with each other? Are we doing science or theology? Are we members of schools of thought, or "epistemological communities," as one of the *In Defense* contributors calls them, or members of intellectual cults? And what of empirical evidence? Does it even matter? Are we prepared to modify our perspectives when evidence conflicts with our ideologies, or are we quicker to throw the evidence out?

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Tyler Beck Goodspeed, *Rethinking the Keynesian Revolution: Keynes, Hayek, and the Wicksell Connection* (New York: Oxford University Press, 2012), pp. 216, $55. ISBN 978-0-19-984665-8.

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While the work and ideas of John Maynard Keynes are globally known by many economists and non-economists, the work and contributions of Knut Wicksell and Friedrich August von Hayek are not as popular, especially among many present-day students and young scholars. Furthermore, for those who are fortunate enough to have come across the works of these eminent economists, the writings of Keynes and Hayek are often presented as diametrically opposed. To this, Tyler Beck Goodspeed argues that, "contrary to the popularized rivalry, Keynes and Hayek not only shared far more theoretical ground than is typically realized but also held a deeper theoretical affinity with one another than with modern macro" (p. 2).

Goodspeed accordingly provides a selective but interesting discussion of the works of Keynes and Hayek, connected by the concept of natural rate of interest. The core argument of the book is that the deep theoretical affinity between these two economists is to be found in the so-called "Wicksell connection." Starting with Axel Leijonhufvud's work in the early 1980s, many economists have made reference to that expression. Goodspeed uses the Wicksell connection to highlight the importance of money in an economy (distinguishing, in this way, monetary from real economic analyses) and, more generally, the role of the interest rate in coordinating inter-temporal economic activities in a world of "discrete and often inconsistent knowledge" (p. 8). Furthermore, Goodspeed argues that the claimed link between the theories of Wicksell, Keynes, and Hayek is germane for understanding the nature of modern macroeconomics and its problem in explaining real-world issues.

The book contains six chapters, preceded by a stimulating introduction that sets the tone for the entire book. Here, Goodspeed adapts Leijonhufvud's view of twentieth-century macroeconomics, illustrating the kinship of Keynes and Hayek with the theoretical approach to monetary policy originated by Wicksell's theory, and away from Irving Fisher's quantity theoretic approach. In the first chapter, the major contributions of Wicksell, particularly with regards to the dual theory of interest rates and the concept of the cumulative process, are presented as important ingredients for the subsequent writings of Keynes and Hayek. This chapter highlights Wicksell's monetary theory: the notion that the interest rate has the dual function of coordinating the demand and supply of money, while concurrently balancing savings and investment decisions of economic agents. A key feature of Wicksell's work in this regard is the distinction of the money interest rate (i.e., the cost of credit) from a natural rate of interest (a non-monetary rate subsisting in a pure barter world; i.e., the real return of physical capital). The divergence of the former from the latter is the source of imbalance between savings and investment in any economy (essentially a key determinant of real physical capital), and the driving force of a cumulative process of price changes.

In chapter 2, Goodspeed presents the attempts by Keynes and Hayek to transform Wicksell's cumulative process into a cyclical phenomenon with auto-correcting price dynamics. Goodspeed maintains that the works of Keynes in *A Treatise on Money,* published in 1930, and Hayek's *Prices and Production* of 1931 posit changes in relative prices as essential for the business cycle. He then suggests that Keynes's fundamental equations and Hayek's triangle of the different stages of production (based on the Austrian capital theory of inflation-enforced rather than income-enforced savings) show that the inequality of savings and investment due to the divergence of money and natural interest rates dislodges the equilibrium level of profits and changes the capital intensity of the production process. In this way, by projecting relative prices onto Wicksell's cumulative process, both Keynes and Hayek developed business-cycle models around an otherwise stable equilibrium.

In chapter 3, Goodspeed introduces a very important player in the Keynes–Hayek intellectual debate: Piero Sraffa. The chapter titled "The Sraffa Connection" shows the battle of wits between Keynes and Hayek in the 1930s. In his review of Keynes's *Treatise,* published in the August 1931 issue of *Economica*, Hayek noted the parallels between his theories and those of Keynes, but exposed the shortcomings in Keynes's capital theory. Keynes's response and a subsequent review of Hayek's *Price and Production*—which Keynes described as "one of the most frightful muddles [he had] ever read" (p. 71)—did little to repair their relationship. Having been truly worn out, Keynes turned to fellow Cantabrigian Piero Sraffa for help in what, as Goodspeed reports, Geoff Harcourt described as "superlative example of an academic hatchet job" (p. 73). Sraffa's caustic review of *Price and Production* questioned the accumulation of capital based on forced savings and its subsequent dissipation. Furthermore, Sraffa challenged the very notion of the natural rate as a single rate of interest in a multi-commodity barter world. Sraffa's review literally strangulated Hayek's *Price and Production*, but, more importantly, exposed the general deficiencies of any Wicksell-based capital theory. In this way, Goodspeed contends, Sraffa provided the foundations for "commodities rates of interest," which allow for the possibility of a multi-level natural rate.

