The Contributions of W. H. Hutt

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William Harold Hutt (1899–1988) was a courageous and independent maverick whose work has long been respected by those who work in the Austrian tradition. His scope was broad, encompassing the study of labor and the relationship between government and the economy, but he is probably best known for his monetary economics.

Those who know Hutt's scholarship are likely to consider it "underappreciated," either because his principal work was a criticism of Keynes published at the height of Keynes's influence (Hutt 1963) or specifically because its catallactic, individualistic method was hardly in keeping with the methodological spirit of the 1960s. It is also true, though, that Hutt's writings are difficult to follow and sometimes reflect a utilitarianism that is inconsistent with thoroughgoing subjectivism. Nonetheless, as I hope this survey will indicate, there is much in Hutt's work—particularly his monetary economics—that will delight anyone who is sympathetic to the approach of the Austrian school.

Born in 1899 to a working-class family in London (Seldon 1988), Hutt studied at the London School of Economics and taught from 1928 to 1965 at the University of Cape Town. He then moved to the United States and taught at several universities. From 1972 to 1982 he taught at the University of Dallas, and was an emeritus professor there at the time of his death (Ebeling 1988).[1]

Monetary and labor economics were Hutt's chief interests. His best-known work in monetary theory is *Keynesianism—Retrospect and Prospect* (1963); others in this field include *The Theory*

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[1]For an excellent brief summary of Hutt's life and work, see Salerno (1991).

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of Idle Resources (1939, second edition 1977), *A Rehabilitation of Say's Law* (1974), and *The Keynesian Episode* (a 1979 revision of *Keynesianism*). His rich appreciation of the market as a catallaxy explains his most important contribution: a superior analysis, Austrian in spirit, of money and its relationship to economic activity. Like Marget, Hayek, Hazlitt, and others of his generation, much of Hutt's monetary work was understandably associated with criticism of Keynes.

Hutt's principal work in labor economics is *The Strike-Threat System* (1973), but his first book was *The Theory of Collective Bargaining* (1930, 1980).

Throughout his life Hutt expressed great concern—perhaps reflecting his background—for persons of lower incomes. Their best friend was the market, he told us often; their major enemy was private groups' use of government to plunder them, a concern that led him into extensive work on the political process. Contributions to this literature include *Economists and the Public* (1936)—which one of his scholars and recent colleagues identified as "probably, Hutt's finest work" (Formaini 1989, p. 2)[2] and *Politically Impossible. . .?* (1971). His long-time friend Arthur Seldon wrote: "If Hutt had not been dismayed and distracted by the cul-de-sac of Keynesianism, I think he would have complemented James M. Buchanan and Gordon Tullock and now others in the US and Europe who are developing the fundamental economics of politics, democracy, and bureaucracy."[3]

Professor Hutt[4] knew that his works were not easy to read. He saw that as a regrettable necessity.[5] He respected language and used it with great skill, understanding that it shapes and is shaped by ideas. Although Hutt is often criticized for his use of unique terminology ("Huttite" has been coined to describe it), it was precisely his respect for the power of language, combined with his disapproval of trends that swept economics during his career, that produced his strong sense

[2]Each of us has his own interests and I certainly respect Bob Formaini's judgment, but I consider Hutt's *Keynesianism* books (and *Say's Law*) considerably better and more important.

[3]Seldon 1988, p. 34. See also Hutt's review essay on Buchanan and Tullock's *The Calculus of Concent* (Hutt 1966). Several other essays reprinted in Pejovich and Klingaman (1975) deal with the politics of South Africa. The Pejovich-Klingaman collection also contains the best published bibliography of Hutt's work of which I am aware, though it obviously omits the work of the last decade of his life.

[4]He preferred to be called "Professor," and often corrected those who called him "Doctor." He never received that degree.

[5]"[N]ew definitions are irritating things," he wrote in 1939, "and the mere process of multiplying terms may appear to be both pretentious and barren" (Hutt 1977, p. 45).

of obligation to resist certain popular economic terminology. A repeated theme is one expressed in *Keynesianism*: *"There are some kinds of language the habitual use of which hinders the perception of certain things as well as the saying of them"* (Hutt 1963, p. ix; italics his). Hutt's terminology places demands on the reader, who must not only follow his new and curious—though usually somewhat self-explanatory—terms (like "contrived incidental plenitude") but must also exercise caution with conventional terms, for sometimes his meaning subtly differs from that of works that now constitute orthodoxy.

Freedom, Government, and the Market

Morgan Reynolds, in his fine "Tribute to W. H. Hutt," insightfully identified William Hutt as a "classical political economist" (Reynolds 1989, p. xii). Hutt himself wrote: "A contemporary trend towards a return of economic science to what could be more appropriately described by the too long disused term 'political economy,' in which the function of vote-gathering is formally treated as an economic factor, may turn out to be one of the most promising developments of this age" (Hutt 1971, p. 23). From the catallactic perspective of Adam Smith and an underlying utilitarianism to his concern with matters of "public choice," Reynolds's term fits. Hutt knew that the individual initiative that liberates us from poverty thrives only under particular kinds of rules, and that these rules may only resemble the legislation that emerges from the political processes of a constitutional democracy. Hutt's lifelong concern for human welfare led him to a study of those processes. He properly considered the likelihood that private groups might wrest control and twist legislation to their own advantage, to be the greatest threat to the human condition.

He wrote courageously about the apartheid policy of his adopted home country, identifying it as a device by which the white unions had seized upon the government as a means to suppress competition from the non-whites.[6] A related and highly regressive policy was "rate for the job" legislation (like our "comparable worth"). Hutt fervently argued that outlawing the ability of the unskilled and inexperienced—or those discriminated against—to acquire the benefits of employment and demonstrate their worth by underbidding other applicants was terribly regressive, unfair, and anti-competitive.

For all of its potential danger, Hutt considered government to have great power to promote well-being, claiming in 1936 that "[w]e may regard the democratic State as the institution that is supposed

[6] See *The Economics of the Colour Bar* (1964). Earlier writings had resulted in the temporary withdrawal of his South African passport (Rothbard 1988, p. 33).

to interpret and make effective the will of the aggregate of citizens as electors" (Hutt 1936, p. 257). He acknowledged the need for some public welfare, but was convinced that a government enforcing the rules that give maximum range for individual initiative and enterprise permits the market to achieve the most for humanity that can be done, constrained only by "natural scarcities."

Hutt did not explicitly set forth a description of the source and nature of the individual rights that underlie his conception of liberty and government. Indeed, he described in 1930 a belief, so common today, that economics offers a superior alternative: "Economists are all clearly conscious of the desirability of a more equal distribution of wealth; indeed, they base their case for it upon the firm foundation that it will lead to a maximization of economic welfare, and not upon abstractions such as 'natural right' or 'justice'" (Hutt 1980, pp. 73–4).[7] This crude-utilitarian perspective is so prevalent even sixty years later that few economists consider the examination of "natural rights" necessary or advisable. Murray Rothbard, who takes a Lockean approach based on self-ownership, is an outstanding exception (Rothbard 1970, pp. 77–80). Hutt seems to take the utilitarian defense of freedom: it works.

In 1930, for example, he had argued that the economic defense of private property depends on the presumption that "the price determined under private enterprise is the one which best serves the common good" (Hutt 1980, p. 54, n. 29). He also admits (Hutt 1971, p. 46) to having "uncritically accepted" (in 1930) Edwin Cannan's defense of progressive taxation on the basis of diminishing marginal utility. His early thinking, he noted in 1971, "was founded on the fallacious belief that the utilities of income to different persons can be compared" (Hutt 1971, p. 46).

In his 1936 *Economists and the Public*, Hutt expressed most explicitly his sympathy with the utilitarian perspective. His warning of the philosophy's "truly unfortunate effect" (Hutt 1936, p. 300) on economics refers only to the misrepresentation of "economic man" as a short-run hedonist. By this time Hutt seemed to reject the explicit maximization of an aggregative concept of social welfare, explaining that the term "maximizing welfare" is acceptable "if we regard the term as having a purely subjective meaning and do not attempt to extend it to cover any summation of individual welfares into a broader objective unity as 'social welfare'" (Hutt 1936, p. 265, n. 2).

