Alvin Harvey Hansen: Economic Growth and a More Perfect Society:

The Economist's Role in Defining the Stagnation Thesis and in Popularizing Keynesianism

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ABSTRACT. *Alvin H. Hansen* was one of the leading American *economists* from the 1930s to the 1960s. He was largely responsible for the popularization of *Keynesian economics* in the United States and Canada. He was responsible for the development of the *secular stagnation thesis* which explained 19th century American *economic growth* in terms of *population growth,* the *frontier,* and *technology.* The diminishing of these factors explained the decrease in the American economic growth rate in the 20th Century. Hansen's policy conclusions to prevent stagnation were Keynesian in nature and, as a result, Hansen was an early advocate of active *fiscal policy* in the United States. He differed with *Terborgh.*

I

Introduction

ALVIN H. HANSEN (1887–1975) had his roots on the midwestern frontier. He was born on the plains of South Dakota in the town of Viborg. His academic career was to take him from Viborg to the ivy-covered edifices of Harvard. At Harvard, he became a leading economist and espoused the secular stagnation thesis that explains the slowdown in American economic growth after the end of the 19th Century. This thesis was based upon the socioeconomic influence of population growth, technological innovation and the development of the western frontier upon American economic growth. The policy conclusions that developed from the stagnation thesis made Alvin Hansen a leading Keynesian[1] economist and a firm believer in full employment growth policies.

Section II of this paper will briefly analyze Hansen's credentials as a leading Keynesian in the United States. Section III will deal with his stagnation thesis and its socioeconomic implications. Section IV will deal with the socioeconomic policy implications as developed by Hansen.

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II

Hansen, the "American" Keynesian

THE DEPRESSION of the 1930s resulted in a decrease in actual output of the economy below potential output and a rise in unemployment. Many economists, including Alvin Hansen, began to question the relevance of the self-adjusting mechanism of the neoclassical, economic model. The most important attack upon the neoclassical model was, of course, the publication of *The General Theory of Employment, Interest and Money* (1936) by J. M. Keynes in the United Kingdom. However, Hansen was to publish many works in the United States that made him a leading Keynesian in the United States. The most important of these works were: *Fiscal Policy and the Business Cycle* (1938); *Economic Policy for Full Employment* (1947); *The Guide to Keynes* (1953); and *The Full Employment Economy* (1957). Indeed, John Kenneth Galbraith credits Hansen as influential both in the development of Keynesian economics in the United States and its acceptance in Washington (Galbraith, 1967, p. 224n). Paul Samuelson, a student of Hansen at Harvard, a leading textbook author, and a Nobel Laureate, also credited Hansen with introducing Keynes and Keynesian policies into the United States (Samuelson, p. 350). Also, such authors as G. L. S. Shackle, Ben Seligman and Marc Blaug have discussed Hansen and his role in the development of American Keynesianism. Shackle pointed out Hansen's role in the development of the Accelerator-Multiplier Model within the Keynesian framework (Shackle, 1967). Seligman traces Hansen from his neoclassical roots to his acceptance of Keynes and Keynesian orientated economic policies (Seligman, 1962). Blaug analyzed the "stagnation thesis" and Hansen's role in the popularization and simplification of Keynesian economics in the United States (Blaug, 1956). All of the above have pointed to Hansen as the "American Keynesian."

As Hansen was influential in the development of American Keynesian analysis, he was also instrumental in terms of economic policy. For example, in a history of the Truman Administration, Alonzo L. Hamby discussed both Hansen's theoretical analysis and his role as a policy maker. Hamby indicated that after World War II, American economic advisors were divided into two main camps. First, there were those who favored " . highly organized economic functioning to a large degree under government direction" (Hamby, p. 9). Second, there were those who favored a more private market approach. This second group (referred to by Hamby as "liberals") feared that a government organized economy advocated by the first group might tend to become fascistic—that is, bureaucratic technicians like gadgets and worry little about "the mind and spirit of man" (Hamby, p. 10).

