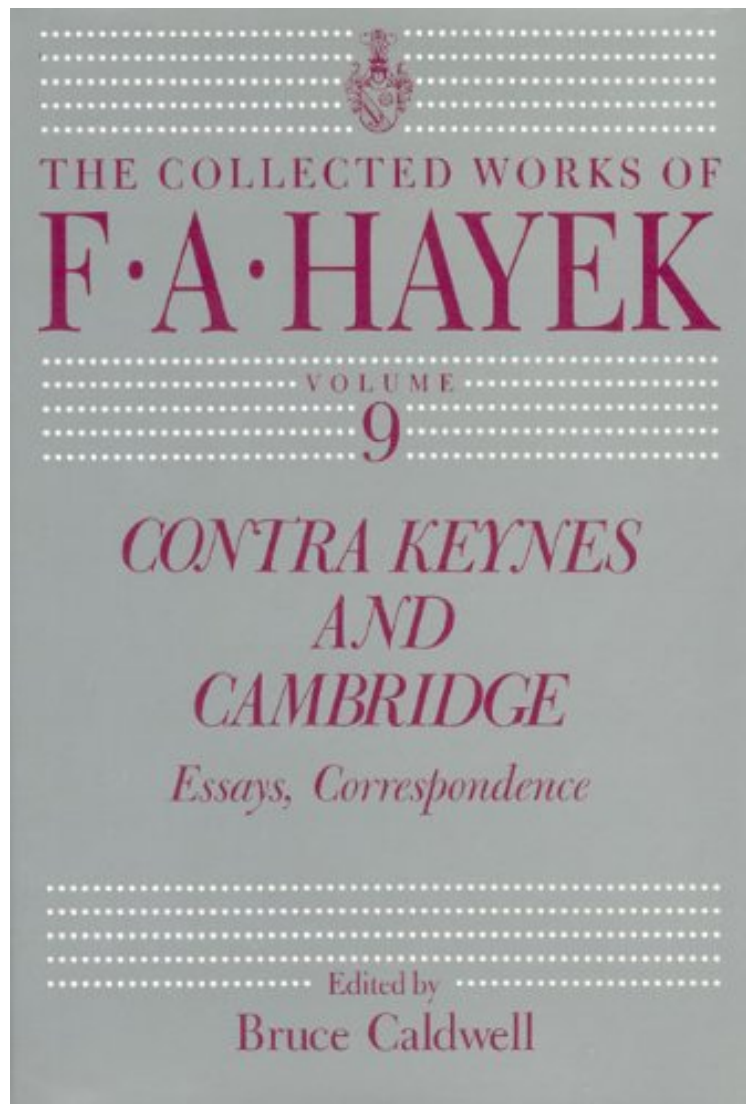


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Contra Keynes and Cambridge: Essays, Correspondence: 9 (The Collected Works of F. A. Hayek)

F. A. Hayek

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F. A. Hayek : Contra Keynes and Cambridge: Essays, Correspondence: 9 (The Collected Works of F. A. Hayek) before purchasing it in order to gauge whether or not it would be worth my time, and all praised *Contra Keynes and Cambridge: Essays, Correspondence: 9* (The Collected Works of F. A. Hayek):

7 of 7 people found the following review helpful. Good Overview of the Keynes-Hayek Episode By James F. Mueller
The reviewer Mr. Brady attempts to dismiss the work of Hayek because of his failure to adequately distinguish