[7]When I cite "Hutt 1980" as evidence for what he said in 1930, I refer to those sections of the second edition of *The Theory of Collective Bargaining* that he left unchanged.

There is no doubt that utilitarianism can do immense damage when wielded by the untutored. Its "most unfortunate effect" today is the tendency of economists who are infatuated with technique and disdainful of philosophy to back into objective utility and interpersonal comparison without realizing it.

Yet these attractions of crude utilitarianism can be resisted by a strong sense of subjectivism and of the spontaneous coordinating forces of an unhampered market. Prominent economists of the Austrian school have joined Hutt in praise of a more carefully crafted position. Ludwig von Mises (1957, pp. 55, 58) has spoken approvingly of utilitarianism, referring to economics as "its finest product" and calling it a "philosophy of individualism." Much of F. A. Hayek's work reflects a strong utilitarian position. The example of Henry Hazlitt (1972) also shows that a utilitarian foundation can co-exist with a thorough appreciation of the nature of a catallaxy and the rules that it requires. An excellent informal discussion of a utilitarianism that requires and supports individual rights is offered in a 1991 interview with Leland B. Yeager, who notes that he occasionally feels that "Hazlitt has already said everything" (Yeager 1991, p. 6).

"What are the proper limits to the right of association?," John Stuart Mill asked, and in his 1936 book Hutt reported that he "can hardly imagine any problem which is more directly relevant to political economy." He found Mill's advocacy of "freedom to unite for any purpose *not involving harm to others*" to be unsatisfactory because it raised "the rights of combination" above "the free action of individuals" (Hutt 1936, pp. 194–95), and wrote approvingly that Mill's "principle of expediency" justifies "the suppression of economic coercion and private monopoly" (Hutt 1936, p. 196).

In Hutt's perspective, some "combinations" are inconsistent with freedom. He knew that an unhampered market was of great benefit to the relatively disadvantaged. But exactly what activities constitute an "unhampered" market?

To some writers a free market means the absence of legislative violations of individuals' natural rights to life and property. Hutt would duplicate most of their policy advice, say on matters of minimum-wage laws and producer subsidies. But a rights theorist is likely to interpret the formation of a combination as part of the functioning of a free market. Utilitarians make much of the deadweight losses and reductions in consumers' surplus that would result, but these are not consumers' rightful property. Unless government violates rights by enforcing a cartel, its success will probably be temporary. But its existence is fully consistent with a market that, in the natural-rights sense, is free.

This is not a perspective that would command Hutt's agreement. Combinations like industrial cartels and labor unions, even if unsupported by restrictive legislation, reduce the welfare—relative to a state of open competition—of the ordinary citizen. Throughout his life, Hutt shared the position of Henry Simons and many modern economists that the enforcement of antitrust laws is essential to a market system.

In 1971, for example, he appended to his phrase "provided the appropriate governmental agencies are carrying out their essential role in the functioning of the free market" a footnote explaining that "this role covers primarily the prevention of 'restrictive practices'—or the role of what in the United States is called 'anti-trust'... Emphasis on this role meets the common objection, 'Yes, but markets do not always work'"(Hutt 1971, pp. 95, 99). "If business," Hutt wrote, "including big business, is in any measure responsible for pricing output beyond the reach of income (subject to any degree of inflation) the remedy lies in anti-trust initiatives" (Hutt 1971, p. 78). He referred to resale price maintenance as "one of the most burdensome forms of restrictive practice" (Hutt 1971, p. 86).

Hutt disagreed that "in its complete form [competition] would be ruinous," (1935, p. 184) because he considered "aggressive selling" tactics that he thought might be ruinous (like predatory pricing) not in fact to be competitive. In his view, a legislative structure supporting the market system would outlaw such practices. His terminology (unfortunately) appears to have something in common with modern structure-oriented theorists of industrial organization: Competition could not produce monopoly, it seems, but a system in which the bargains among resource owners were limited only by natural rights could. According to this view—which I believe to be Hutt's—the preservation of the competitive order requires legislation that is not confined by the limitations of individual rights.[8]

The somewhat uneasy (to me, at least) combination of Hutt's powerful understanding of the benevolent forces of the catallaxy and his deep concern for the welfare of the common citizen is seldom more apparent than in his concept of competition. It is "the substitution for consumers' benefit of the least-cost method of producing and marketing any commodity (or of achieving any other objective involving

[8]He addressed some criticisms in 1977: "despite weighty arguments against antitrust which libertarian economists have been advancing in recent years, we adhere to the conclusion that a legal framework to create or protect incentives to substitute lower cost methods or preferred products is a necessary condition for market freedom to exist. This does not imply, however, that antitrust *in its present form* cannot be validly judged as more deleterious than nonintervention" (Hutt 1977, p. 223).

scarce means), irrespective of the institutional arrangements necessary for the realization of that result" (Hutt 1971, p. 99, n. 4).

It is significant that Hutt defined competition as a process, not as a structure. The modern economist is likely to visualize graphs depicting a perfectly-competitive outcome, a monopolistic outcome (smaller quantity, higher price), and a deadweight-loss triangle. Hutt would identify the entry and imitation by which the monopolistic position is moved toward the perfectly-competitive one as a competitive process. Even the creation of a deadweight loss triangle can be competitive if its cause is an entrepreneur's discovery and implementation of a lower-cost technique. As the competitive process continues, the price will be driven down, eliminating the deadweight loss and transferring surplus from producer to consumer.

Hutt's concept of "consumers' sovereignty," a phrase he originated in 1936, reflects some of the difficulties readers may find with his terminology. It is, to be sure, a healthy antidote to those who write as if producers can inflict their will upon consumers. By exercising their powers of choice, consumers in a market system provide both the incentive and the financing for producers to use resources as the consumers prefer.

Demonstrating the weakness of the substitution of a non-rights utilitarianism for a theory of natural rights, Hutt built his concept on an analogy between the market and government. "Regarded as an ideal," he asserted, "consumers' sovereignty rests on the same assumptions as does the ideal of representative government" (Hutt 1936, p. 262). In a semantic puzzle that reminds one, at times, of Marx, Hutt explained that an individual is sovereign in his role as consumer, and subject in his role as producer. He tells the story of an artist who eschews commercial assignments, at which he could earn incomparably more money, warning that "we cannot refer to producer's freedom as 'producers' sovereignty'. When he ignores society's demands, the producer and consumer aspects of the individual are merged in him. He exercises his sovereignty over the disposal of his own powers and property" (Hutt 1936, p. 263).

It is a perplexing notion, not clarified much by his assurance that he means "'sovereignty' in the sense of 'ultimate power', as opposed to 'source of authority'" (Hutt 1936, pp. 258–59). Hutt's concept of the free market is a society in which consumers' sovereignty is violated by neither government nor private groups. A producer's decision to take a vacation, or to produce a lesser-valued good for his own personal reasons, would be reckoned as his own exercise of his sovereignty as a consumer. His decision to collude with other producers would not. The act of collusion is not his own act of consumption, but it does reduce the ability of others to consume.

