The Return of the Tax Credit
by Murray N. Rothbard

Modern liberalism works in a simple but effective manner: liberals find problems. This is not a difficult task, considering that the world abounds with problems waiting to be discovered. At the heart of these problems is the fact that we do not live in the Garden of Eden: that there is a scarcity of resources available for us to achieve all of our desired goals. Thus: there is the Problem of X number [to be discovered by sociological research] of people over 65 with hangnails; and the Problem that there are over 200 million Americans who cannot afford the BMW of their dreams. Having found the problem, the liberal researcher examines it and worries it until it becomes a full-fledged Crisis.

A typical procedure: the liberal finds two or three cases of people with beri-beri. On television, we are treated to graphic portrayals of suffering beri-beri victims, and we are flooded with direct-mail appeals to help conquer the dread beri-beri outbreak. After ten years, and billions of federal tax dollars poured into beri-beri research, beri-beri treatment centers, beri-beri maintenance doses, and whatever, a survey of the results of the great struggle demonstrates the potentially disquieting fact that there is more beri-beri around than ever before. The idea that federal funding for beri-beri has been a waste of time and money and perhaps even counter-productive is quickly dismissed. Instead, the liberal draws the lesson that beri-beri is even more of a menace than he had thought: and that there must be a prompt across-the-board tripling of federal funding. And, moreover, he points out that we now enjoy the advantage in the struggle of having in place 200,000 highly trained beri-beri professionals, ready to devote the rest of their lives, on suitably lavish federal grants, to the great Cause.

Since the idea that perhaps it is not the government’s place to go around solving social problems had subjected them to the withering charge of “insensitivity” and “lack of compassion,” some conservatives latched onto a shrewd end-run strategy. “Yes, yes,” they agreed, “we too are convinced of the urgency of your Social Crisis, and we thank you for calling it to our attention. But we believe that the way to solve the problem is not through increased government spending and higher taxes, but by allowing private persons and groups to spend money solving the problem, to be financed by tax credits.” In short, the social crisis would be Continued on page 3

Why Socialism Must Fail
by Hans-Hermann Hoppe

Socialism and capitalism offer radically different solutions to the problem posed by scarcity: everybody can’t have everything they want when they want it, so how can we effectively decide who will own and control the resources we have? The chosen solution has profound implications. It can mean the difference between prosperity and impoverishment, voluntary exchange and political coercion, even totalitarianism and liberty.

The capitalist system solves the problem of scarcity by recognizing the right of private property. The first one to use a good is its owner. Others can acquire it only through trade and voluntary contracts. But until the owner of the property decides to make a contract to trade his property, he can do whatever he wants with it, so long as he does not interfere with or physically damage the property owned by others.

The socialist system attempts to solve the problem of ownership in a completely different way. Just as in capitalism, people can own consumer products. But in so- Continued on page 4

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From the President

by Llewellyn H. Rockwell, Jr.

The Conservative Sanctification of Big Government

The most disheartening aspect of the Reagan years has been the Inside-the-Beltway conservative love affair with big government.

Education Secretary William Bennett has been nagging Stanford University for changing its core curriculum. As a cultural conservative, I agree with much of what he says. But am I the only person on the Right who thinks federal bureaucrats have no business telling universities what to teach?

Where are all my conservative friends, who used to denounce federal interference in education, now that Washington is dictating a national curriculum? Or did their denunciations apply only when they weren't doing the interfering?

In December 1980, Ed Meese called the Department of Education “a ridiculous bureaucratic joke.” And he was right. From the day Jimmy Carter established it—as a payoff to the leftist NEA teachers union—it has been an expensive, intrusive, unconstitutional, and centralizing instrument of state power.

The 1980 Republican platform promised to abolish the Education Department, and Ronald Reagan campaigned on the pledge. But—like so much else—both were forgotten when the cash and jobs could be directed to “our” side.

Instead of abolition, we've seen distension, with the administration and Congress increasing the Department's budget from $10 billion in Carter's last year to $22 billion in 1988. The head cheerleader for more spending on “education” (actually, anti-education, of course) has been Bennett. At the direction of his ideological control Irving Kristol, Bennett has lobbied furiously for more spending, and criticized those with a “budget-driven agenda” (i.e., benighted folks who think government already spends too much).

