REVIEW ESSAYS

A Perilous Progress: Economists and Public Purpose in Twentieth-Century America. By Michael A. Bernstein. Princeton, N.J.: Princeton University Press, 2001.

Every economist who regards himself or herself as a free-market theorist and advocate should acquire, read, and retain this paean to planning and interventionism as a valuable reference—especially if he or she is also a political libertarian.

There are four good reasons: (1) it names names and carefully chronicles crucial events in a veritable family history of mainstream American statist economics and economists in the twentieth century; (2) it is very carefully referenced and contains extensive literature citations and a lengthy and admirable bibliography; (3) it provides a very defensive, almost stereotypical, Keynesian (in the Leijonhufud sense of the term) view of twentieth-century economic history and policy; and (4) it will provide several good laughs because of the author's naïvely worshipful attitude toward economic fascism and his ingenuity in historical interpretation. For libertarian economists, especially, the book figuratively lifts the lid of Hell for a lengthy peek inside.

Bernstein's narrative proceeds almost chronologically, beginning with the founding of the American Economic Association in 1885 and ending with the privatization initiatives of the 1990s. It is a saga that details early attempts by leading figures in the AEA to achieve political influence and the wielding of power in order to bring science to public policy. The key, as they saw it, was the "professionalization" of the American economics establishment, and then the selling of that professionalism to politicians and bureaucrats. The middle of the saga has the fully professionalized economics establishment framing and dominating policy debates, as well as constituting a template for other academic disciplines. There is an unhappy ending. In the author's words,

> it was statism and centralized economic policy practice that had brought economists and their discipline to the prominence and influence they had enjoyed through the latter half of the twentieth century. . . . Today, the withdrawal from engaged debate over the ends of national policy and the cultivation of a scholastic discourse that has increasingly separated economics and its practitioners from the arena of genuinely public decision making have become more and more widespread. This disciplinary and professional evolution, this perilous progress, has brought economics to the point of extinction. (p. 194)

The first part of that assessment refers to developments chronicled in the first five of the six chapters of the book. The last is argued in Chapter 6.

Drawing on extensive manuscript and correspondence archives, oral histories, scholarly books and articles, and the popular press, Bernstein carefully reconstructs the early attempts by AEA figures in academia to organize and professionalize their discipline, while seeking to bring themselves and their professional skills to the attention of politicians and bureaucrats. Their initial lack of success was illustrated by the almost complete absence of any attention paid to economists' views in the creation of the Federal Reserve System in 1913. The first circumstance providing opportunities for limited progress was the outbreak of war in Europe, and the subsequent entry of the United States into that war in 1917. Cooperation between the AEA and various federal agencies provided the impetus and the authority for the AEA to initiate the classification of specializations, as well as to compile a roster of economic experts competent to work for government. Senior AEA members flowed into administrative positions, while other economists toiled away in various agencies, managing the war effort.

Following the war, the campaign shifted to the establishment of foundation-supported research establishments, such as the National Bureau for Economic Research, and the linking of those establishments with federal government statistical projects. In this regard, Herbert Hoover's Commerce Department was an important client and partner. Nevertheless (p. 60), "it was the cruel irony of history that [President] Hoover, who as commerce secretary had done more than any other cabinet officer to utilize the skills of professional economists in the work of government, would be so ill-served by the very experts he had cultivated," because not one American economist forewarned him of the impending economic catastrophe, nor were any of much help in resolving it. The policy impotence of American economists was most cruelly displayed in the passage of the Smoot-Hawley Act of 1930 in the face of public opposition to the tariff act by over one-third of the membership of the AEA.

The "political calculation and electoral manipulation" that characterized the Roosevelt administration precluded any coherent economic policy in the "New Deal," although economists flooded into government agencies. For Bernstein, the most important economic legacy of the thirties was the Keynesian framework for demand management, while the economic legacy of the "New Deal" was National Income Accounting and its subsequent application to war management and Keynesian policy making. Also, for Bernstein, it was World War II that ended the depression and provided the next great opportunity for the AEA establishment to prove the worth of economics in the policy arena. The newly available accounting tools and the allocative techniques of neoclassical economists were especially suited for planning and managing the war effort. In addition, the war period stimulated the development of the theoretical tools of activity analysis and linear programming. Later, the cold war similarly would stimulate research in game theory and mathematical simulation, and provide new opportunities for economists in the "national security state."

During the war, as it had in World War I, the AEA provided the federal government with a classification of specialties and an evaluation of credentials of economists to be employed in the war effort. Even further, designing appropriate educational curricula and training graduate students became a preoccupation that extended into the postwar period. It also extended into the rebuilding of Asian and European higher education in economics in an American mold, as well as aiding the American Library Association by compiling lists of recommended titles to rebuild foreign library collections. The result was a decided homogenization of curricula that excluded schools and figures that were not congruent with the mainstream's view of what would best advance economic science. Further, the passage of the Employment Act of 1946 created the Council of Economic Advisors (CEA) as a permanent aid to the formation of economic policy within the Executive Office of the President. As an influential social science, establishment economics was about to come of age.