Although one must develop some facility with "ideal types" in economics—the Kirznerian entrepreneur who neither labors nor owns property, for example—the notion that producers are slaves and only consumers have rights seems a little difficult to keep straight. Every individual plays each role, in Hutt's taxonomy, but his rights adhere only to his role as consumer; in either his role as producer or as resource owner, he is a slave to other consumers. Hutt expressed it this way: "Applying this standard, we must regard property-owners as the custodians of the community's scarce resources. The powers they possess in dealing with these resources must be regarded as delegated to them by society in its consumer aspect" (Hutt 1942, p. 157). The position is not nonsensical, but it appears to me to exemplify precisely the *"kinds of language the habitual use of which hinders the perception of certain things as well as the saying of them"* against which he warned us in 1963. Individuals have rights (or "sovereignty"), and to identify these rights with only one of the individual's many roles is confusing and dangerous.[9]

Hutt's unhampered market would be ruled by "natural scarcity," under which "given consumers' preferences, the sole factor determining the price of consumers' commodities will be the relative amounts of different kinds of productive resources and services available" (Hutt 1936, p. 260). Like many utilitarians, he seems to sidestep the fact that property rights may have something to do with what is "available," and at what terms. But "there are many deliberately created barriers to the most complete utilization of productive power" (Hutt 1936, p. 261), which he called "contrived scarcities." Although he attempted to explain that a producer's "sovereignty over the disposal of his own powers and property" (Hutt 1936, p. 263) could not contrive a scarcity, he identified collusive agreements and other "restrictive practices" like resale price maintenance as contrived scarcities that thwart the principle of consumers' sovereignty. To prevent this "private coercion," the firm enforcement of antitrust statutes was required on the behavior of both business and labor. Then—and only then—would resources be allocated according to "natural scarcities."

[9]The best discussion of "the metaphorical shibboleth of 'consumers' sovereignty'" is in Rothbard (1970, p. 560 *et passim*). On "the community" and "society" as the ultimate owners of scarce resources, see Ayn Rand's discussion of "the tribal premise" (Rand 1965, p. 7).

A Staunch Opponent—not of Unions, but of the Strike Threat

Hutt is often identified as a critic of unions. But he noted numerous ways in which a union may properly assist the worker in dealing with the employer, maintaining "that a labor union may provide the required knowledge of employment opportunities, supply the expertise and the finance to assist an individual to take advantage of those opportunities, and protect an individual's rights before the law regarding the wage contract as well as facilitate his recourse to the courts when necessary" (Hutt 1973, pp. 12–13).

In fact he opposed only their strike activity. His position was a simple extension of his opposition to private collusion, to the contrivance of scarcity. He fought what he considered to be the private exercise of coercive power, whether by collusion among labor or business. Since government should assure that competition is free to perform its function, economists must oppose this poverty-creating coercion. That means opposing much of government's direct intervention into the economy (e.g., comparable-worth legislation), of course, but it also requires that governments break up private collusion and restrictive practices, eliminating contrived scarcities whether caused by business or unions of laborers.

He believed that the public and policymakers were already convinced of the necessity of addressing business collusion and "restrictive practices." But labor monopoly had long been blessed and/or feared by both the public and the politicians. There can be no doubting Hutt's courage in attacking what he considered to be the most powerful of legalized vandals, who stomp about the country seizing wealth primarily from those who can least afford it—usually with their naive acquiescence.

The Theory of Collective Bargaining (1930) examined the history and theory of two claims: labor's supposed "disadvantage" in bargaining over wages, and the "indeterminateness" of the wage rate. His history notes that unions had been the elite, aloof from and superior to the masses of working men and not caring much about them (see also, Hutt 1973, p. 26). A union's concerted activity raises members' wages only by excluding nonmembers from the particular labor market. Whether this raises or lowers the total wage payment depends on the elasticity of demand for this type of labor—which Hutt noted depends, in turn, on a welter of other elasticities. But the quantity of product will fall and its price rise: "The evil in labor monopolies lies not only in their driving the less fortunate to relatively badly paid occupations but also in their raising the cost of living to them as well"

(Hutt 1980, p. 13). The principal "exploitation" is through higher prices of consumer goods, and "the greater part of the demand for consumers' goods is exercised by relatively poor people" (Hutt 1980, p. 73).

The belief that unionized labor can exploit capital dies hard. Hutt noted that surely capital can be exploited in the short run. Indeed, there is no more "sitting duck" than a producer who has sunk huge sums into highly specific capital goods. But using an argument like that of "rational expectations," Hutt reasoned in 1930 that "if it were really normal for labor to exploit capital invested in [a particular] class of undertaking, the result would be that less would be invested in this class" (Hutt 1980, p. 62). Investors will look for risk-adjusted returns, and among the risks will be that of the strike. Pre-risk yields on capital invested in different ways will correspond in a direct relationship, and quantities invested in an indirect fashion, to the *ex ante* risk and seriousness of strike. In 1973 he applied the same argument to *human* capital: "The volume of labor which will come forward to be trained for or otherwise become attached to any occupation in which (in the light of past experience) labor appears liable to 'exploitation,' will be reduced to the level at which the prospective long-term benefits are equated with the prospective benefits from training and employment in other occupations" (Hutt 1973, p. 5; all italicized in the original).

Arguing that the "*fear* of strikes inflicts far greater damage on the economic system than actual strikes" (Hutt 1973, p. vii, 1980, p. xviii), Hutt maintained that the result of the political acceptability of the strike is that the strike-threat is an ever-present "contrived" cost of doing business.

The harm that the strike-threat wreaks is often not evident in the unemployment statistics, but results from a pattern of resource use that is not optimal at dealing with "natural scarcity." This problem of "diverted resources" (perhaps better known as disguised unemployment) affects both capital and labor. The existence of this type of unemployment is not obvious, but the welfare of all of us, perhaps especially the poor, is lower than it could be. Hutt's position reflects an appreciation of the Austrian concept of the capital structure and the significance of patterns and types of capital good and labor. Comparing the second and first editions of *The Theory of Collective Bargaining*, Hutt identified as a "major improvement" "the emphasis I now place on the *composition* of the assets stock and the composition of the stock of complementary assimilated knowledge and skills (in reaction to prospective strike-threat depredations" [Hutt 1980, p. xviii]).

Hutt's analysis of the effects on standards of living of "wage-multiplying assets" and their increasing specificity are superb. His case that the strike-threat reduces welfare, despite the impossibility of quantifying it, is well made. But his conclusion that this warrants outlawing the threat is utilitarian. Without some form of contract, the agreeing among a group of skilled workers to withhold their labor unless paid nearly the whole value of the product violates neither capitalists' nor consumers' rights. A carefully prepared contract can, in principle, reduce the risk of becoming dependent on one employer or employee; without it, the risk is a cost of the increased productivity of specificity.

The enforcement of the antitrust laws is the only major issue on which I—as I believe most other Austrians—disagree with Hutt. To advocate the use of government to prevent actions that violate no rights opens a Pandora's Box.[10] Hutt's heartfelt concern for those of middle and lower incomes may, unfortunately, have made him a victim of "power-thought," an enemy of "rational-thought" of which he warns us in 1936 (Hutt 1936, p. 52 *et passim*).

Money, Macroeconomics, and the Influence of Keynes

Most economists who began their careers around 1930 were profoundly affected by the profession's spectacular embracing of John Maynard Keynes's *General Theory*. Like Hayek, Marget, and Henry Hazlitt, Hutt had read widely and had developed a respect for the monetary economics that had been developed by Hume, Say, Thornton, Wicksell, Mises, and others. "In my judgment," he wrote, "ever since the remarkable contributions of Locke and Hume, monetary theory has been one of the least unsatisfactory branches of economics" (Hutt 1963, p. 87).[11] A brief study of Hutt's interpretation of pre-Keynesian monetary theory will help us to understand his reaction to the *General Theory*.

Pre-Keynesian monetary theory, as Hutt saw it, recognized that the preferences of individuals in an economy are linked by their understanding that the use of money and markets can further their ends. Presupposing that individuals know something about physical reality, markets produce money prices, quantities, and production

[10]As I recall some of our conversations during the mid 1970s, Hutt also supported legislation against libel and slander, largely out of sympathy for the victim. Since one's reputation consists of others' attitudes, it is doubtful that such legislation can find support in natural rights. See Rothbard 1978, pp. 95–96.

[11]The text has "even" rather than "ever," which apparently was a typographical error. It was corrected in Hutt 1979, p. 56.

techniques that are determined by individuals' preferences for different goods, leisure, time, and liquidity. Anyone who cares to can use these simple money prices to compute relative prices, rates of interest, and a price level. But these constructs are all derivative from particular money prices.