between fixed and circulating capital, in addition to paying insufficient attention to the role of uncertainty. This observation is admittedly partly true. When Hayek began his work on business cycle theory, he paid very close attention to equilibrium analysis, believing that any explanation of downturns would have to include equilibrium statics if it hoped at all to be tenable. Hayek brought this belief over with him to the LSE and used it to criticize the theories of Maynard Keynes, who failed to incorporate a robust theory of capital structure into his account of economic disruption (according to Hayek). But if Mr. Brady bothered at all to read the excellent introduction to this volume by Bruce Caldwell, all of this would be clear. Hayek increasingly came to abandon equilibrium analysis in favor of a theoretical view that consistently embraced subjectivism and uncertainty. It is on this point that I wish Mr. Brady would have extended his last sentence into a fuller discussion of the fundamental differences of Mr. Keynes and Mr. Hayek with respect to their overall economic outlook given their beliefs in ineradicable uncertainty. Hayek does seem to place excessive faith in the capabilities of the market system, but Keynes, while justifiably remaining sceptical, demands repeated acts of government intervention as the means of avoiding the errors that attend the arena of uncertainty. These two positions are interesting, if only because their discovery of the uncertainty principle led them to adopt positions that occupied two extremes. I believe Keynes was right in attacking neoclassical economics and its program of economic efficiency in the absence of government regulation. But it in no way follows that a theory of chaos and confusion (uncertainty) should commit us to a position or policy of rigid rule-making. Such activity may very well exacerbate this perpetual state of ignorance that we find ourselves in daily. Keynes, with his emphasis on uncertainty, cannot have his cake and eat it too. A consistent application of uncertainty would, in my view, seem to distance us from both a commitment to laissez-faire and government regulation. Anyway, if the above paragraph interests anyone, then this is a book that is worth reading. The debates between Hayek, Keynes and Sraffa are fascinating, and shed considerable light on some of the most fundamental questions of economic theory. Bruce Caldwell's introduction is worth the price of the book alone.

2 of 2 people found the following review helpful. the scientific method
By Ivo Cerckel
How can we have any knowledge of the world around us? We possess a tool, reason, which allows our intellect to expand our knowledge of things, to expand our judgements of objective "Truth" about "Reality". Reason is at work in any science when the practitioner of the science associates her existing judgements and concepts in order to expand her judgements. Logic studies the laws with which the tool of reason has to comply to arrive at valid expansions of knowledge. Logic is the tool of all sciences. Logic is itself a science. Science is the knowledge of conclusions demonstrated on the basis of some principles which are either assumed as hypotheses or taken from the evidence of experience. The scientific method is the orderly way of arriving at Truth in a given scientific discipline. Realism presupposes, and thus entails for all further judgements, that the real is given to the subject, i.e., given to the practitioner of any science, and that the real is knowable by the subject, knowable at least to some extent, even if that extent is very limited. The realist thesis accepts that the real can be caught by thought. The result of the thing being caught by the intellect is ad-equation between the thing and the intellect, which is Saint Thomas' definition of Truth. Once realism has been accepted as a starting point, once it has been accepted that the real can be caught by thought, one can and must trust discursive thought as a truthful representation of reality, to the extent that reason elaborates or expands its primary knowledge of the real through reasoning in accordance with its own laws. It is the task of the science of logic to describe the laws with which reason has to comply when it, reason, is reasoning in order to expand its knowledge of the Truth. Hayek agrees and accepts the realist thesis. For Hayek, knowledge is based on experience. As man's experience is limited, Hayek has a profound epistemological pessimism which leads him to a kind of stoicism regarding policy. (page 48) Whereas Hayek agrees with realism, John Maynard Keynes does not agree. For Keynes, it is not reality but intuition (page 248) that is caught in knowledge, or that is caught by the intellect when it arrives at Truth through ad-equating itself to or with the thing. His intuitions lead Keynes to thinking in "measurable" aggregates such as total demand, investment or output and to thinking that empirically established values of these presumed "constants" would enable us to make valid predictions. (page 242) Such intuitions conceal all that really matters. (page 246) His theories thereby neglect more fundamental "real" phenomena (page 197) and displace micro-economics by macro-economics. (page 60) Contrast this Keynesian displacement of micro-economics by macro-economics to Hayek's admission that the schemata of micro-economics do not claim to achieve the quantitative predictions at which the ambitions of macro-economics aim. The science of economics should, for Hayek, nevertheless content itself with the more modest aims of the former because we can thereby gain more insight into at least the principle on which the complex order of economic life operates. (page 246) Once Keynes has decreed that it is his intuitive aggregates, and not reality, that are caught by true knowledge, no judgement that the real thing can be caught by the thought of intellect, no judgement that Truth in the sense Saint Thomas defined it is present, is any longer presupposed in ulterior judgements which, the latter, can be based on any intuition, even on an intuition contradictory to the intuition which originally displaced reality. One such intuitions led Keynes to the peculiar fallacy of believing that a general crisis can be averted by extension of credit (page 119), the fallacy of believing that the creation of additional money will lead to the creation of the corresponding amount of goods, although such belief was bound to lead to the revival of more naive inflationist fallacies which we thought economics had once and for all exterminated. (page 243) Contrast this to Hayek's fundamental point that the business cycle is an unfortunate but an

