

ERICH SCHNEIDER'S "INTRODUCTION TO ECONOMICS"*

Professor Schneider has now put before us his completed introduction to economic theory. We are used from Schneider to a high standard of performance and these three volumes fully live up to expectations: there are no superfluous words, the reasoning is concise and clear, definitions are put precisely, and the whole is a most satisfying picture of those parts of economic theory which Professor Schneider's intention and the traditions of German universities have made him deal with.

I

Part I deals with social accounting. Since it was my pleasure to review the first edition of this part when it appeared in 1947¹ may it suffice to add here that in rewriting Professor Schneider has fully achieved his aims. The inclusion of material relating to the Federal Republic and the discussion of the standardized form of social accounting of the O.E.E.C. are useful in themselves and add flesh to the skeleton of theory. They help the student to see why theorists bother to work with apparently arid formulas. As an introduction it is a superb achievement, particularly as it points out the pitfalls on the way.

The first chapter of part II deals with the economic plans of households. It moves along the lines of indifference analysis made familiar by Hicks and Allen. It uses what might be termed the common sense approach to indifference curves without linking them explicitly to utility analysis as Allen has done². In this it is essentially similar to the treatment in say Stigler's well-known book with this difference: Schneider at the very beginning introduces first micro- and then macro-economic consumption functions in connection with classic demand analysis and he touches briefly on the long run dynamics of individual demand. The idea seems excellent in that it gives the student a hint on how Keynesian and classical analysis are related³.

* A review article on ERICH SCHNEIDER: *Einführung in die Wirtschaftstheorie*. I. Teil. Theorie des Wirtschaftskreislaufs, viii, 120 pp., 4th ed., 1953; II. Teil: Wirtschaftspläne und wirtschaftliches Gleichgewicht in der Verkehrswirtschaft, viii, 334 pp., 1949; III. Teil: Geld, Kredit, Volkseinkommen und Beschäftigung, vi, 220 pp., 1952. J.C.B. Mohr (Paul Siebeck), Tübingen.

1. See *Kyklos*, Vol. II (1948), p. 183.

2. R. G. D. ALLEN, "The Nature of Indifference Curves", *Review of Economic Studies*, Vol. I, No. 2.

3. It may therefore seem ungrateful to raise one or two points as to the treatment. The "proof" that the marginal is always smaller than the average propensity to consume (p. 44), is, of course, true only for stable cases in the Samuelson sense, and is really an assumption which need not be true in reality. (Keynes himself seems to have assumed a non-stable case in which $APC = MPC = 1$.) A slight reformulation is all that is needed and it would have the advantage to introduce the student at the very beginning to the concept of stability.

Another point relates also to the consumption function. It is arrived at by keeping prices constant, and this is duly noticed by Schneider who also mentions that "Gibt man den Güterpreisen andere Werte, so ändert sich natürlich auch die Konsumfunktion" (p. 47). This is of course true, and since 1947 there have been articles dealing with the question how the consumption function changes. (For example, G. ACKLEY and D. B. SUITS, "Relative Price Changes and Aggregate Consumer Demand", *American Economic Review*, Vol. XL, No. 5, December 1950.) In a future edition Schneider may perhaps be induced to add a few paragraphs on this problem.

The treatment of the discussion of how to get from an individual to an aggregative consumption function is a model of concise reasoning, which a beginner is unlikely to appreciate. Not a single word in this paragraph is too much or too little. Even the omission of a single sentence or word would make nonsense of this correct and closely reasoned paragraph.

The first part of chapter II (p. 52-69) deals essentially with market forms. For English readers it is of particular interest that Schneider follows the Scandinavian usage of Frisch. He immediately stresses that the reaction of individual entrepreneurs are essential rather than the "morphological" view of a market in terms of homogeneity of products or number of sellers, a point of view now shared by all theorists. His definitions (though not always his terminology) are essentially comparable to Triffin's cross elasticities and they bear some obvious family resemblance also to Stackelberg's. Throughout Schneider assumes maximization of total net profit as the aim of entrepreneurs, stressing however the fact that other possible aims are conceivable (and what is more, analysable). The three-dimensional diagrams (two prices and quantities of one good) and the mentioning of the analysis of strategies seem to me particularly useful pedagogically, as is Schneider's insistence that clean analysis requires clearness both of the aims *and* of the behavior of firms.