Neither he nor other pre-Keynesian writers considered prices to be "perfectly flexible" (Hutt 1979, p. 77).[12] If that phrase requires traders instantly to identify the equilibria implicit in a new set of preferences, and to reprice just as instantly, it verges on the nonsensical. When a trader is still unconvinced that preferences have turned against him, he may prefer some combination of adjustment in quantity and in price. This quantity adjustment is the conventional explanation of unemployment. Hutt properly identified it as a natural part of the search for information, and called it "pseudo-idleness" (Hutt 1977, p. 83). The combination of changes in price and the disutility of "pseudo-idleness" provides the entrepreneurial incentive and information required for the redirection of resources. Although significant *changes* in either time or liquidity preferences might produce periods of unusually high "pseudo-idleness" (now called frictional or structural unemployment), Hutt repeatedly emphasized that no particular set of preferences —no *level* of time or liquidity preference—was inconsistent with full employment: *"there are no economic ends, and no entrepreneurially chosen means which are incompatible with 'full employment'"* (Hutt 1963, p. 79 [italics Hutt's]; also, pp. 24, 231, and elsewhere).

Hutt respected the gold standard for achieving a stable level of prices, and considered it the obligation of a monetary authority under more "modern" systems to maintain general price stability. Monetary expansion more rapid than the required rate could, of course, affect the market rate of interest and, by falsifying the information provided by the "uninflated" pattern of prices, increase employment and real output. Hutt noted that this had been understood as long ago as Hume; certainly Thornton and Wicksell made much of it. But it had been considered a very poor and costly—socially impoverishing—way of dealing with discoordination in the pattern of prices. Better to address institutional rigidities directly—say, by applying anti-trust legislation vigorously to both business and labor and outlawing the strike-threat.

[12]Hutt used the phrase "perfect price flexibility" as "the absence of money illusion" (Hutt 1979, p. 147), a meaning different from that below.

Idle Resources and Unemployment

Apart from a few comments quickly inserted into *Economists and the Public* (Hutt 1936, pp. 245–47) as both it and *The General Theory* were in press, Hutt's first direct response to Keynes was in the remarkable *The Theory of Idle Resources* ([1939] 1977).

The work's principal point was that we must be cautious in the conclusions that we draw from the observation that some resource is—or is not—apparently engaged in some kind of productive activity.[13] Hutt reasoned that by examining the *process* that determines whether a machine or person is either "working" or "sitting," one can evaluate the economic function of the activity in which the resource is engaged. Only by exploring the causal process behind the apparent "idleness" or production, he insisted, can one judge whether it is a sign of the market's proper functioning or whether it poses a problem that deliberate government policy might help to resolve.

This is not the place for a full-scale analysis of *Idle Resources*, but a brief description of Hutt's system of classifications of idleness will convey some of its flavor. It reflects those aspects of Hutt's work with which most Austrians would agree, as well as a few with which many would differ.

Although Hutt's first chapter is entitled "Definition of Idleness," and its Section 3 is "The necessity of definition," I can find no clearly stated expression of the meaning of "idleness." The chapter is, instead, a plea for consideration of different causes or types of idleness, and a fine (though brief) argument that it cannot be quantified (Hutt 1977, pp. 49–50). One must *infer* a general meaning from Hutt's detailed classification and from a knowledge of the rest of his works.

A resource is "valueless" if the sum of the *competitive* prices of its complementary inputs exceeds the price of the product. (If the sum exceeds the product price only because the other inputs are "monopolistically" priced, then Hutt would probably classify the resource as "enforced idleness." He was, as we have noted above, a supporter of the general goal of antitrust as applied to both business and labor.) As one might expect, most of the book deals with *valuable* resources.

The important category of "pseudo-idleness" embraces humans who are engaged in job search, education, or "productive consumption," and

[13]Arnold Plant's review noted the importance of the book: "For there is a widespread and growing determination to seek out the idle resources in our economic system and to set them to work; a determination which is surely praiseworthy so long as we recognize idleness when we see it, and in our anxiety to abolish it do not confuse with it many other things which it is even more vital to preserve" (Plant 1940, p. 199).

physical capital goods that are unused for certain reasons.[14] "Preferred idleness" includes humans who, though excluded from certain occupations by legislation and/or union activity that seeks monopoly rent, elect not to work elsewhere. "Participating idleness" is Hutt's general term for resources that are idle to gain monopoly rent; if they have no value in other employments, they constitute "pure withheld capacity" or (if enforced by legislation and/or union activity) "pure enforced idleness."

In this and later works, Hutt properly assigned great significance to the problem of "diverted resources," normally called "disguised unemployment" when applied to labor. Although these resources appear to be productively engaged, their employment is clearly "suboptimal" if it is the result of some kind of distortion or deviation from a free and competitive system. Hutt discussed, also, "aggressive idleness" (resources held back for the purpose of "predatory pricing"), "strike idleness," and a few other subsidiary classifications.

It is difficult to follow all of the qualifications and interconnections involved in Hutt's system of "at least six" (according to him) or ten (according to me) classifications of "idleness."[15] What is significant about the work is not the disagreement that one might have about Hutt's interpretation of a "free" market (see above, "Freedom, Government, and the Market"), but rather the delightfully insightful analysis of *process* that characterizes *Idle Resources* (particularly with its 1977 addenda).

The ability of unanticipated monetary expansion to reduce some measure of observable unemployment has been acknowledged for centuries. To Hutt, however, its primary effect was to draw resources out of productive "pseudo-idleness" by cutting short the process of search for employment that best satisfied "uninflated" demands. Perhaps acknowledging the popular belief that the word "unemployment" implies some kind of failure or problem, he suggested that we change the way we think about an individual who (in modern terms) is "frictionally" or "structurally" unemployed. His situation has "been mistaken for unemployment," Hutt wrote. "When *actively* searching for work, the situation is that he is really investing in himself by working on his own account without immediate remuneration. He is prospecting" (Hutt 1977, p. 83). Later he explained that he feels "that

[14]Hutt applied this concept of "pseudo-idleness" to cash balances, refuting those who associated the term "idle" with cash balances, in his respected "The Yield from Money Held" (Hutt 1956).

[15]I once prepared a flow chart, with boxes and circles and connecting arrows in the style of a computer programmer's layout, of Hutt's definitional system. It seems to be of some help in keeping the linkages straight (Egger 1980, p. 17).

the process [of job search] is productive employment rather than 'a productive way in which to use leisure'" (Hutt 1977, p. 126), as it had been described elsewhere.

Even readers who prefer to resist Hutt's implicit advice[16] to redefine frictional and structural unemployment as "employment" can accept his point that—given the perennial change of a dynamic free market and the "imperfections" of information—there is a clear sense in which these resources are, indeed, being used "optimally." Hutt had an abiding confidence in the process of free-market pricing to discover and promote patterns of resource use that best satisfy consumer demands. The power of deliberate policy to bring about this pattern of resource use (human and physical) was limited by the central planner's inability to obtain, and lack of incentive to act upon, the specific knowledge of individual preferences that would emerge from the market process.[17]

What the use of stimulative monetary policy *could* achieve, along with its immediate goal of a reduction in observable measures of unemployment, was "diverted resources"—the channeling of human and physical resources out of the search process and into occupations different from those in which it would have culminated. Warning of this problem, Hutt wrote:

> Superficially, manifestation of the disease in 'sub-optimal employment' seems to be the least harmful form. In reality, we are about to suggest, it is a symptom of the most malignant consequence of impoverishing discoordination. (Hutt 1977, p. 30)

and that:

> But we propose to argue further that the third, relatively *inconspicuous* and *ultimate* manifestation of the disease, namely, the employment of men and assets in sub-optimal activities, is even more detrimental to society; for it mitigates the pains of inflation as well as reduces the conspicuous idleness of human and physical resources. (Hutt 1977, p. 32)

The great detriment of the Keynesian emphasis on aggregate demand, and "employment" (or unemployment) conceived as an aggregate, was

[16]There is a clear possibility, here, of what Leland Yeager has called "the 'Austrian vice'—disposing of substantive issues or reaching ostensibly substantive conclusions by mere verbal maneuvering" (Yeager 1988, p. 209).