To Hamby, the primary exemplification of the second (liberal) view was the Hansen who served as a consultant to the Federal Reserve Board and to the National Resources Planning Board. Hansen's major emphasis was *not* upon governmental organizational control but, rather, upon government tax and expenditure policies, including budget deficits, to maintain high consumption, high investment, and new jobs (Hamby, p. 10). The use of fiscal policy by the federal government to maintain high employment in the overall economy allowed Hansen to take a "laissez-faire" attitude in relation to the private subsectors of the economy. That is, a combination of fiscal policy for the overall macroeconomy with a laissez-faire attitude towards the individual micro-sub sectors of the private sector prevented undue government control over the lives of citizens and the affairs of business that might develop out of over-centralized economic planning (Hamby, p. 11).

To help implement the goals of fiscal responsibility for full employment, Hansen (as well as others such as Leon Keyserling) backed the Full Employment Bill of 1945 sponsored by Senator Robert Wagner (D., New York) and 116 members of the House of Representatives (Hamby, p. 60). The Bill was passed in 1946 as the Employment Act which established the federal role in (a) maintaining price stability and high employment; and (b) set up the Council of Economic Advisers to the President to aid in the achievement of the goals of economic policy. To a large extent, Hansen's support of these actions were based upon both his analysis of Keynesian economics and his concept of secular stagnation.

III

The Stagnation Thesis

THE STAGNATION THESIS as developed by Alvin Hansen indicated that the economic growth of the United States in the 19th century would eventually slow down or "stagnate" in the 20th century. In his stagnation thesis, Hansen had three underlying factors that explained economic growth. These three factors were: a rapid population growth due to a high birthrate and/or immigration; the presence of a "frontier" to absorb investment funds on the frontier and in the financial centers (or, in America, the development of the West which absorbed the capital funds of the East Coast); and technological advance and innovation (Brazelton, 1961, p. 12f).

To Hansen, the rate of population growth of the United States was declining in the 20th century as compared to the 19th century. The decline could be due to the socioeconomic effects of urbanization; a decrease in immigration; the decline in the asset value of children (farm labor); the breakdown of the female role in the home; the rising costs of raising children; birth control; or the desire

for peace and quiet, and other factors (Brazelton, p. 12). The economic result of the decline in the rate of population growth meant a decrease in the growth of consumption. As a result, the marginal efficiency of capital would decline. It should also be pointed out that as population growth declined, an upward trend in wages might occur so as to impinge upon profits from investment.

The frontier was also important to Hansen as it had been important to Frederick Jackson Turner and Joseph Schumpeter—the former a predecessor to Hansen at Harvard; the latter, a contemporary at Harvard. Indeed, on one page of his papers in the Harvard Archives (Pusey), Hansen scribbled his general compatibility with Schumpeter by writing "Schumpeter's stagnation thesis is my own stagnation thesis" (Hansen, Hug FP, 362, Lecture Notes, Box 1 of 2). However, it was argued by George Terborgh, a critic of Hansen's stagnation thesis, that while the American West was developing, so were the cities on our Eastern Coast. Thus, to Terborgh, the East did not depend upon the development of the West for investment outlets for the accumulating capital of the American East. Hansen replied that the Eastern cities were expanding because their excess capital was being profitably utilized on the Western frontier. Thus, Western development of the 1800s benefited *both* the American West and East. Hence, instead of being an argument against the role of the frontier, the simultaneous growth of the East and the West was an argument for the role of the frontier in American economic growth.

Thus, to Hansen, the absence of a geographic frontier after 1889 and urbanization by the 1920s marked the end of the frontier era in the United States economy. As the resultant stagnation threatened the economy. The question in terms of stagnation is: What is there to induce investment so as to offset stagnation? In other words, was there a substitute for the frontier?