The second part (p. 70-185) proceeds to analyze these market forms. It deals first with the short run analysis of the demand for goods and factors, using immediately in addition to isoquants and the usual cost curves and production functions mathematical formulations. These formulations are no mere frills, for they enable Schneider to discuss immediately multi-product firms or price discrimination (à la Joan Robinson and Haberler rather than à la Stackelberg) neither of which is usual at this stage in English texts, and neither of which can be done conveniently without symbolic formulations. This part ends with a discussion of the long period plans of the enterprise. The consideration of the process of planning a new enterprise leads to the process of investment itself which immediately and necessarily introduces the rate of interest. It should be stressed that this way of introducing interest differs substantially from traditional Austrian *or* English practice and, if it does not go as deeply into the problems of capital theory as the older practice has yet the advantage of avoiding many of their pitfalls and of what Professor Hayek has called the mythology of capital. Only time can tell whether this is a net advantage or not. In this part, of course, the rate of interest is taken as a datum which confronts the entrepreneur, as is legitimate to assume, and therefore, Schneider's discussion is not intended to present an interest theory as such.

An interlude on statics and dynamics (p. 186-192) leads to the final chapter IV (p. 193-320) which considers the many aspects of the equilibrium of the economy. Partial equilibrium but seen from the standpoint of the economy, is treated essentially along Marshallian lines, yet Schneider succeeds to give even so well worn a subject a new look. In particular, the interrelationship between statics, dynamics and stability is brought into the picture in a new manner and Schneider introduces the cobweb theorem. The only thing absent which is usually discussed in comparable anglo-saxon texts is the problem of constant or decreasing cost, for example,

à la Viner. The analysis of competition is followed by monopolistic and oligopolistic analysis and Schneider points out that "die statische Gleichgewichtsanalyse bei heterogener Konkurrenz zwischen Anbietern an Bedeutung weit zurück tritt hinter der dynamischen, verkaufsanalytischen Behandlung des Preisbildungsproblems, so dass es zweifelhaft ist, ob die Frage nach der einer bestimmten Datenkonstellation entsprechenden Gleichgewichtslage hier überhaupt einen Sinn hat" (p. 260), a conclusion which is generally accepted in one form or another⁴. The bilateral monopoly case gives Schneider occasion to introduce the Edgeworthian contract curve. These pages are inherently probably the most difficult in the book and even Schneider's pedagogical genius cannot make the problem easier than it is. The systematic treatment given to the problems in this book enables Schneider to be rather brief in his discussion of the market for labor and land⁵, too brief perhaps for the taste of some. That interest theory is missing in the stationary context (except for the brief mention of liquidity preference) finds me as a Schumpeterian in full sympathy though probably as a minority of one.

The final sections of the book deal with the problem of general equilibrium, first of a pure exchange economy, then of an exchange and production equilibrium but only of a stationary economy in which $Y=C$. Money is introduced as a *numéraire* and/or by means of the quantity equation à la Schumpeter in his "Sozialprodukt". Schneider's system has however two degrees of freedom rather than the one of classical Walrasian analysis since employment is treated explicitly as a variable. This valuable addition permits Schneider to discuss clearly the interactions between the wage level, commodity prices, national income and employment in a manner which combines essential parts of Keynes with the classical system. But here too the rate of interest is introduced as a price of money in a stationary society, a price for liquidity preference which can, of course, be done formally, but the meaning of which I should, as a Schumpeterian, question under the given stationary assumptions.

II

The third volume starts with a definition of the amount of money and with the interrelationship of the balance sheets of commercial banks, the central bank and the public, followed by a discussion of credit creation and destruction. The long second chapter (p. 11-90) is a concise exposition of the theory of money with just sufficient institutional information of the post-war German banking system to indicate what the theory is about. The English reader is, of course, spoiled by such magnificent government documents as the Bullion Report, the Macmillan Report, and the American reader most recently by the so-called Patman Report which in 1000 pages combines an authoritative description of the monetary system in

4. It might be worth mentioning that Fellner has made just such a "verkaufsanalytische" analysis. See: W. FELLNER, *Competition Among the Few*, New York 1949.