The giant Department of Education runs a complicated array of programs, each with its own budget, its own interest groups, its own bureaucrats, and its own regulatory mandates and prohibitions, which have to be interpreted, explained, and enforced. It is an immense burden on schools and teachers, not to speak of taxpayers.

Bennett—with conservatives rooting him on—has centralized control over teaching methods, teacher selection, pay, promotion, textbooks, and a host of other areas that are none of the federal government's business. And he has increased the federal bias against private education. It is all reminiscent of the neoconservative Napoleonic “reforms” of French education, designed to support an authoritarian state and force all children into a politically approved mold.

Since liberals have always favored federal control of education, we now have no organized opposition in Washington to school centralization. Federal control of education has been sanctified, so long as it is used to promote “conservative values” (which presumably don’t include parental control of childrens’ education).

And this is no isolated incident. The same thing has happened with the National Endowments for the Humanities and Arts, the Department of Energy, the Federal Trade Commission, OSHA, EPA, and a host of other agencies. Conservatives denounced them when Carter was in office, but now that they offer jobs and grants for the boys, there isn't a peep.

Washington conservatives defended Ed Meese until he fired his movement-conservative press secretary. Then they attacked the Attorney General too. How dare he, top conservatives sputtered: that press aide was “one of us.”

Lord Bolingbroke, writing more than two hundred years ago, said that politics consists of rewarding one's friends, punishing one's enemies, and lining one's pockets. Nothing much has changed, of course. But there were those who thought the conservatives might be different.

Rockwell is founder and CEO of the Mises Institute.
Return of Tax Credit...from page 1

solved by allowing people to keep more of their own money, provided they spend it on: aiding hangnail research, BMWs, or combating beri-beri. While the fundamental philosophical problem was sidestepped, at least people were allowed to spend their money themselves, and taxes would fall instead of increasing. It is true that people were still not being allowed to keep their money, period, but at least the tax credit was a welcome step away from government and toward private action and operation.

In 1986, however, everything changed. Conservatives joined liberals in scorning the tax credit as a "subsidy" (as if allowing people to spend their own money is the same thing as giving them some of other people's money!), and in rejecting the tax credit approach as a "loophole," a breach in the noble ideal of a monolithic uniformity of taxation. Instead of trying to get people's taxes as low as possible, reducing taxes where they could, conservatives now adopted the ideal of a monolithic, "fair," imposition of an equal pain on everyone in society. The Tax Reform Act of 1986 was supposed to bring sweet simplicity to our tax forms, and to bring about fairness without changing total revenue. But when Americans finally got through wending their way through the thicket of their tax forms, they found everything so complex that even the IRS couldn't understand what was going on and most of them found that their tax payments had gone up. And there were no tax credits to bring them solace.

But there is hope. The latest liberal Crisis of 1988, displacing the Homeless of the previous year and the Hungry of the year before, is the fact that upper-middle class two-wage earner families, the very backbone of the liberal constituency, can't afford the child-care services to which they would like to become accustomed. Hence, the call, heeded on all sides, for many billions of federal taxpayer money, by which relatively low-income single-wage earner families would be forced to subsidize wealthier families with working mothers. Truly the Welfare State in action! In despair, and not prepared to say either (a) that this problem is none of the government's business, or (b) that child care would be both cheaper and more abundant if government regulations requiring minimum cubic feet of space, licensed RNs on the premises, etc. were abolished, the conservatives, in their desperation, came up with our old, forgotten taxpayers' friend: the tax credit. That credit would apply, not only toward professional child care, but also for mothers choosing to tend their children at home.

Let us hope that the tax credit will return in full force. And then we can revive the lost tactic, not of "closing the loopholes," but of ever-widening them, opening them so wide for all indeed, that everyone will be able to drive a Mack truck through them, until that wondrous day when the entire federal revenue system will be one gigantic loophole.

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Rothbard, the world's leading Austrian economist, is vice president for academic affairs of the Mises Institute and the S. J. Hall distinguished professor of economics at the University of Nevada, Las Vegas.