One could argue that foreign investment would replace domestic investment as a stimulus to the American economy. That is, American investment funds could find profitable investment outlets in other countries and, thus, those profits (or interest) would flow back to the American market. To Hansen, however, there was no reason to believe, *ceteris paribus,* that foreign investment might not also reach diminishing returns. Even the planet is finite! At one point, Hansen even raised the issue that even though a smaller nation such as France could substantially benefit from its foreign investment, could a larger country such as the United States expect the same relative effect upon the whole economy from foreign investment? (Hansen: Hug F8-3.42, Research Notes, Box 1, A-D). If not, even with foreign investment by Americans, the problem of domestic stagnation would remain.

In terms of the 1980s, it might be argued that the reverse is happening—the United States had become a debtor nation as foreign firms invest in American

industry or American securities. Thus, profit and interest payments are flowing to foreigners. It remains to be seen whether or not this American debtor status is a temporary phenomena caused by a large federal deficit combined with a relatively tight monetary policy and an overvalued dollar. The high interest rates caused by the monetary policy makes foreign investment in the United States attractive. The overvalued dollar makes American exports expensive. However, this short-term policy combination could not have been anticipated by Hansen and is not a part of his long-term secular stagnation thesis which is a result of long-term growth factors, not of short-term policies.

Despite the end of the geographic frontier, as George Terborgh pointed out, stagnation did not occur. However, if one notes that stagnation did not occur after 1889, one must remember that the urbanization of the American West and Midwest took until the late 1920s to accomplish plus, of course the enormous impacts of World War I (Brazelton, 1961, p. 78f). The effects of these two events lasted through the 1920s and into the 1930s when the beginning of stagnation occurred as the Depression, both in the United States and elsewhere hit the economy. Also, one should remember that World War I was an offset to stagnation and, that the 1920s were subject to economic fluctuations. Thus, the previous decline of the geographic frontier and the decline in Western urban construction was being felt by the economy, as Hansen's former student John Kenneth Galbraith has pointed out in *The Great Crash.*

"Stagnation," however, did not continue for long. The 1940s were not stagnant nor have been the post-war decades except, for other reasons, the 1970s. Hansen answered this fact in terms of World War II and in terms of the use of fiscal policy after World War II. One might also mention as an offset to stagnation, the post World War II economic policies that such diverse personages as President Eisenhower and the Neo-Marxist, Ernst Mandel, have referred to as the "military-industrial" complex. These can be interpreted as offsets to Hansen's stagnation thesis, as was suggested by Hansen himself (Hansen, 1947). Indeed, as the analysis of Hamby pointed out, Hansen was instrumental in developing the fiscal policy offsets to secular stagnation (Hansen, 1938, 1947, 1957).

The questions of diminishing returns to investment and the possibility of rising real wages introduces the economy to the problem of labor-saving innovations. If technology has been labor-saving (more capital, less labor), the relative income share going to labor should not, *ceteris paribus,* increase. Thus, the stagnationist may ask whether or not labor-saving technology can keep the economy sufficiently stimulated for full employment to be maintained—that is, will there be enough overall investment to absorb those replaced by more capital intensive technology? Such economists as William J. Fellner might say "yes," but Fellner's analysis assumes a monetary policy compatible to economic growth

and, most crucially, a dual combination of sufficiently competitive market structures and sufficient mobility of resources (Fellner, 1956). Such a dual combination would make an increase in long-term unemployment theoretically unlikely.

Hansen might reply to Fellner that the diminishing rate of population growth, the absence of a frontier, the growing importance of depreciation reserves (which increases the rate of overall private savings which may or may not be invested), and the decline in the rate of technology and its innovation, plus the historical record itself, made him more pessimistic than Fellner (Brazelton, 1961, p. 17). The decline in the rate of technology along with an insufficient mobility of resources and the change in the market structure from competitive to oligopolistic were important aspects of Hansen's argument. At this point, it becomes relevant to ask that since Hansen introduced both population and investment into the stagnation thesis, had he developed a theory to combine these two phenomena? The answer is "yes."