The stage is now set for Bernstein's presentation of the apogee of the influence of economists on public policy. All the required components have been gathered together. Economists had seemingly proved their value in the management of the war effort and in postwar military education and advisement. The National Income Accounting tools were available to provide the information needed for Keynesian demand management; and, the public goal of full employment growth was widely accepted in the professional establishment. To cap it off, a lip to the ear of the president by a "credentialed elite" had been created within his own executive office. All that was needed was the right ear for the job—and John F. Kennedy was elected president in 1960.

Bernstein's macroeconomic history of the U.S. economy of the early l960s, and the role of Kennedy's CEA in addressing it will provide a great deal of amusement to those skeptical of the myth of "Camelot." In Bernstein's narrative, there was a sluggish economy in the early 60s; the Keynesians on the CEA proposed a tax cut that meant deficit spending; a receptive and supportive president took it to Congress before his assassination; Congress subsequently passed the Revenue Act of 1964; and, lo, the unemployment rate went down and economic growth resumed. The New Economics of Kennedy's CEA had triumphed. The fact that unemployment rates were already falling by 1964 and the rate of growth of GDP had already significantly increased by 1962 would seem to detract from this picture, as would the acceleration in both federal spending and deficits that began in 1961.

Be that as it may, in Bernstein's account, the glory of the New Economics in 1965 would yield to ignominy by 1968. The salutary effects of the New Economics were masked by the "excessive" financial stimulus of the Vietnam War buildup—and this behind the backs of the CEA elite. The president and the Congress had left the CEA in the dark in the rapid buildup beginning in 1965 and their macroeconomic forecasts were way off; the formation of fiscal policy was trumped by the actual practice of government. Subsequent fiscal and monetary restraints were too little and too late to halt the "inflationary spiral," and the New Economics was discredited by its falsely perceived fruits.

The rest of Bernstein's narrative relates the demise of the faith in demand management and the rise of the Federal Reserve, as the architect of price stability, as the new grail. From policy architects of the New Frontier, CEA members and staff sank to the level of policy flacks for the Oval Office under Bill Clinton. Meanwhile, the economics establishment searched for a new religion as it moved away from the funeral of Keynesianism, while "rational expectations" and "supply-side economics" drove the final nails into the fiscal-policy coffin. Even worse, government itself began to be regarded as the problem and deregulation became *de rigueur*. Members of the economics establishment either allied themselves with the "business elites" in eviscerating government to the benefit of "a dessicated [sic.] market paradigm," or skulked in their academies and gazed at their mathematical belly buttons.

There are some guilty pleasures in reading Bernstein's saga, in addition to the reasons given at the beginning of this review for reading and retaining it. First, the whole story is a kind of morality play, wherein members of the American economics establishment go from policy-making "shirtsleeves to shirtsleeves in three generations," culminating in their role either as harem wife for the likes of Bill Clinton, as shills for corporate America, or as onanists of the academy. Second, it is worth the read to see the portrayal of the AEA for most of the twentieth century as a professional analogue to the Ottoman Empire. Third, one seldom finds such a refreshing treatment of the cynicism of FDR and of the tension within his administration between the planners and the trustbusters that made its economic policies so chaotic and futile.

There are a few negatives. Despite an apparent encyclopedic knowledge of twentieth-century macroeconomic and monetary theory and policy publications, there is no evidence that Bernstein has ever read a single article or book by an Austrian School author. There is not even one citation of anything by Menger, Mises, Hayek, or Rothbard—even in criticism. Because of Bernstein's central preoccupation with economic growth and cycle theory, his careful attention to twentieth-century economic history and the history of anti-cyclical economic policy, and his apparent familiarity with several standard works in the history of economic thought, one would expect him to have at least investigated all challengers to the Keynesian interpretation. It's not as if he shies away from the use of terms such as "inept," "moribund," "superficial," "ahistorical" [sic.] or "strident" to characterize the views of those with whom he disagrees. But, no Austrian School economist even rates the status of a Banquo's ghost in Bernstein's literary castle. This is a curious omission in an otherwise meticulous work of scholarship.

The second great negative is the rather obvious conflict between his general view that wartime planning and peacetime demand management illustrate the triumph of economics in the service of statism, and the embarrassing collapse of that epitome of state management—the Soviet Union. It's not as if Bernstein is unaware that the Soviet Union collapsed. He specifically refers to it in an epilogue that celebrates the similarities in the theoretical work of Tjalling Koopmans and Leonid Kantorovich that led them to share the Nobel Prize in 1975. But, this is taken by Bernstein to prove the similarities between the problems and tools of both capitalism and socialism. Following that is a sneering reference to the smugness of the triumphant West. Smug, and rightly so.

It must also be pointed out that there is no evidence in this book that the author recognizes any substantive difference between centralized resource allocation to achieve given ends, either in wartime or peacetime, and the market process, where both means and ends are part of disaggregated decision making. But then, one of his most praising references is to J.K. Galbraith's *Economics and the Public Purpose*.

SAM BOSTAPH
University of Dallas