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Letters to the Editor

Thanks for the congratulatory note and the Mises Institute tie. I will wear it with pride, and will use it to fend off any statists I run across at University of Tennessee at Chattanooga—sort of like flashing a cross in front of Dracula.

Thomas DiLorenzo
Fairfax, Virginia

Ed.: Dr. DiLorenzo, who teaches at George Mason University and is an adjunct scholar of the Institute, was recently appointed to the Scott L. Probasco Chair of Economics at UTC, succeeding another Institute adjunct scholar, Dr. William Peterson.

Lew, you did a great job [on CNN's Crossfire]—and thanks for the tie. Anybody can wear an Adam Smith tie—but Ludwig von Mises; now you're talking.

Patrick J. Buchanan
McLean, Virginia

Many thanks for your gift [of books]. Your generosity has such importance for me and my college friends. The Polish authorities allow little purchase of books and journals issued in the capitalist countries, and inconvertibility of my currency causes it to be of no value outside of Poland's borders. I am passing what I receive around, including my copies of The Free Market. Be assured, all your books and journals are put to good use.

Piotr Pezalski
Palacia, Poland

Rereading the quote from von Mises [in] the March Free Market, [I was] reminded of the] passage from Goethe's Faust...[where] Goethe attributes the invention of paper money and the consequent inflation to Mephistopheles.

Antony Flew
Social Philosophy and Policy Center
Bowling Green State University
Socialism Must Fail... from page 1

Socialism, property which serves as the means of production are collectively owned. No person can own the machines and other resources which go into producing consumption goods. Mankind, so to speak, owns them. If people use the means of production, they can do so only as caretakers for the entire community.

Economic law guarantees that harmful economic and sociological effects will always follow the socialization of the means of production. The socialist experiment will always end in failure.

First, socialism results in less investment, less saving, and lower standards of living. When socialism is initially imposed, property must be redistributed. The means of production are taken away from current users and producers and given to the community of caretakers. Even though the owners and users of the means of production acquired them through mutual consent from previous users, they are transferred to people who, at best, become users and producers of things they didn't own previously.

Under this system, previous owners are penalized in favor of new owners. The non-users, non-producers, and non-contractors of the means of production are favored by being promoted to the rank of caretaker over property which they had not previously used, produced, or contracted to use. Thus the income for the non-user, non-producer, and non-contractor rises. It is the same for the non-saver who benefits at the expense of the saver from whom the saved property is confiscated.

Clearly, then, if socialism favors the non-user, non-producer, non-contractor, and non-saver, it raises the costs that have to be born by users, producers, contractors, and savers. It is easy to see why there will be fewer people in these latter roles. There will be less original appropriation of natural resources, less production of new factors of production, and less contracting. There will be less preparation for the future because everyone's investment outlets dry up. There will be less saving and more consuming, less work and more leisure.

This adds up to fewer consumption goods being available for exchange, which reduces everyone's standard of living. If people are willing to take the risk, they will have to go underground to compensate for these losses.

Second, socialism results in inefficiencies, shortages, and prodigious waste. This is the insight of Ludwig von Mises who discovered that rational economic calculation is impossible under socialism. He showed that capital goods under socialism are at best used in the production of second-rate needs, and at worst, in production that satisfies no needs whatsoever.

Mises's insight is simple but extremely important: because the means of production under socialism cannot be sold, there are no market prices for them. The socialist caretaker cannot establish the monetary costs involved in using the resources or in making changes in the length of production processes. Nor can he compare these costs with the monetary income from sales. He is not allowed to take offers from others who want to use his means of production, so he cannot know what his foregone opportunities are. Without knowing foregone opportunities, he cannot know his costs. He cannot even know if the way he produces is efficient or inefficient, desired or undesired, rational or irrational. He cannot know whether he is satisfying less or more urgent needs of consumers.

In capitalism, money prices and free markets provide this information to the producer. But in socialism, there are no prices for capital goods and no opportunities for exchange. The caretaker is left in the dark. And because he can't know the status of his current production strategy, he can't know how to improve it. The less producers are able to calculate and engage in improvement, the more likely wastes and shortages become. In an economy where the consumer market for his products is very large, the producer's dilemma is even worse. It hardly needs to be pointed out: when there is no rational economic calculation, society will sink into progressively worsening impoverishment.