In his many notes at the Harvard-Pusey Archives, three documents become relevant to the question of a model to combine declining population, consumption and investment. First, as to consumption, in one document Hansen sketched a consumption function. The consumption function was drawn with a positive "a" on the vertical axis and a relatively flat slope (Hansen: Hug [FP] 3.42, Misc. Box 5, Notes). This means that Hansen evidently believed that the consumption function was relatively flat so that the average propensity to save increased savings both absolutely and relatively. Thus, not only do we have a problem of diminishing returns to capital, but also a relatively and absolutely increasing gap between income and consumption for investment to fill if full employment growth is to be maintained. It is, of course, true that the more recent works by Franco Modigliani (the life-cycle hypothesis), James Duesenberry (the relative income hypothesis), and Milton Friedman (the permanent income hypothesis) have indicated that the long-run consumption function is neither as flat as Hansen evidently believed nor as constant over the cycle. That is, in a recession, the decline in consumption is not as large as might be expected as the short-run consumption function in the recession is flatter than the long-run consumption function. Thus, these related analyses of Modigliani, Duesenberry and Friedman limit the decline in consumption in a recession, and consequently limit the depth of the recession. However, it is my contention that Hansen's stagnation thesis does not rest solely (or, perhaps, even largely) on this weakened point of Hansen's analysis concerning a flat long-run consumption function. The essential point of the secular stagnation thesis is that private savings, including depreciation reserves, were increasing absolutely as income increased.

This means that investment must also continue to increase absolutely at the same rate as savings if full employment is to be maintained.

At this point, two further manuscripts can be introduced to answer the question as to how the rate of investment can be kept equal to the rate of savings to maintain full employment. This problem can be analyzed in terms of two sets of Hansen's lecture notes in the Pusey Archives (Hansen: Hug FP, 3.62, Lecture Notes, Box 1 of 2). These lecture notes (a seminar on November 1, 1948, and a lecture on money and banking, 1947–48) related to the growth theories of Evsey Domar and Sir Roy Harrod and an article by Michael Kalecki in *The Review of Economic Studies,* February, 1937. The most precise parts of these lecture notes related to the analysis of Harrod.

To Harrod, the natural rate of growth (G_n) was the rate of growth of the factors of production. The actual rate of growth (G) was the rate of growth at which the economy actually grew. The warranted rate of growth (G_w) was the rate of growth that was necessary if entrepreneurs were to invest. If full employment and price stability were to be maintained, $G_w = G_n$.

To Hansen, the normal rate of growth, G_n (which I interpret to be the same as Harrod's G_n), related to the rate of growth of population (G_p) and the rate of growth of technology (G_t), so that $G_n = G_p + G_t$. The former, G_p, related to the widening of capital (more labor per unit of output) as the latter, G_t related to the deepening of capital (less labor per unit of output). To Hansen, the problem of the warranted rate of growth (G_w) versus the natural rate of growth (G_n) related to secular socioeconomic problems. If, for example, $G_w > G_n$, G_w could not be reached as factors of production were growing too slowly to ever allow the economy to reach G_w. On the other hand, the problem between the actual rate of growth (G) versus G_w and G_n related to the trade cycle assuming that $G_w \gtreqless G_n$. If, for example, current growth is less than the natural rate of growth ($G < G_n$), then actual investment (I) is below the natural rate of investment, or $I < I_n$ (where I_n is the amount of investment to generate G_n). This means that a backlog of investment is developing which precedes a trade cycle recovery. Thus, $G_w > G_n$ is a secular problem whereas $G < G_n$ is a cyclical problem.

Hansen's lecture notes point out four stages of the trade cycle. In the first stage, the upturn, idle capacity was brought into use. In the second phase, the accelerated replacement of capital takes place. In the third stage, I_p takes place for capital widening and I_t takes place for capital deepening. In the fourth phase, backlogs of investment (I_b) are fulfilled. To Hansen $G_w = I_t + I_p + I_b$, whereas $G_n = I_t + I_p$. When the backlog of investment (I_b) is fulfilled, a recession would occur as $I_t + I_p < I_t + I_p + I_b$. If I_b had brought about excess capacity, the resultant recession would be cumulative until the excess capacity were cleared.