unavoidable concomitant of a credit economy. Attempts to eliminate the business cycle are likely to only intensify its effects. Hayek therefore put barriers to what others have done to advance in a path rather than supplying new ideas opening a path to new development. (page 31) Contrast this again to Keynes who knows that something can be done at the level of his intuitive aggregates and therefore believes that it is possible to adapt the amount of money in circulation to what is necessary for the maintenance of existing contracts without upsetting the equilibrium between saving and investing. (page 144) In the long run, we are all dead, aren't we, Mr Keynes? Keynes was however never prepared to accept the implications of credit expansion. He never recognized that progressive inflation was needed in order that any growth in monetary demand could lastingly increase the employment of labour. (page 248) How could, asks Hayek and I paraphrase, Keynes's ideas continue to be accepted once it had become clear that the temporary gain in employment achieved by credit expansion had necessarily to be paid for by even more severe unemployment at a later stage? (page 248) The answer has perhaps something to do with the fact once one gets, like Keynes, the opportunity to get away with the fallacy that it is intuition, not ad-equation between the thing and the intellect from which knowledge then has to be inferred, which gives us knowledge of the Truth concerning the world around us, logic no longer provides the framework through which we filter common-sense data in order to arrive at an objective "Truth" about "Reality". At that stage, Keynes can get away with any new intuition even when the disastrous actual (long-term) results of the first intuitions become clear. Science is then no longer the knowledge of conclusions demonstrated on the basis of some principles which are either assumed as hypotheses or taken from the evidence of experience. But the intuitive policy-recommendations of which Keynes had a-priori intuitive knowledge are then being presented as the conclusions from premises based on, or inferred from, principles which are fundamentally contradicted by experience. The scientific method has thereby been repealed and, as a result, there is no more orderly way of arriving at Truth in a given scientific discipline, in this case in economics. The science of economics has thereby been displaced by "a" political economy, whatever the latter may be. 1 of 1 people found the following review helpful. It was really a good thing to buy this book!! By Matheus Pacini It is really nice to buy a book about the background story of the debate between Keynes and Hayek. It served me well!!

In 1931, when the young F. A. Hayek challenged the economic theories of John Maynard Keynes, sixteen years his senior, and one of the world's leading economists, he sparked a spirited debate that would influence economic policy in democratic countries for decades. Their extensive exchange lasted until Keynes's death in 1946, and is reprinted in its entirety in this latest volume of *The Collected Works of F. A. Hayek*. When the journal *Economica* published a review of Keynes's *Treatise on Money* by Hayek in 1931, Keynes's response consisted principally of an attack on Hayek's own work on monetary theory, *Prices and Production*. Conducted almost entirely in economics journals, the battle that followed revealed two very different responses to a world in economic crisis. Keynes sought a revision of the liberal political order; arguing for greater government intervention in the hope of protecting against the painful fluctuations of the business cycle. Hayek instead warned that state involvement would cause irreparable damage to the economy. This volume begins with Hayek's 1963 reminiscence "The Economics of the 1930s as Seen from London," which has never been published before. The articles, letters, and reviews from journals published in the 1930s are followed by Hayek's later reflections on Keynes's work and influence. The Introduction by Bruce Caldwell puts the debate in context, providing detailed information about the economists in Keynes's circle at Cambridge, their role in the acceptance of his ideas, and the ways in which theory affected policy during the interwar period. Caldwell calls the debate between Hayek and Keynes "a battle for the minds of the rising generation of British-trained economists." There is no doubt that Keynes won the battle during his lifetime. Now, when many of Hayek's ideas have been vindicated by the collapse of collectivist economies and the revival of the free market around the world, this book clarifies Hayek's work on monetary theory; formed in heated opposition to Keynes; and illuminates his efforts to fight protectionism in an age of economic crisis. F. A. Hayek (1899-1992), recipient of the Medal of Freedom in 1991 and co-winner of the Nobel Memorial Prize in Economics in 1974, was a pioneer in monetary theory and the principal proponent of classical liberal thought in the twentieth century. He taught at the University of London, the University of Chicago, and the University of Freiburg.

About the Author F. A. Hayek (1899-1992), recipient of the Medal of Freedom in 1991 and co-winner of the Nobel Memorial Prize in Economics in 1974, was a pioneer in monetary theory; and a leading proponent of classical liberalism; in the twentieth century. He taught at the University of London, the University of Chicago, and the University of Freiburg.