Third, socialism results in over-utilization of the factors of production until they fall into disrepair and become vandalized. A private owner in capitalism has the right to sell his factor of production at anytime and keep the revenues derived from the sale. So it is to his advantage to avoid over-utilizing its capital value. Because he owns it, his objective is to maximize the value of the factor responsible for producing the goods and services he sells.

The status of the socialist caretaker is entirely different. He cannot sell his factor of production, so he has little or no incentive to insure that it retains its value. His incentive will instead be to increase the output of his factor of production without regard to its dwindling value. There is also the chance that if the caretaker perceives opportunities of employing the means of production for private purposes—like making goods for the black market—he will be encouraged to increase the output at the expense of capital values. No matter which way you look at it, under socialism without private ownership and free markets, producers will be inclined to consume capital values by over-using them. Capital consumption leads to impoverishment.

Fourth, socialism leads to a reduction in the quality of goods and services available for the consumer. Under capitalism, an individual businessman can maintain and expand his firm only if he recovers his costs of production. And since the demand for the firm's products depends on consumer evaluations of price and quality (price being one criterion of quality), product quality must be a constant concern of producers. This is only possible with private ownership and market exchange.
Things are entirely different under socialism. Not only are the means of production collectively owned, but so too is the income derived from the sale of the output. This is another way of saying that the producer’s income has little or no connection with consumer evaluation of the producer’s work. This fact, of course, is known by every producer.

The producer has no reason to make a special effort to improve the quality of his product. He will instead devote relatively less time and effort to producing what consumers want and spend more time doing what he wants. Socialism is a system that incites the producer to be lazy.

Fifth, socialism leads to the politicization of society. Hardly anything can be worse for the production of wealth.

Socialism, at least its Marxist version, says its goal is complete equality. The Marxists observe that once you allow private property in the means of production, you allow differences. If I own resource A, then you do not own it and our relationship toward resource A becomes different and unequal. By abolishing private property in the means of production with one stroke, say the Marxists, everyone becomes co-owner of everything. This reflects everyone’s equal standing as a human being.

The reality is much different. Declaring everyone a co-owner of everything only nominally solves differences in ownership. It does not solve the real underlying problem: there remain differences in the power to control what is done with resources.

In capitalism, the person who owns a resource can also control what is done with it. In a socialized economy, this isn’t true because there is no longer any owner. Nonetheless the problem of control remains. Who is going to decide what is to be done with what? Under socialism, there is only one way: people settle their disagreements over the control of property by superimposing one will upon another. As long as there are differences, people will settle them through political means.

If people want to improve their income under socialism, they have to move toward a more highly valued position in the hierarchy of caretakers. That takes political talent. Under such a system, people will have to spend less time and effort developing their productive skills and more time and effort improving their political talents.

As people shift out of their roles as producers and users of resources, we find that their personalities change. They no longer cultivate the ability to anticipate situations of scarcity, to take up productive opportunities, to be aware of technological possibilities, to anticipate changes in consumer demand, and to develop strategies of marketing. They no longer have to be able to initiate, to work, and to respond to he needs of others.

Instead, people develop the ability to assemble public support for their own position and opinion through means of persuasion, demagoguery, and intrigue, through promises, bribes, and threats. Different people rise to the top under socialism than under capitalism. The higher on the socialist hierarchy you look, the more you will find people who are too incompetent to do the job they are supposed to do. It is no hindrance in a caretaker-politician’s career to be dumb, indolent, inefficient, and uncaring. He only needs superior political skills. This too contributes to the impoverishment of society.

The U.S. is not fully socialized, but already we see the disastrous effects of a politicized society as our own politicians continue to encroach on the rights of private property owners. All the impoverishing effects of socialism are with us in the U.S.: reduced levels of investment and saving, the misallocation of resources, the overutilization and vandalization of factors of production, and the inferior quality of products and services. And these are only tastes of life under total socialism.

Hoppe is associate professor of economics at the University of Nevada, Las Vegas, and senior fellow of the Mises Institute.
Who Really Benefits From Foreign Aid?

by Sam Wells

A coalition of Third World regimes, businessmen, and bureaucrats is scheming for your wallet.