In such a case, $I < I_t + I_p$. The policy offset to either recessionary condition is deficit financing (L) where, in the absence of I_b, $G_w = I_p + I_t + L$ where $I_p + I_t + L = s$, the rate of saving. Thus, $L = (s - I)$ as an offset. Thus, "L" is the policy offset to solve the problem of maintaining full employment if $I < S$. It should be noted here that Hansen developed both a short-run business cycle analysis and a secular stagnation thesis. His main contribution to the cyclical analysis came in his later work in the "Accelerator-Multiplier" Model. However, his business cycle analysis did not replace his secular analysis. As Ben Seligman summarizes it, "secular unemployment was superimposed on cyclical unemployment" (Seligman, p. 668).

The concept of secular stagnation brings up the basic question as to whether or not stagnation has ever occurred before. If it has never occurred, it may not occur. If it has occurred, it may occur again. If it occurs again, what policies might alleviate it or offset it? Hansen answered these questions in a letter to David McCord Wright, a leading economist of the 1940s and 1950s (Hansen, letter to Wright, *ibid.*).

The crux of the stagnation argument of Hansen can be found in the letter to Wright whom Hansen referred to as his "prime" pupil and whom Hansen addressed in the letter as "Dear Wright" (Hansen, *ibid*). The letter, dated July 30, 1945, was in reference of Hansen's request to Wright for the latter to review the book by George Terborgh, *The Bogey of Economic Maturity,* 1945—a book critical of secular stagnation and of Hansen. In the letter to Wright, Hansen took Terborgh to task and developed the essence of his own form of fiscal and social policy corresponding to his belief that the two are not separate.

In his letter to Wright in criticism of Terborgh, Hansen elucidated his view of secular stagnation; laissez-faire; and future policy. First, to Hansen, secular stagnation might not only occur, it has occurred. It had also been discussed previously by such eminent economists as Adam Smith, David Ricardo, Arthur Spiethoff, Wesley Clair Mitchell, and W. L. Thorpe (Hansen: Hug (FP) 3.40, Correspondence 1220–1925, Box 2 of 2 Letter to David McCord Wright, July 30, 1945, p. 2). Also, in addition to the long periods of stagnation discussed by the above mentioned economists, it is evident that there were inventory cycles, building cycles, Juglar cycles, as well as secular stagnation. The economy was no longer buoyant because of the demise of the Western frontier and the decrease in the rate of population growth.[2] In relation to this, Hansen wrote to Wright:

> The surprising thing to me is that anybody can even think of denying this. The role of new territory and new resources and increase in population runs through the whole classical literature all the way, so here is a point upon which so far as I know economists have always agreed up to the time of the present controversy (Hansen, *ibid.*).

Thus, to Hansen, secular stagnation was not merely a theoretical concept. It was a well-established economic phenomenon and it raised the issue of eco-

nomic policy. That is, if economic stagnation occurs, what type of socioeconomic policy is there to offset stagnation?

IV

The Policy Implications: Then and Now

HANSEN COULD BE BOTH vague and specific concerning policy issues. He did believe that many fiscal arguments related to social priorities, not economic policy per se. For example, to him the fiscal drag thesis of the Kennedy Administration was an anti-Keynesian attempt of conservatives to decrease taxes so as to decrease social welfare expenses. This interpretation of "fiscal drag" confirmed Hansen's belief that we should not only have a Council of Economic Advisers, but also a Council of Social Values (elsewhere, he used the term "Social Priorities") (Hansen: 3.42, Research Notes, Box 7, Keynes, 30 Years After).

