisher, Frank Graham and James Harvey Rogers to the exchange of ideas with monetary heretics. Fisher, a pioneer in econometrics and mathematical economics, was particularly active, devoting *Stamp Scrip* (1932) and an appendix in *Booms and Depressions* (1932) to Silvio Gesell's proposals, publishing *The Making of Index Numbers* (1922) through the Pollak Foundation of Foster and Catchings, corresponding with Eisler, Douglas, and Pound, and building upon Soddy's plan in *100% Money*. Fisher's writings and Keynes's discussion of Gesell in Chapter 23 of the *General Theory* testify to the interest of important macroeconomic theorists in the policies advocated by monetary heretics.

More important than any specific policy, however, was the role of the underconsumptionists and other heretics in reviving concern with effective demand as a problem of economic theory. The *Economic Forum* was central to this revival, and when it ceased to provide a forum for such debates, mainstream economics journals had taken over theorizing on effective demand in the wake of Keynes's *General Theory*. Jacques Barzun (1959, 163-64) warns that 'a university must always remember that the new truth almost invariably sounds crazy, and crazier in proportion to its greatness. It would be idiocy to keep recounting the stories of Copernicus, Galileo, and Pasteur, and forget that the next time the innovator will seem as hopelessly wrong and perverse as these men seemed. The cost of this freedom may be a good deal of crackpot error, but nothing good goes unpaid for: this is the price.'

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