What they want is more: more tax dollars extracted from Americans to redistribute under the name of “foreign aid,” allegedly to lend a helping hand to “developing” countries so they can climb out of poverty.

Opponents of such policies are said to be selfish and uncaring, or perhaps they have some other more fundamental character flaw. American taxpayers are told to sacrifice their paychecks for the greater good of the poor around the world. How it is that the U.S., Britain, Switzerland, Canada, Australia, Sweden, etc. were able to develop without foreign aid is never explained.

Assertions, emotion, and power drive these aid programs; not facts or reason. Peter T. Bauer and others have demonstrated that the hundreds of billions flowing from developed nations to the Less Developed Countries (LDCs) actually retard progress in those countries while bleeding the donor nations of precious capital.

U.S. government foreign aid, in all its various forms, is not assistance to poor people. It is aid to foreign governments, political regimes almost always of an authoritarian or totalitarian nature. Very little of this money ever gets to the poor people in those foreign lands.

Foreign aid is not charity from rich people to poor people. It is money extracted by government coercion (taxes) from working-class Americans and sent to the ruling cliques in foreign regimes. Politicians and civil servants in those countries dish it out to favored special interests, regardless of any “need.”

That’s why U.S. foreign aid dollars have helped buy, among many other things, modern TV stations in places where there is no electricity; dress suits for Greek undertakers; extra wives for Kenya government officials; stretch limousines for African dictators; wasteful “national pride” boondoggles such as the construction of expensive capitals (Brasilia, Islamabad, and Dodoma in Tanzania); and filled the Swiss bank accounts of corrupt politicians. And since foreign aid goes to ruling elites, it helps entrench them in power.

Much of the largesse is pumped into state-run industries and collectivist programs run by socialist bureaucrats. By shoring up socialist systems, our foreign aid money virtually assures economic stagnation, political oppression, and therefore even fewer opportunities for poor people to climb out of their misery.

Julius Nyerere, Tanzania’s Marxist dictator, has received hundreds of millions in U.S. foreign aid, even while he brutalizes peasants, pulverizing whole villages, and murdering political prisoners who dared to question his forced collectivization.

In Ethiopia, the socialist government uses food to control the population and as a weapon against dissenters. Its collectivist agricultural policies have—not surprisingly—caused famine. But foreign aid has only strengthened the grip of the dictatorial regime over its abject subjects.

Moreover, U.S. foreign aid has often been granted to both sides in the endless parade of wars between feuding nations: India and Pakistan, Ethiopia and Somalia, Israel and Egypt, Algeria and Morocco, etc. Of course, the munitions manufacturers don’t mind; they receive more orders for their wares from sovereign belligerents whose bank accounts are replenished by American citizens.

The foreign-aid scam also benefits politically privileged U.S. corporations. The recipient national regime must spend some of the aid money to purchase goods from U.S. exporters, with taxpayer-subsidized loans through the Export-Import Bank, the Commodity Credit Corporation, or the Overseas Private Investment Corporation. The corporation, the recipient government, U.S. bureaucrats—everybody wins in such a transaction. Except the U.S. taxpayer and the poor citizens of the foreign land.

From 1946 to the present, the U.S. government has given over $400 billion in foreign aid to other governments. Figuring the lost interest on that amount, the real total comes to a staggering $2.6 trillion. And foreign aid has zoomed during the Reagan years. In 1979, the U.S. government doled out $9.5 billion; this year it will waste over $21 billion on foreign aid. Few other budget items have increased as fast. The Reagan administration has spent more than $114 billion dollars on foreign aid—more than the combined total of foreign aid spending of the Nixon, Ford, and Carter administrations put together. The president once even threatened a veto because Congress had appropriated too little for foreign aid.

The U.S. Constitution nowhere permits the taxing of American citizens for the benefit of foreign governments, U.S. corporations, or U.S. bureaucrats. For the sake of morality, efficiency, and fairness, let’s leave foreign aid to those private organizations that actually help, and get the government out.

Foreign aid is money extracted by taxes and sent to the ruling cliques of foreign regimes.

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Wells is a California writer and a media fellow of the Mises Institute.
But for an heroic few, Keynesian economics was the unchallenged economic orthodoxy until 1974.

