

often enlightening and frequently stimulating. It is to be regretted, however, that it fails to realize its promise. That ethical investigation lies within the realm of the rational is certainly a hypothesis deserving of defense. Mr. Pole has made a useful contribution, a half defense, if you will, but as he doubtless scored against the positivists, so could they roughly treat the ambiguities of the concluding portions of his book.

Reviewed by DONALD A. ZOLL

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## *Capital and Prosperity*

***Capital in the American Economy: Its Formation and Financing***, by Simon Kuznets. Princeton: Princeton University Press for the National Bureau of Economic Research, 1961. 664 pp. \$12.00.

WHEN PROFESSOR SIMON KUZNETS and other scholars were developing national income accounting in this country during the 1930's, one of their most interested English readers was John Maynard Keynes.

Keynes' *General Theory* was among the first major works to employ the concepts of national income accounting, and in it the author referred several times to Kuznets' work, although he usually found that the figures did not quite bear out his theory.

In his latest book, the conclusion of an eleven-year, seven-volume study of capital formation in the United States, Professor Kuznets again fails to support Keynesian theory. What is likely to be of most interest to non-economists in this formidable scholarly work is Professor Kuznets' tentative conclusion—or, as he prefers to call it, his “reasonable impression”—about the relative magnitudes of savings and investment, in which he reverses Keynes' analysis. Lord Keynes argued that depressions are caused by an over-abundance of personal savings which are not wanted by capitalists for investment. Professor Kuznets, however, is inclined to believe that investment opportunities always exist, and that economic growth is held back by a continual shortage of savings. His views are stated most diffidently, with many qualifications and admonitions that the data do not prove the hypothesis, and that he is dealing with long-run situations; in the short run, as he points out, “the level of capital formation can be below the available supply of savings, because the supply may be offered in different forms and on different conditions than those of the demand for capital funds.” Keynes was generally speaking of the short run, but he also indicated that excessive savings might become permanent, and the general trend of economic policy since the *General Theory* has been to encourage government investment to fill up the supposed gap between private savings and private investment.

If Professor Kuznets is correct, many policies of the government ought to be revised. Withholding taxes on dividends, as proposed by the Kennedy Administration,

will hardly promote increased savings. Instead, the government should be seeking ways to increase the return on investment, since the prospect of higher returns will lead people to save more. Greater depreciation allowances on new capital goods would be helpful, for example.

Unfortunately, the trend is all in the opposite direction. Professor Kuznets' figures show a decline in new capital formation as a percentage of national income, from 14 per cent in the 1870's and 1880's to 7 per cent in the decade after World War II. He does not expect any increase in private savings: "at best, their ratio to disposable income will remain at the moderate levels that have prevailed in recent years." He offers four reasons for this: (1) the encour-

agement of higher per capita consumption by the economy and our social institutions; (2) rapid technological changes leading to consumption of new goods as they become available; (3) the government's full employment policy, progressive taxation, and rising prices; (4) international tensions and the danger of war.

It is within the power of the government to do something about the third reason, if it is willing. The Kennedy Administration apparently is not, but we can hope that the President's economic advisors take the time to read Professor Kuznets' book, and that they take to heart the implications of his "reasonable impression," and recommend appropriate action to the President.

Reviewed by JOHN C. WEICHER

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