Government and the American Economy. By Merle Fainsod* and Lincoln Gordon.†

This is a textbook, not a treatise. But it is so good a textbook that one comes insensibly to apply to it a standard that is relevant only in the criticism of a treatise.

The political approach is primary. As the authors say, "The emphasis here is on the political forces which influence the formation and execution of public policy." This does not mean, however, that the underlying economic issues are neglected. On the contrary, as compared with other surveys of this field, the present volume is distinguished for its penetrating economic analysis.

The book does not quite live up to its title. It is not quite a rounded survey of Government and the American Economy. What is missing is a systematic discussion of fiscal and monetary policy, and this omission is a serious matter. It is almost like a production of Hamlet, complete but for the absence of the Prince of Denmark.

In the present fiscal year, one eighth of the national income will be collected by the Federal Government in taxes, one quarter of the national income will be represented by National Government expenditures. For the present, controversy over the magnitude of this expenditure has been stilled or has acquired a focus which reflects divergences of views on questions of foreign policy. However, before the paramount claims of defense diverted attention from secular economic problems, the central issues of public policy were: What shall be the continuing place of federal expenditures in the national economy? From what sources shall funds for these expenditures be derived? In what areas shall federal spending penetrate? Is such expenditure to be conceived primarily as having a cyclical, "offsetting" character or does it necessarily and desirably bear a new relationship to private spending? What should be the role of fiscal policy in the distribution of the national income? Messrs. Fainsod and Gordon fail to give these issues the central position which belongs to them in any current analysis of Government and the American Economy, and therefore their otherwise excellent treatment fails to hold together as well as it might.

The absence of any thorough discussion of monetary policy is a much less serious matter than the omission of fiscal policy. This omission will, however, cause some sadness to those few economists who have, at one time or another, regarded the control of the rate of interest as the prime lever with which government should act on the national economy. So great a thing in the professional economic fraternity, so little regarded outside! And, after all, when the book does devote a chapter to securities regulation, it is not too much to expect some treatment of the monetary system, which is certainly more basic than the securities markets. The control of the supply of money, the protection of the solvency of banks, the safeguarding of the interests of depositors, the determination of the cost and conditions of credit—certainly these are important aspects of the role of government in the American economy. But they are apparently not things about which we need necessarily be told. Even a good book may omit to treat them more than incidentally; a good book has.

These omissions are small things in a book which gives so much. The core of the treatment consists of a section of over 400 pages entitled "Government as Regulator

* Assistant Professor of Government, Harvard University.

† Faculty Instructor in Government, Harvard University.
in the Public Interest." The subject matter of this section might have constituted an old-fashioned course in "Government Regulation of Business," but the material is handled with much more than old-fashioned competence. Whether he turns to the chapter on railroads, or electrical utilities, or anti-trust legislation, or any other, the reader will find here a wealth of carefully assembled information and suggestive analysis—that the analysis does not go beyond the suggestive is the fate of textbooks.

For a textbook, the treatment is singularly vigorous and uninhibited. It is refreshing to find, at the end of a fifty-page analysis of the Federal Trade Commission, the following considered judgment: "Viewed in its entirety, the twenty-five year record of the Commission is a poor one," and, in a similar extended analysis of the NIRA, the following: "The NIRA was a failure, substantively and administratively." But we are not always dealt with as fairly as this. Thus the treatment of "Problems of a 'Mixed' Economy" in the last chapter is disappointing. Rather than facing up to the difficulties of an economy with both public and private investment, the authors retreat behind a protective screen of difficult language. We find them shifting from telling us what they think the problems of a mixed economy are and how they believe these problems might be resolved to telling us what "a substantial proportion of the electorate" believe about these matters. At this point the views of "a substantial proportion of the electorate" are not our primary interest: we are expecting not a Gallup poll but a considered expression of the authors' own views.

We close the book feeling that the authors have compiled a great deal of information, that they have assembled a great many intelligent suggestions on secondary points of policy, but that they have not given us enough of their own thought on basic questions. But, after all, that is merely to repeat again that they have written so good a textbook that we would like to have from them another book of a rather different kind.

Oscar Gass†


This seems to the reviewer an excellent book. Its design is intelligent and daring, and its method provocative and instructive. On almost every page there is something to doubt. There are internal inconsistencies of statement and position. The character of the book is such, however, that what might be simply defects appear as the almost inevitable defects of its virtues.

The design of the book might be described as anthropological, historical, sociological, or philosophical. There is a Book on primitive law, in which the elementary problems of order and property in primitive communities are explored. There is a Book on archaic law, which deals particularly with the development of government in communities where law courts have appeared. A Book follows dealing with the maturity of law. The last Book deals with three matters of current importance and controversy: the constitutional "rule of law," administrative law, and the law of nations.

The method of approach is throughout an excellent one. The author again and

† Division of Monetary Research, United States Treasury Department.

* Author and attorney.