In chapter 4, Goodspeed focuses on Keynes's *General Theory* with particular attention to the chapter 17 therein, titled "Properties of Interest and Money." The goal is to clarify the theoretical framework underlying that chapter and to juxtapose it with Wicksell's connection and the Hayek–Sraffa theoretical exchanges about the natural rate of interest. Goodspeed shows that in chapter 17, Keynes builds on Sraffa's point about the existence of a multiplicity of natural rates of interests, and associates each hypothetical rate with a different level of employment. Goodspeed argues that the relationship between the liquidity-preference theory and the marginal efficiency of capital was then used by Keynes as a way to reconcile Wicksell's cumulative process into an output-adjustment process.

Chapter 5 focuses on Hayek's *Pure Theory of Capital*. In this chapter, Goodspeed begins with Hayek's attempt to incorporate the Wicksellian natural rate into Sraffa's concept of commodity "own-rates of interest" in what Hayek termed "rates of increase of the product." Goodspeed also shows how Hayek integrated investment (viewed as a composite) into the own-rates theoretical framework (p. 119).

In chapter 6, Goodspeed takes an holistic view of the Wicksell–Keynes–Hayek connection, with respect to both historical origins as well as current developments of their capital-theoretic models. Accordingly, Goodspeed presents a synthetic but informative discussion of modern developments in macroeconomics. The so-called New Keynesian model—also variously termed the "new neoclassical synthesis" or the "new consensus macroeconomics" model (NCM)—is based on a set of three equations: an *IS*-type aggregate demand curve, a Phillips curve, and a monetary policy rule. Goodspeed is very critical of this model. He accuses modern macroeconomists of not giving full scope to the broad questions of the nature and origin of money, the notion of time, expectations, and uncertain knowledge. These were core topics in the theories of Wicksell, Keynes, and Hayek, but seem to have disappeared from modern macroeconomics, with very deleterious effects, according to Goodspeed, in terms of realism and usefulness of modern economic analyses.

Unfortunately, here, Goodspeed seems to ignore a thriving literature that has made money, uncertainty, and time some of its key research questions (see, for instance, Fontana 2009), and has indeed discussed at great length the monetary theory of Wicksell and its modern relevance (Graziani 2003; Fontana 2011). The Post Keynesian literature, with its endogenous money theory, its principle of interdependence of aggregate demand and aggregate supply, its rejection of the natural rate of interest, seems to do justice to several arguments put forward by Goodspeed. Yet, the Post Keynesian literature is hardly mentioned, let alone properly discussed. It is really a pity because this fails the main purpose of the book.

> The purpose of this book is not to assert new theory, nor even to claim (re)discovery of old. Rather, it is to bring together in one narrative multiple disparate strands that I believe unite, or at the very least reconcile, the research agendas of two supposedly polarly opposed economic thinkers and, in so doing, suggest a reorientation of current economic research. (p. 10)

This criticism should not, however, be overplayed. *Rethinking the Keynesian Revolution* by Goodspeed is a stimulating book, which has the great merit of bringing to the forefront of the analysis the concept of natural rate of interest, first rationalized by Knut Wicksell in the nineteenth century, and used as the connecting platform for the works of Keynes and

Hayek presented in this book. The nature and definition of this rate of interest and the associated assumptions underlying it have metamorphosed from its original form over the course of the Wicksell–Keynes–Sraffa–Hayek debate. Irrespective of its various names, definitions, and assumptions, the natural rate of interest as a non-monetary interest rate remains today a very nebulous and vague concept. Whether as a single, non-monetary interest rate obtainable in a one-commodity world or an array of rates in a multi-commodity barter economy, the rate is largely unobservable and immeasurable, and thus calls into question its use in policy-making circles (Weber et al. 2008).

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The present collection is a paperback reprint of the 2005 hardback edition published in the well-regarded Routledge "Studies in the History of Economics" series. Having read the 2005 edition, this reviewer approached the volume wondering whether this collection of contributions, taken as a whole, deserved to have been reprinted. There are sixteen chapters written by a cosmopolitan group of historians of economic thought. The chapters are divided into six parts: "The Meeting of Austrian and Swedish Economics," "The Stockholm School," "Money and the Business Cycle," "Capital Theory," "Expectations and Money," and "Methodology." As with all such edited collections of essays from a range of authors, the topic treatments and depth are uneven, though one might reasonably expect that the various chapters would have some direct or indirect relevance to the main theme advertised in the title: the "evolution of market process." Unfortunately, this is not the case.

In the absence of a general introduction that draws together the main themes—there is a "Preface" offering a bare two paragraphs as an "overview of the book"—it is left