5. Schneider appears to be somewhat unfair to Ricardo when he quotes on p. 289 his phrase as to the indestructible powers of the soil in order to point out a few lines further on that mines are certainly not inexhaustible. Ricardo after all has a chapter, though a brief one, on the rents of mines. On the other hand the short treatment meted out to differential rent theory seems to me all it deserves.

the broadest sense with a thorough theoretical discussion of all the problems of policy visible to-day. All this luxuriant detail is justifiably and necessarily absent in Schneider. One misses however a discussion of the relation of the central bank to the Treasury, a problem which in the post-war world has achieved major proportions. In the next edition Schneider will undoubtedly oblige his readers by inserting a brief discussion of the problems raised by such a "three-level mixed system", to use his terminology.

The remaining pages of the book are devoted to national income analysis within the assumption of a given productive apparatus, using three basic aggregations: households, firms and the government. The theory is definitely a short run theory, long run problems being outside the frame of reference of the book. As is usual, the theory is developed on the basis of real income, but Schneider indicates how a different assumption about "money illusion" might lead to an alternative theory⁶. Schneider then develops the theory of the multiplier and the only complaint I have is that his statement that the Keynesian multiplier relation is valid even when prices rather than output are affected (p. 118), however true it may be, is certainly misleading in a context in which all concepts are defined as "real"⁷. It goes without saying that Schneider always points to open problems and to the beginnings which have been made in their analysis. Following the work of Lange and Palander in the analysis of the Keynesian system, Schneider stresses the short run character, though, for my taste, he does not yet stress sufficiently the limitations which this implies: namely that net investment bears its own nemesis within itself in that it enlarges the productive apparatus. The real meaning of Schneider's insistence that net investment must be small relative to the stock of capital is therefore likely to escape the beginner; and by not playing on employment but on output and money (actually real) income the beginner is apt to underestimate the tasks which lie ahead and to the solution of which Domar, Harrod, Hicks, etc., have already contributed so much⁸.

Before turning to the introduction of the economic activity of the state, Schneider briefly discusses the acceleration principle and its interaction with the multiplier à la Samuelson. The finale of the book appropriately is the consideration of the state. Schneider starts out with various income concepts thus completing a circle, as it were, by returning to the beginning of the first part. His discussion of fiscal policy should go far to dispel some of the primitive statements about the effects of deficit or surplus financing which are so frequently found on both sides as well as right on top of the fence.

6. It seems on the other hand strange that the assumption of an infinitely elastic supply of all factors of production, *i. e.* of unemployment, is not explicitly stated at the very beginning but is left implicit.

7. I am particularly grateful to Schneider's extensive reference to Johannsen who appears to be the grandfather of Keynesian theory—the Wicksellian ancestry has always been clear—and who was completely unknown to me.

8. Schneider is now ready to devote a few searching pages (pp. 162–168) to the discussion of the quantity theory as distinct from the quantity theorem. His views, forcefully and logically expressed follow Keynesian lines and are sharply critical of the quantity theory, particularly of the usefulness of the velocity concept. There will be much disagreement as well as agreement with this, but, as is so often the case, the reasons for agreeing or dissenting are apt to be rather confusing and even contradictory. Again the student has reason to thank Schneider for his meticulous reference to important earlier work, such as the early work of v. Zwiédineck-Südenhorst. (Since Schneider treats this problem as an interruption of his train of thought, I have thought it best to put my comments into a footnote.)

III

Professor Stigler has remarked in the introduction to his book that a textbook is not the place to look for originality. In a sense this is obvious. Yet there is an achievement that consists in giving the student a logical view. I have spent so much space on this text because it has seemed to have as much originality as a text can conceivably have, but also because it has seemed worth while to point to the similarities and difference in the treatment of Schneider and his Anglo-Saxon colleagues. The strength of the book is its logical structure and a build-up with no nonsense to it. For some (though not for this reviewer) the dearth of "realism"—there are only a few factual illustrations—will be hard to take. All the more's the pity. It is basically a discussion of classical economics—and even Keynes must be so considered from the standpoint of much modern development. Yet Schneider would surely be the first to warn that his book does not even contain everything that might reasonably be called theory (*e.g.* long run theory of growth, or business cycle theory, to name but two) nor that it contains much of applied theory (such as the theory of international trade, or of public finance). But as an introduction for the serious student, it not only gives him a solid foundation but carries him in spots to considerable heights. I should like to express one further note of gratitude to Professor Schneider in the name of the students: His references to the literature are really useful. They are not the listing of the card catalogue, so often found and mistaken for learning, but they are a well selected group of really important books and articles.

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