[17]"Yet officials not only cannot have the necessary detailed awareness which market signals provide; but most important, they cannot be caused to lose property through error nor be rewarded by the acquisition of property through success" (Hutt 1979, p. 76; italics Hutt).

its simplistic promotion of policies directed only toward these aggregates. Hutt's point that the "demand" so stimulated[18] was almost certain to "divert resources" from the employments consistent with individuals' real ("uninflated") preferences. His position is consistent with, though broader than, the Austrian theory of the business cycle.[19]

Price Flexibility as Recovery Policy

Hutt never wavered from his principle that the observed unemployment of labor and capital was due to the "mispricing" of particular goods. According to this thoroughly Austrian, pre-Keynesian "classical," Say's Law position, "*[t]he disease is discoordination of the economic system* caused through defects in the administration of the pricing mechanism" (Hutt 1977, p. 29), and the only truly effective remedy was for policymakers to eliminate every institutionalized barrier to price flexibility. Hutt's position is likely to be identified by the "classical" or Austrian scholar as courageous and principled, worthy of admiration and gratitude. No economist who is familiar with the powerful forces against which Hutt stood could suggest that this respect be even partially contingent upon complete agreement with his interpretation of "defects."[20]

The Great Depression of the 1930s posed a severe test to a position like Hutt's. It is interesting to compare his position with the policy advice of the better-known Ludwig Lachmann. Lachmann, while justly respected as one of the great Austrian economists, always perceived considerably more virtue in Keynes than did any other Austrian. Since Hutt shared much with Lachmann and the Austrians, but devoted most of his career to debunking Keynes, a comparison of their stories about the early years of the Great Depression is intriguing.

During the 1920s, Britain's persistently high unemployment had convinced Keynes that the institutionalized sources of nominal-wage rigidity were invincible. He concluded, in opposition to the dominant "Treasury View," that only a forced increase in demand—in the form

[18]I believe he would have called it mere "money-spending power." His Say's Law perspective led him to equate the *demanding* of one real good with the *supplying* of another (though usually, of course, with the intermediary of money).

[19]For a further discussion, substantially in the spirit of Hutt's work, of unemployed resources and the ability of macroeconomic policy to facilitate their use, see Egger (1992).

[20]For my own disagreement, see the discussion of antitrust and the voluntary withholding of labor services in the section on "Freedom, Government, and Market," of this paper. Hutt also considered the monetary authorities' failure to stabilize the level of prices to be a "defect" in most cases; see below.

of public works projects—could cure the malaise. Keynes's argument, however, left the "classical" *theory* intact. It was to prove the "classical" theory wrong, to prove that capitalism would be plagued by persistent unemployment even if institutional price rigidities were snapped and nominal prices and wages were freely flexible, that Keynes began in the late 1920s to develop the argument of *The General Theory*.

Not everyone was convinced. In a 1977 interview, Ludwig Lachmann recalled:

> two different letters to the *London Times* . . . appeared in October, 1932. . . . In one of them, Keynes and some Cambridge economists who were not, in general, his friends, like Pigou and Dennis Robertson, demanded that the government should take steps against unemployment. And three days later, Hayek, Robbins and Arnold Plant sent another letter saying that anything the government did by way of public works or similar methods would only make things worse and would not have the effect that Keynes claimed it would have. That is to say, the "Austrians" seemed to be committed to a policy of continuous deflation whatever happened. (Lachmann 1977, p. 2)

Arnold Plant had been one of Hutt's professors, and Hutt's later writings—like the 1939 *Idle Resources*—suggest his sympathy with the letter of Hayek, Robbins, and Plant. It is a little tougher, though, to identify Hutt with Lachmann's interpretation about "deflation," because—as we shall see—Hutt believed that, in most cases, monetary policy should stabilize the general level of prices. But he also was convinced that if the British government had acted quickly to break her economy's severe and destabilizing institutionalized price rigidities, no such deflation would have occurred.[21]

Ludwig Lachmann admired much about the Austrian theory of the business cycle (Egger 1986), and his 1956 work (Lachmann 1978) is the most advanced discussion of the Austrian theory of capital that is available. It is likely, however, that he disagreed with Hutt about the ability of free-market repricing to deal satisfactorily with the problems of the early 1930s.

I have been unable to draw a conclusion stronger than this, because Lachmann respected pricing and Hutt advocated (in some

[21]"In my judgment, however, the political obstacles were not insurmountable in Britain in 1931" (Hutt 1979, p. 45, n.17). "*In my judgment* there is not the slightest doubt that, in the absence of 'the sabotage of British industry' which Beatrice Webb (in those words) so deplored in 1931, Britain could have sailed to prosperity under free market discipline and the pre-1914 gold parity" (Hutt 1979, p. 63; italics Hutt's).

cases) monetary or fiscal stimulus. While Lachmann's recommendation for stimulus in the early '30s is relatively clear, the policy that Hutt recommended is not.

Lachmann adopted Hicks's terms, differentiating between "weak" (consumption-led) booms amenable to Keynesian analysis, and "strong" (investment-led) booms that fit the Austrian mold. He identified the American economy of the 1920s as a "weak" boom (Lachmann 1978, p. 113) and argued that "capital regrouping by itself [as a rule will not] suffice to overcome the situation following the end of a weak boom . . . and there may be much scope for the Keynesian nostrums. No doubt such an underconsumption crisis, due to a flagging 'effective demand' can be at least mitigated by increasing this demand" (Lachmann 1978, p. 119). "[T]here is danger," he wrote further, "that such an underconsumption crisis may degenerate into a cumulative depression. If so, a budget deficit may help" (Lachmann 1978, pp. 125–26). His principal concern, "capital regrouping," was the way in which capital goods were used; since they are reshuffled in response to price changes, I interpret his statement as disputing the efficacy of repricing as a cure for the collapse of a "weak" boom.

Price flexibility fared much better in Lachmann's remedy for the collapse of an investment-led "strong" boom, with which the Austrian theory deals. He recommended, in particular, that no attempt be made to hold the rate of interest down (Lachmann 1978, p. 124). But his *laissez-faire* recommendation was sharply qualified. Correctly noting that "[a]ny sudden and unexpected change in the 'real situation' will probably affect the demand for and the velocity of circulation of money" (Lachmann 1978, 119), Lachmann observed that "where the banks are involved . . . the danger of *secondary deflation* is always present. When that happens the 'recession' which succeeded the strong boom will turn into a 'depression,' a cumulative process of income contraction, as has often happened in the past. Of course it need not happen. But to avert the danger must always be the primary aim of monetary policy in a recession" (Lachmann 1978, p. 120).[22]

According to this analysis, the situation in the United States in the early 1930s would justify both fiscal (as the collapse of a "weak boom") and monetary (as a period of sharp drop in the money supply) stimulus. Lachmann's discussion of recovery policy left the flexibility

[22]A "secondary" deflation is a decrease in the velocity of circulation (an increase in the demand to hold cash balances) that results from speculation that a fall in prices initiated by a "primary" deflation will continue. It is the downward analog of the "flight into real goods." This "secondary inflation," or sharp increase in velocity, is induced by the expectation of a continuing "primary" monetary inflation.

of prices as an adequate remedy only in the case in which a "strong boom" ended with no attendant collapse of MV.

