The Clash of Economic Ideas interweaves the economic history of the last hundred years with the history of economic thought, examining how contrasting economic ideas have developed over time to take their present forms. It traces the connections running from historical events to debates among economists, and from the ideas of academic writers to major experiments in economic policy. The treatment offers fresh perspectives on laissez-faire, the mixed economy, socialism, and fascism; the Roaring Twenties, business cycle theories, and the Great Depression; institutionalism and the New Deal; the Keynesian revolution; and war, nationalization, and central planning. The work explores the post-war revival of invisible-hand ideas; economic development and growth, with special attention to contrasting policies and thought in Germany and India; the gold standard, the interwar gold-exchange standard, the postwar Bretton Woods system, and the Great Inflation; public goods and public choice; free trade versus protectionism; and finally fiscal policy and public debt. The investigation analyzes the theories of Adam Smith and earlier writers on economics when those antecedents are useful for readers.

Lawrence H. White is Professor of Economics at George Mason University, Fairfax, Virginia. He previously taught at New York University, the University of Georgia, and the University of Missouri – St. Louis. Best known for his work on monetary thought and alternative monetary institutions, his books include Free Banking in Britain (2nd edition, 1995), The Theory of Monetary Institutions (1999), and Competition and Currency (1989), and he has edited six other volumes primarily in monetary and financial history. His writing has appeared in the Wall Street Journal and in leading economics journals such as American Economic Review and Journal of Economic Literature. Professor White is featured in three online videos discussing the business cycle theory of F. A. Hayek, produced by www.econstories.tv in connection with their popular Keynes vs. Hayek rap video "Fear the Boom and Bust." He is coeditor of the online journal Econ Journal Watch and hosts the bimonthly Econ Journal Watch Audio podcasts. Professor White received the 2008 Distinguished Scholar Award of the Association for Private Enterprise Education. He holds a Ph.D. in economics from the University of California, Los Angeles.
The Clash of Economic Ideas

The Great Policy Debates and Experiments of the Last Hundred Years

LAWRENCE H. WHITE
George Mason University
## Contents

<table>
<thead>
<tr>
<th>List of Figures</th>
<th>page vii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledgments</td>
<td>ix</td>
</tr>
</tbody>
</table>

**Introduction**

1. The Turn Away from Laissez-Faire  
2. The Bolshevik Revolution and the Socialist Calculation Debate  
3. The Roaring Twenties and Austrian Business Cycle Theory  
4. The New Deal and Institutionalist Economics  
5. The Great Depression and Keynes’s *General Theory*  
6. The Second World War and Hayek’s *Road to Serfdom*  
7. Postwar British Socialism and the Fabian Society  
8. The Mont Pelerin Society and the Rebirth of Smithian Economics  
9. The Postwar German “Wonder Economy” and Ordoliberalism  
10. Indian Planning and Development Economics  
11. Bretton Woods and International Monetary Thought  
12. The Great Inflation and Monetarism  
Contents

14. Free Trade, Protectionism, and Trade Deficits 360
15. From Pleasant Deficit Spending to Unpleasant Sovereign Debt Crisis 382

Index 413
Figures

3.1. Stylized Structure of Production  
5.1. The Keynesian Circular Flow  
5.2. Keynesian Income-Expenditure Equilibrium  
5.3. Reduced Consumption Spending (Falling to $C_2$ from $C_1$) Has a Multiple Effect on Income (Which Falls to $Y_2$ from $Y_1$)  
5.4. The Production Possibilities Frontier between Consumption and Investment  
7.1. Mr. Cube Opposes the Nationalization of Sugar Refiners Tate and Lyle  
12.1. Long-Run and Short-Run Phillips Curves
Acknowledgments

My first debt is to David Rose, my former colleague and department head at the University of Missouri – St. Louis, for assigning me to teach the "History of Economic Thought" course that started me off on this project, and for creating a congenial environment in which to pursue it. The Social Philosophy and Policy Center at Bowling Green State University generously gave me an office during part of the spring (so-called, in northwest Ohio) semester of 2008 where I drafted the first seven chapters. Jeff Paul, Ellen Frankel Paul, and Fred Miller of the center, and their graduate students, provided valuable feedback. In fall 2009 I moved to George Mason University, where my new colleagues welcomed the book project and gave me many useful comments and references, especially Peter Boettke, Don Boudreaux, Dan Klein, David Levy, and Richard Wagner. The financial support of the Mercatus Center at George Mason has been indispensable to completing the book, and the center helpfully circulated draft chapters in their working papers series. I particularly want to thank Claire Morgan, Brian Hooks, and Tyler Cowen in connection with Mercatus's help.

The Liberty Fund, Inc., held a very helpful Socratic Seminar around the manuscript-in-progress in May 2010. I am indebted to Chris Talley and Amy Willis of Liberty Fund for making it happen, Bruce Caldwell of Duke University for being discussion leader, and all of the participants for challenging questions and helpful comments: Peter Boettke, Tawni Ferrarini, Emily Fisher Gray, Ryan P. Hanley, Bobbie Herzberg, Jeff Hummel, Nyle B. Kardatzke, Arnold Kling, Maria Pia Paganelli, Alex Potapov, Russ Sobel, and Diana Weinert Thomas. Bruce Caldwell's students at Duke in written form and Doug Irwin's students at Dartmouth College in person gave me useful feedback from the reader's perspective. Along the way I presented several chapters at the annual meetings of the Association for Private Enterprise Education, and I thank those involved in organizing the
Acknowledgments

sessions, particularly Bruce Yandle and Debi Ghate. For thoughtful remarks on Chapter 3 at a New York University seminar I thank Israel Kirzner and Mario Rizzo. Dave Hakes provided helpful comments on Chapter 12 at a session of the Midwest Valley Economics Association meetings. Gurbachan Singh graciously arranged a seminar on Chapter 10 at the Jawaharlal Nehru University in Delhi. I thank the following GMU graduate students for helpful seminar discussions: Simon Bilo, Nick Curott, Harry David, Thomas Hogan, Will Luther, and Chuck Moulton.

For historical information, references, and written comments on various chapters I am indebted to many people in many places, including Neera Badhwar, John Blundell, Bruce Caldwell, Balakrishnan Chandrasekaran, Richard W. Fulmer, Steve Horwitz, Jeff Hummel, Doug Irwin, Ekkehard Köhler, Meir Kohn, Shruti Rajagopalan, Mario Rizzo, George Selgin, Gurbachan Singh, T. N. Srinivasan, and John Wood. An anonymous reviewer for Cambridge University Press was especially helpful in suggesting final revisions.

Joey Bahun and Alex Salter provided able research assistance. Kyle O’Donnell prepared the index.

Just before I began this project I received a kidney from my heroic cousin, Roger Hitchner. Thanks, Roger. It would have been much more difficult to write anything, not to mention to enjoy a normal life in other respects, had I continued to be on hemodialysis.

My greatest debt is to my wife, Neera Badhwar, for love and encouragement.