“Keynesian economics is dead,” blared mainstream business publications. Enterprise was the new watchword, the driving force behind the new prosperity of the 80s. And indeed a host of new doctrines appeared to motivate new policy decisions, (stable money growth, tax cuts), however temporary.

The experience of the mid-70s appeared to have taken the steam out of the theoretical case for deficits and inflation. And during the dreariness of the late-70s, U.S. policy was void of any theoretical framework. Rushing in to fill the policy vacuum came a dozen formerly-fringe schools of thought, including Rational Expectations, Monetarism, Public Choice, Supply-Sidism, and the Austrian School.

The objective critic of 1985 pointed out that the economy had all the earmarks of classical Keynesian policy: high budget deficits, increased government spending, and stimulative monetary policy. Was this a Keynesian recovery wrapped in supply-side rhetoric, the skeptic asked? He got his answer when the supply-siders began preaching that “deficits don’t matter” and that the Federal Reserve needed to “stimulate” the economy through lower interest rates. Only the justification, not the actual policy, had changed.

Continued on back page

Keynes has been the most influential economist in the 20th century, and only a few courageous minds were not taken in by this snake-oil salesman. In Critics of Keynesian Economics, Henry Hazlitt has assembled the best of the scholars criticizing Keynesian theory, including Ludwig von Mises, W.H. Hutt, G. Warren Nutter, F.A. Hayek, Wilhelm Roepke, Frank Knight, and others. The book covers every area of Keynesian theory, from money and credit to prices and production. 427 pp. Price: $20.00. To order, please see enclosed form.
Will Keynesian economics ever go away? Professor Roger Garrison notes that:

even if the number of Keynesians in the economics profession fell to five percent, it would be that very five percent from which government officials would seek advice and reconciliation. Short-run stimulation would be the order of the day and Keynesian policy would plague us still.

Thus the mainstream press is once again trumpeting the return of Keynesianism. William Greider is making a mint off his book Secrets of the Fed, an unabashedly Keynesian account of the economics of the Federal Reserve System.

Michael Dukakis's economic advisors are all liberal Keynesians like Lawrence Summers of Harvard, and George Bush's are all conservative Keynesians like Martin Feldstein, also of Harvard.

With the "return" of Keynesianism from the dead, the old fallacies are also back: we need not concern ourselves with scarcity; there is a trade-off between unemployment and inflation; nominal wages can't decline; artificially high money wages don't cause unemployment; government spending stimulates the economy; the Fed should target interest rates; saving is silly; interest rates take advantage of debtors; etc. How such notions came to be orthodoxy in the first place is, as Henry Hazlitt says, "one of the greatest intellectual scandals of our age."

Henry Hazlitt was one of the handful of brave souls who dared challenge Keynesian doctrine when it was at its height. Hazlitt wrote a series of articles in the New York Times attacking the move toward central control. And in the late 1950s, he did what no one else had ever attempted: a line-by-line refutation of Keynes's General Theory.

The writings of the anti-Keynesian dissidents—most prominently Ludwig von Mises, W.H. Hutt, Wilhelm Roepke, Benjamin M. Anderson, and F.A. Hayek—appeared as chapters in scattered books, or in monograph form, or in obscure journals. In 1960, Henry Hazlitt once again did the world a great service by collecting the best of their writings into an anthology: The Critics of Keynesian Economics (reprinted in 1983). It contains 23 articles, each explosive of Keynesianism: by masterful polemics, by a serious examination of economic history, or by the sheer force of their author's reasoning power. Each was written before 1960 when Keynesian-bashing was out of favor with the mainstream. Thus they exhibit the type of special analytical rigor that unorthodox thinking requires. Combined with Mr. Hazlitt's perceptive introductory remarks, the book represents a powerful refutation of the entire Keynesian system, including unemployment, scarcity, the theory of interest, price flexibility, inflation, overproduction, the multiplier, savings, investment, and the business cycle. It also builds a constructive case for non-intervention and rational economic thinking.

With Keynesianism coming back in full force, it's time to take Critics off the shelf, and read and understand its contents. Economic fashions can change, but Critics of Keynesian Economics shows that sound economic reasoning has intellectual staying power in every age.