Other economists who share Lachmann's generally deep respect for the virtues of unhampered pricing agreed that the deflationary early 1930s posed a test that price flexibility could not meet. Nominal price fluctuations work well at providing information and incentive, argued Leijonhufvud (1973), but only if they are sufficiently small that prices remain within a "corridor" within which confidence in effective demand is not shaken, and that was not the case in the early '30s. In a recent apparent attempt both to explain the appeal of Keynesianism and rebut the "*laissez-faire*" (and Austrian) theory, Tyler Cowen (1989) based his case on quantitative historical data consisting of broad aggregates and averages.[23]

Professor Hutt discussed the "secondary depression" or "secondary deflation," like Lachmann's, but he also described a "purposeless deflation." I have not been able to discern clearly the relationship between these two categories of deflation. "Purposeless" identifies "deflation which is not a deliberately chosen means to an end, such as rectifying injustices in the distribution of income, or a determination to fulfill contractual convertibility obligations" (Hutt 1979, p. 229; 1963, pp. 125–26). Among those deflations that were not "purposeless," he used the apparent synonyms "corrective" (Hutt 1979, p. 70) and "rectifying" (Hutt 1979, p. 229, n. 24) to identify the collapse of an inflationary "cheap-money" boom. This was the bust or crash of Austrian and pre-Keynesian works, and it was "purposeful" in the sense of serving the clear, socially advantageous economic function of shaking out the distortions imposed by the preceding inflation.

A "purposeless deflation" offered no such advantages, and in fact imposed distortions of its own, and Hutt warranted that in "rare circumstances . . . credit expansion may be justified":

> In the purely imaginary case in which an expansion of MV merely reverses a former *purposeless deflation*, it may *restore prices* in the

[23]I am not sure what Cowen's goal was. One can accept his piece as a partial explanation for the popularity of Keynesianism. Cowen has a thorough knowledge of Austrian literature and understanding of its method. It is difficult, therefore, to believe that he had even the slightest intention that his comment might serve as a refutation of the theory of the *laissez-faire* remedy. Gene Smiley (1991) offered an extended critique of Cowen's argument, and in his rejoinder Cowen (1991, p. 115) noted that his "original essay was (deliberately) ambiguous on whether free-market economics had not explained the Depression satisfactorily or whether free-market economics *could* not explain the Depression." Since the second subsumes the first, Cowen believes *at least* that "free-market economics" has not yet "explained the Depression."

> industries which did not withhold capacity and *restore outputs* in industries which did withhold capacity. (Hutt 1979, p. 229)

He further claimed that "I cannot think of any non-Keynesian economist who would deny the possibility that there have been times in which deflations have been misconceived or ill-advised" (Hutt 1979, p. 229).

Hutt admitted of the possibility of "secondary deflation," but maintained that "as we have seen, speculative demand for money . . . arises when current costs or prices are higher than anticipated costs or prices, while *the speculation assists correctly discerned policy*" (Hutt 1979, p. 277). He argued that the need for a "secondary" deflation arises only from "*the unstable rigidities*" (Hutt 1979, p. 277) that interfere with the smooth repricing process. "If speculative demand for money accompanies the downward adjustment of wage rates and it is not offset by credit expansion, a rectifying deflation must be in progress" (Hutt 1979, pp. 277–78).

Was the 25 per cent drop in the M1 money supply of the United States, between 1929 and 1932, responsible for what Hutt called a "purposeless" deflation? Did it constitute a wild overshoot, going far beyond the corrective, rectifying process to inflict positive damage of its own?

Lachmann, Marget, and many others believed so.[24] As for Hutt, most of his discussions focus on the British rather than the American economy during the early 1930s, but he did concede that "[t]here are several non-Keynesian economists (notably Milton Friedman and Clark Warburton) who interpret the United States deflation of 1930 to 1933 in this light" (Hutt 1979, p. 229; also, p. 204). That was not much of a concession, and he may not have agreed.

In his *Keynesianism*, Hutt maintained:

> What "sound finance" *did* do in the pre-Keynesian era was to create every incentive to reprice services and products the sale of which was being held up, as well as to create a strong social motive to eradicate practices which reduced the flow of uninflated income. In the private sphere, the pressures were fairly successful, and had it not been for contrary action by the State, they could, I believe, have rescued the [British] economy—without inflation—from the great depression. (Hutt 1963, p. 42)[25]

[24]Marget was one of the twenty-four signatories of the "Harris Lecture Telegram," in January 1932, urging President Hoover to adopt a number of easier-money policies. Others were Irving Fisher, Lloyd Mints, and Henry Simons. The Austrian economist Gottfried Haberler, who delivered one of the Harris lectures, was not among those who signed the telegram. See Wright (1932).

[25]This wording is repeated with "British" and capitalized "Great Depression"—in Hutt 1979, pp. 124–25.

After noting, a bit later, that the Macmillan Report identified the great depression as "monetary" in nature "because monetary policy had failed to solve the problems caused by 'a conjunction of highly intractable nonmonetary phenomena'" (Hutt 1963, p. 80; 1979, p. 166), Hutt pointedly asked, in italics: "*But why should monetary policy be expected to solve such problems?*" He noted that "[w]e are abusing any monetary system if we try to use it to rectify nonmonetary discoordination" (Hutt 1963, p. 80).

This was a theme that remained strong in his writings throughout his career. Monetary policy (which, as Hutt used the phrase, included fiscal policy; he correctly saw no substantive difference[26]) is ill-suited as a remedy for an incorrect, discoordinated, pattern of relative prices, yet it is just such a pattern that particularly characterizes a depression. There is *never* such a problem as "insufficient aggregate demand," Hutt argued, so "stimulating it" is always the wrong answer.

Critics of a repricing policy—e.g., Cowen, cited above—associate it with "deflation," but a general reduction of prices and wages has *never* been the point.[27] "[P]re-Keynesian policy did *not* rely on changes in 'the general level' of money wages and prices," Hutt wrote (Hutt 1979, p. 159). The issue, for him and for most Austrian economists, has been a rearrangement of particular money wages and prices, changes in the structure of relative wages and prices. It is hardly coincidence, of course, that in a period of widespread unemployment most of the adjustments of nominal prices and wages happen to be downward.

[26]"It is important to explain that the term 'monetary policy,' as I use it, embraces 'fiscal policy'; for virtually the only difference between the two is that the latter has a certain political advantage—it puts what Keynesians sometimes call 'newly created money' (that is, an addition to the number of money units) initially into the hands of government instead of into the hands of . . . individual borrowers" (Hutt 1979, p. 184).

[27]See, for example, Hayek's observations in Shenoy (1972, pp. 109–10). Discussing one of the most entrenched cases of nominal rigidity, Britain of the 1920s, Hayek concluded:

> No doubt the situation then meant that full employment required that some real wages, perhaps those of many groups of workers, would have to be reduced from the position to which they had been raised by deflation. But nobody can say whether this would necessarily have meant a fall in the general level of *all* real wages. The adjustment of the structure of industry to the new condition adjustments in wages would have induced might have made this unnecessary. But, unfortunately, the *fashionable* macroeconomic emphasis on the *average* level of wages prevented this possibility from being seriously considered at the time.

Shenoy does not clearly date Hayek's comments but identifies them as from the draft of a lecture ("Competition as a Discovery Procedure") delivered in 1968 and later reprinted in Hayek (1978).

But the downward slide of *levels* or *averages* is incidental to the Austrian adjustment, not the essence of it. The only defense of a falling level of nominal prices that accompanies the reshuffling of relative prices is that there is no way to *prevent* such a decline without interfering with the process of the efficient restructuring of relative prices and wages.

Despite the many respects in which Hutt's perspective may appeal to Austrians, for a couple of reasons one must be a bit cautious before categorizing him.[28]

The first reason is that his concept of a "free market" (and, therefore, *laissez faire*) not only permitted but *required* government action against collusion (of both business and labor). If it were clear that the pattern of prices obtaining on the eve of a depression was the result of the exercise of such "private coercion," Hutt had no qualms about using the force of government to help to break the initial rigidities. "[O]ne thing *is* clear," he wrote. "There has never been a case for a government *to overrule* the market. Yet there is a case for the collective overruling of a privately contrived overruling!" (Hutt 1979, pp. 175, 176).

In his 1979 revision of *Keynesianism*, he specifically addressed the question "What do *you* recommend should be done about the restoration of 'general activity' in a depression" (Hutt 1979, p. 167)? His 10-page discussion may puzzle and dismay those who seek to identify him with *laissez faire* in its natural-rights sense, since it describes a "Special Authority" (Hutt 1979, pp. 171–72) with—among other things—the power to force wage reductions in industries where it is apparent that prior collective bargaining had driven them above market-clearing levels. (The reductions would stop when the affected industries reported that further reductions would not permit them to retain their workers.)

