Preface to the German Edition

Alfred Marshall, on whose *Principles of Economics* all contemporary English economists have been brought up, was at particular pains to emphasise the continuity of his thought with Ricardo's. His work largely consisted in grafting the marginal principle and the principle of substitution on to the Ricardian tradition; and his theory of output and consumption as a whole, as distinct from his theory of the production and distribution of a *given* output, was never separately expounded. Whether he himself felt the need of such a theory, I am not sure. But his immediate successors and followers have certainly dispensed with it and have not, apparently, felt the lack of it. It was in this atmosphere that I was brought up. I taught these doctrines myself and it is only within the last decade that I have been conscious of their insufficiency. In my own thought and development, therefore, this book represents a reaction, a transition away from the English classical (or orthodox) tradition. My emphasis upon this in the following pages and upon the points of my divergence from received doctrine has been regarded in some quarters in England as unduly controversial. But how can one brought up a Catholic in English economics, indeed a priest of that faith, avoid some controversial emphasis, when he first becomes a Protestant?

But I fancy that all this may impress German readers somewhat differently. The orthodox tradition, which ruled in nineteenth century England, never took so firm a hold of German thought. There have always existed important schools of economists in Germany who have strongly disputed the adequacy of the classical theory for the analysis of contemporary events. The Manchester School and Marxism both derive ultimately from Ricardo,—a conclusion which is only superficially surprising. But in Germany there has always existed a large section of opinion which has adhered neither to the one nor to the other.

It can scarcely be claimed, however, that this school of thought has erected a rival theoretical construction; or has even attempted to do so. It has been sceptical, realistic, content with historical and empirical methods and results, which discard formal analysis. The most important unorthodox discussion on theoretical lines was that of Wicksell. His books were available in German (as they were not, until lately, in English); indeed one of the most important of them was written in German. But his followers were chiefly Swedes and Austrians, the latter of whom combined his ideas with specifically Austrian theory so as to bring them in effect, back again towards the classical tradition. Thus Germany, quite contrary to her habit in most of the sciences, has been

content for a whole century to do without any formal theory of economics which was predominant and generally accepted.

Perhaps, therefore, I may expect less resistance from German, than from English, readers in offering a theory of employment and output as a whole, which departs in important respects from the orthodox tradition. But can I hope to overcome Germany's economic agnosticism? Can I persuade German economists that methods of formal analysis have something important to contribute to the interpretation of contemporary events and to the moulding of contemporary policy? After all, it is German to like a theory. How hungry and thirsty German economists must feel after having lived all these years without one! Certainly, it is worth while for me to make the attempt. And if I can contribute some stray morsels towards the preparation by German economists of a full repast of theory designed to meet specifically German conditions, I shall be content. For I confess that much of the following book is illustrated and expounded mainly with reference to the conditions existing in the Anglo-Saxon countries.

Nevertheless the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of laissez-faire. The theory of the psychological laws relating consumption and saving, the influence of loan expenditure on prices and real wages, the part played by the rate of interest—these remain as necessary ingredients in our scheme of thought.

I take this opportunity to acknowledge my indebtedness to the excellent work of my translator Herr Waeger (I hope his vocabulary at the end of this volume[1] may prove useful beyond its immediate purpose) and to my publishers, Messrs Duncker and Humblot, whose enterprise, from the days now sixteen years ago when they published my *Economic Consequences of the Peace*, has enabled me to maintain contact with German readers.

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[1] Not printed in this edition [Ed.].