The critical reader must recognize that, to Hutt, the snapping of collusively established prices is hardly different from, say, the removal of a government-enforced price support on an agricultural commodity or of a rent ceiling. Furthermore, the practical success of collusive "withheld capacity" and above-competitive prices, over a number of years, usually *does* require the intervention of legislation that violates individuals' rights. Hutt did not insist that we accept his specific method of resolving this problem. But the reader should

[28]I note (without further comment) that there is disagreement, among economists usually identified with the Austrian school, about the nature of a proper monetary system—the dominant contenders are of a gold (or other commodity) standard, and "free banking."

be somewhat discomforted if he is inclined both to be harshly critical of Hutt and to believe that voluntary collusion doesn't work.

A second reason for caution about categorizing Hutt is his advocacy of the policy goal of a stable level of prices. He apparently became more convinced of the desirability of this goal between his 1963 *Keynesianism* and its 1979 revision, *The Keynesian Episode*; a page-by-page comparison often shows the insertion of new paragraphs emphasizing the stability of "M_r", "the aggregate value of money in 'real terms'" (Hutt 1979, p. 191), which seems to be simply M/P (or its quantity-equation equivalent, T/V).[29] He advocated a gold standard (e.g., Hutt 1979, p. 172), but as long as an institution like the Federal Reserve System continues to exist he believed that its mandate should be general price stability. "[I]f the value of the money unit *is* to be maintained at a *defined and constant value*," he wrote, "monetary policy will *have* to be flexible and the nominal money supply must rise in proportion to the flow of services" (Hutt 1979, p. 174).

Despite all of his emphasis on the snapping of institutionalized price rigidities and the abilities of competitive repricing to achieve coordination, Hutt was most distressed at *Keynesianism* reviewer David McCord Wright's characterization of him:

> Where I failed most seriously, however, was in leaving my critic with the impression that I am "a hard-shell, sound money, and price-flexibility man *who would never increase M or certainly not MV*" (my italics). Wright did perceive that some of my "qualifications" conflicted with any such judgment. But a large part of what I was trying to communicate was *exactly the opposite*—to show that, whereas in Keynes's equations M was a constant, I regarded it as a policy variable. (Hutt 1979, p.17)

Bringing this policy goal to bear on the question of the "secondary deflation," Hutt noted that market-clearing repricing is associated with deflation only "on the assumption that the increase in real income is confronted with monetary rigidity. But why *should* we always assume monetary rigidity" (Hutt 1979, p. 275)? He argued that when monetary policy either consciously aims at, or simply passively permits, a general rise or fall in the level of prices, "*the whole price system is immediately thrown out of coordination*" (Hutt

[29]"[In *Keynesianism*] I regarded it [M, the nominal money supply] as a policy variable. I hope that the changes that I have made to parallel passages in the present text demonstrate this beyond all possible doubt" (Hutt 1979, p. 17).

1979, p. 278). Although a deflationary repricing process will eventually shuffle things around at a lower level of prices, he found that to be "crude and wasteful":

> It is really superfluous, I feel, to have given as much attention as I have to so crude and wasteful a method of curbing secondary inflation [*sic*: deflation]; for a rectifying credit expansion is always possible. There is never any good reason why central banks cannot control the magnitude M so that MV is in constant relation to T. (Hutt 1979, p. 278)

The Austrian theory of the business cycle, with which Hutt was thoroughly familiar, provides a reason (and maybe a "good" one): it is impossible to increase M without affecting relative prices, a process that necessarily interferes with the market's efficient rearrangement of them. (Austrian business-cycle theory is built on the assumption that monetary policy is conducted in such a way that the particular relative prices whose work is systematically thwarted are those involving the rate of interest.) Hutt was not an enthusiastic supporter of the Austrian theory of the business cycle, although he appreciated its general approach.[30]

Evidently he believed that monetary policy could be conducted to minimize its effect on relative prices, while preventing the "crude and wasteful" process of price deflation by stabilizing the general level of prices. The benefits for long-range planning of a stable level of prices may have more than offset, to Hutt, any incidental and essentially random effects that a properly conducted monetary policy would have on relative prices.

So what are we to make of Hutt's stand on "secondary deflation," price flexibility, and monetary policy? What are the differences (once we get beneath the anti-Keynesian vs. Keynesian terminology) between his position and Lachmann's? As even those who deeply respect his work have come to expect, he does not make the drawing of a clear conclusion easy.

First and foremost, Hutt explicitly stated his conviction that a sufficiently courageous government could have snapped the "unstable price rigidities" for which (in Britain, at least) coercive union

[30]See Hutt (1936, p. 372) and (1979, pp. 148–49) for some comments. Considering the scope of this work, there is very little about the Austrian theory of the business cycle. He took a Wicksellian approach (or, more accurately, one of the several distinct Wicksellian approaches) to the "natural rate," identifying it with that rate of interest that corresponded to a stable general level of prices. If an increase or decrease in productivity produces a fall or rise in the price level, Hutt argues, unless there is a change in M "market interest . . . will diverge from the natural level" (Hutt 1979, p. 197).

activity was largely responsible, and that if this action had been taken no significant decline in the general level of prices would have occurred.[31] His analysis of Say's Law explains that a move toward equilibrium of the price in one industry increases the output (and, probably, employment) in that industry. This, in turn, stimulates the demands—in a natural and healthy way—for other ("noncompeting") goods, reducing the size and ameliorating the effects of the price adjustments necessary in their markets. Sufficiently early and vigorous repricing in just a couple of major industries might well have clipped off any general deflationary pressures.

Second, however, is Hutt's evident conviction that once a "secondary deflation" (at least one that is "purposeless") has begun, it is the foremost task of the monetary authority to stop this "crude and wasteful" process with a "rectifying credit expansion." Such advice seems to place him in the company of many, including Lachmann, whose dictum that avoiding secondary deflation "must always be the primary aim of monetary policy in a recession" (Lachmann 1978, p. 120) could just as well have come from the pen of Hutt. Like the Austrians, he identified its cause as the distortions produced by a preceding inflation, and he appears to have allowed for ("purposeful") "corrective" deflations (some of which might even be "secondary") that he would not offset with monetary stimulus (Hutt 1979, pp. 277–78). But when a deflation was "purposeless," the humane prescription was a "rectifying" monetary expansion.

Third, although he emphasized "price coordination" and wrote as if "purposeless deflation" was very rare, his clearly and frequently stated monetary goal of general price stability stirs up the issue a little more. Hutt is properly respected for his work on the coordinating effect of the repricing of particular goods; this position is much less radical if a stable price level is being taken for granted.

In summary of this section, I think the general reputation of Professor Hutt as a courageous advocate of price flexibility is correct and dominating, and it is largely that which will *and should* appeal to Austrian economists. But it misstates Hutt's position (and he would not appreciate that) to infer that in an economy confronting a sharp rise in the demand for cash balances, he would place the whole burden of adjustment on individual repricing decisions. He shared with others the belief that resource allocation through repricing worked best in an environment of a stable price level.

[31]See Hutt (1979, pp. 63, 64, 272–73).

A Few Observations on Keynes

Today we can only imagine the shock and dismay that monetary scholars like Hutt and Marget experienced at the popularity of the *General Theory*. Hutt wrote, "Keynes's confidence, eloquence and reputation—not his reasoning, which at first left me bewildered—dealt the hardest blow to my own intellectual confidence which it has ever received" (Hutt 1963, p. 4).[32] He worked hard on the *General Theory*, but found it so fraught with confusion and error that he hardly knew where to start. "Where he was right," Hutt concluded, "he was not original, and . . . where he was original he was wrong" (Hutt 1963, p. 11).[33]

Like most interpreters of the *General Theory*, Hutt identified the key element as the assumption of price rigidity. (Although Keynes discussed nominal rigidity, his great effort was to demonstrate that capitalism would be plagued by rigid relative prices even if nominal prices were perfectly flexible (Egger 1989, pp. 446, 448–50).) Surely, if something keeps relative prices from changing then only a specific pattern of preferences will be consistent with full employment, and a set of preferences (e.g., for time or liquidity) that is inconsistent with these rigid relative prices will produce lasting unemployment. The government can either force the expression of preferences that are consistent with the rigid prices (through the taxation and spending that constitute fiscal policy) or render the price rigidities ineffective by the deliberate distortions resulting from inflationary monetary policy.

Hutt's conclusion about the principal message of the *General Theory*, hidden among new terminology about multipliers and things, was that the effects of discoordinations caused by price rigidities could be concealed by increasing the supply of, or reducing the demand for, money. Hutt considered these insights to be among the oldest in monetary theory, but the whole of the Keynesian system seemed to be a contorted defense of their use.

The various spending "multipliers" functioned, Hutt demonstrated, only if they were accompanied by reduced demand for, or

[32]The impact on the well-read Marget of Keynes's brash dismissal of virtually all of his scholarly predecessors is evident in the Prefaces to the two volumes of Marget's *The Theory of Prices* (1938, 1942).

[33]Hutt noted that Henry Hazlitt wrote, about the same time, that "I could not find in it a single important doctrine that was both true and original." This judgment was not unique to Hutt and Hazlitt. Colander (1981, p. 7) attributed this—without further citation—to Frank Knight: "Keynes said some things that were new and some things that were true. Unfortunately the things that were new weren't true and the things that were true weren't new."

increased supply of, money. His brilliant chapter "The Acceleration Fallacy" (Hutt 1963, pp. 289–339) showed that the "accelerator" rests on a stock-flow confusion and an arbitrary specification of time period.[34]

But the fundamental confusions in Keynes's thinking, culminating in his false denial of Say's Law, were deep and conceptual. The modern student, imbued with the concepts of Keynes-inspired macroeconomics, will find it almost impossible to follow Hutt here. The Austrians—with their subjectivist, disaggregated approach and concern about "essentials"—are best equipped to appreciate Hutt's work.

Consumption, for example, is "the extermination of value (Say's definition)" (Hutt 1974, p. 13) and usually involves exchanging an asset for services (say, eating a can of beans). In no sense is it spending money, which is an exchange of one asset for another (buying another can). One generates income not by spending money but by creating productive services. These involve disutility, so they will be created (supplied) only for the purpose of demanding something whose value exceeds the disutility. It is not a matter of "supply creating demand" or vice versa; one can't do one without the other.

Some of the services might be consumed immediately by their creator (scratching one's chin), but the rest—unconsumed income—is at least temporarily *saved*. One cannot save *in general*, without those savings taking some specific form. Choosing that form is *investing*, the exchange of services for assets.

Rather than examine in detail Hutt's (1974) "rehabilitation of Say's Law," let us consider its principal effect on the typical undergraduate presentation of Keynesian macroeconomics.

If saving without investing is impossible, the whole Keynesian objection to Say's Law evaporates. The typical Keynesian story relies on different individuals doing the saving and investing, with some of them deciding to save while the others decide not to invest. I recall Hutt's exclamation, "How hopelessly wrong it all is!"[35]

The role of the rate of interest is a vital point on which Keynes was thoroughly confused. Hutt joined other "natural rate" writers in identifying it with individuals' time preferences. An individual would save, in the sense of increasing the relatively permanent level of his

[34]This chapter was dropped in the 1979 revision, because "the phenomenon plays so unimportant a role in Keynes's own theoretical system" (Hutt 1979, p. 7). Hutt's argument provided the inspiration for Peterson (1956), Rothbard (1970, pp. 759–64), and others.

[35]Hutt used this phrase occasionally; it appears, following a misinterpretation (by an American Keynesian) of Say's Law, in Hutt (1979, p. 154).

assets, only if he perceived the rate of return on available assets to exceed his own time preference. If nobody offered to borrow at a rate above his own time preference, and no asset that he could purchase himself (including additions to his own money balances) offered an implicit return in excess of it either, he simply would not increase his stock of assets. His preferred alternative would be to exchange his income services, through the intermediary of money, for assets (like the beans) whose services he would consume relatively quickly.

"There is *always* a 'demand for savings.' There are *always* 'investment outlets' or 'investment opportunities,'" Hutt wrote (Hutt 1963, p. 240), and it is probably his single most telling point against the general Keynesian system. There is no downsloping IS curve relating the rate of interest to the amount of output and employment. The rate of interest affects not the size but the composition of output, the time pattern of achievable future consumption, according to individuals' preferences.

Hutt pointed out that Keynes was able to develop an upsloping LM curve—a set of (interest rate, income) pairs at which the demand for and supply of money were equated—only because he confused liquidity and time preferences.[36] "He claimed that the determinants of the rate of interest are the supply of and demand for money (liquidity). Now, the intelligent tyro in economics jumps quite naturally to this kind of conclusion, which Keynes obviously thought he could make the keystone of his system" (Hutt 1963, p. 29).[37]

One of Hutt's best known arguments is that "the demand for money is not . . . a function of the absolute level of the rate of interest" (Hutt 1963, p. 106). A market rate of interest is implicit in the relationship between the price of assets and that of their services. A pure rise in time preference requires that the prices of assets fall and of their services rise. A pure rise in liquidity preference will reduce both asset and service prices, leaving their relationship unaltered.

Of Keynes's "opportunity cost" argument, Hutt maintained: "The extent to which people will sacrifice *pecuniary* interest in order to hold money is completely uninfluenced by the absolute level [of the rate of interest]; for a similar sacrifice has to be made in order to acquire or retain all other assets" (Hutt 1963, p. 106). This is—in part—a denial of the Keynesian dichotomization between the decision to save, and the decision to hold that savings in a particular form

[36]"[C]ertain mercantilist, Keynes-like, fallacies . . . such things as the confusion of saving-preference with liquidity-preference" (Hutt 1974, p. 7).

[37]In 1979, Keynes's position became that of "the intelligent novice" (Hutt 1979, p. 111).

(bonds or money): while the dichotomizing Keynesian naturally interprets explicit monetary interest as a cost of holding money, Hutt reminds us that it is really the cost of holding *anything except* bonds. Keynes's "speculative" reason for holding cash balances was more acceptable to Hutt, but was just an example of a combination of transaction costs and uncertainty about future prices—which itself was likely to have had monetary causes and, in any case, bears no necessary relation to the current level of interest.

All that was left of the Keynesian insights, after deleting these errors, was the thoroughly pre-Keynesian conclusion that a market system whose coordinating forces are hobbled by rigid prices would likely not employ resources fully, but that some obvious effects of those rigidities could be eliminated by monetary policy.

Late in Hutt's life, he was excited that others—particularly Clower, Leijonhufvud, and Yeager—seemed to express views that were importantly like his. The term "unemployment equilibrium" faded, to be replaced by the more satisfactory "unemployment disequilibrium." The problem became not that income services were not demanded, but that they were neither supplied nor demanded because of discoordinations in the pattern of relative prices. These advances seemed like an affirmation not only of his work, but of the pre-Keynesian monetary tradition he had striven so hard to uphold.

Conclusions

We feel that we understand another when his points seem consistent with our prior beliefs. The great difficulty that Hutt faced was that the concepts comprising the macroeconomic superstructure, in which—by now—so many have so much invested, are difficult to integrate with an understanding of how a money-using catallaxy functions. He believed that he had to go beneath them, to some kind of foundation on which we could all agree, and then construct almost a "parallel universe," a new (which he always insisted was old) conceptual structure adequate to the task.

His exposition is considerably less unfamiliar to those already well acquainted with the subjectivist analysis of catallactic processes. William Hutt was driven by his understanding that the market excels at producing and equitably distributing wealth. Economists could help, or at least not get in the way, only if they understood the functioning of a monetary catallaxy. Developing and conveying that understanding was Hutt's life work, and in it there is much of value that the well-read Austrian cannot afford to miss.

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