More specifically, Hansen believed that the President should be able to change corporate and individual surtaxes in relation to fiscal needs just as the Federal Reserve can change rediscount rates in relation to monetary needs. In support of this fiscal concept and its advantage over monetary policy, Hansen stated:

> Tax-rate adjustment has a great advantage over monetary policy in the respect that it acts almost instantaneously, while monetary policy begins to become really effective only after the general liquidity of a rich community has to a considerable degree been exhausted. Tax-rate adjustments become quickly effective in view of our system of collection at the source (Hansen, 1960, p. 34).

In a statement before the Committee of Senator Proxmire, Hansen maintained that the government must set wage/price guidelines (Hansen, *ibid.*). In our economy, Hansen realized that wages and prices were not freely set by the market. Thus, a bargaining table approach was needed. Hansen was for price stability, but not at the cost of employment as his letter to Paul Samuelson (quoted below) implies. To Hansen, profits depended upon income distribution as the consumer must have income to consume, but the profit maker must have income (profit), too (Hansen, *ibid.*).

Also, as the following quote indicates, Hansen did not have much faith in monetary policy. Seemingly, he thought of monetary policy mainly in terms of anti-inflationary policy. Hansen, like Keynes, believed in the desirability of low interest rates, but both believed that low interest rates alone would not maintain full employment. To Hansen, monetary policy was more anti-inflationary than anti-recessionary. For example, in a letter to Paul Samuelson in 1954, Hansen stated

> I agree that it is the duty of the monetary authorities to 'lean against the wind,' but I should like them to lean gently and not with the rigidity of a stone wall. I like Sproul's and John Williams phrase: "Monetary policy can make a *modest* contribution towards controlling in-

flation' (Hansen: Hug 3.11, Box 1 of 1, Correspondence, 1928–67, to AHH; and, also Hug 3.10, Box 2 of 2, Correspondence).

Hansen believed that Keynesian economics had superseded neoclassical economics and its emphasis upon monetary factors. To Hansen, Keynes had ended the restrictions of the gold standard upon the economy; had ended the restriction of the balanced budget upon the economy; and had developed the Welfare State into a method of generating aggregate demand, the central problem of post-agricultural economies (Hansen: 3.42, Research Notes, Box 7). To Hansen, the new economics was a "mixed public private economy" and in such references Hansen referred to Sweden (Hansen, *ibid.*). Thus, once again, we see an emphasis upon both economic and social policy, especially when we recognize the role of the "Welfare State" as a method of generating adequate demand.

The letter to Wright in relation to Terborgh's criticisms of secular stagnation had the essence of Hansen's fiscal policy. Therein, Hansen argued that Terborgh agreed with him generally on two out of three policies: the first being long-run measures to raise the consumption function including social security, health, education, welfare and progressive taxation; and the second, compensatory fiscal policy. To Hansen, Terborgh stopped short of Hansen's third policy; namely, long-range redevelopment policies such as urban redevelopment and the like. However, to Hansen, it was the latter, that had played such an important role in United States economic history starting with the development policies of Alexander Hamilton (Hansen, *ibid.*, p. 14). To Hansen, his analysis concerning long-term development programs was a continuation of American social and economic policy. Thus, it was neither revolutionary nor new. Thus, in terms of the present, I believe that Hansen would support strongly the long-term planning implications of the Humphrey-Hawkins Act in addition to cyclical policy implications of the Full Employment Act of 1946.[3]

To Hansen, the future was not dim, but bright, as long as sensible socioeconomic policies were followed. Once again, the Wright letter is telling and brings the past to the present. Therein, Hansen quoted to Wright a letter which he had recently received. In that letter, Hansen was asked how he could argue for secular stagnation in a mature economy when Sweden proved the reverse. Hansen indicated to Wright that he had replied:

> Dear Sir, if you would, along with myself, advocate that the United States should now adopt all of the economic policies that Sweden has been practicing for some years, I am quite sure that we would do as well as Sweden[4] (Hansen, *Ibid.*).

The reference to Sweden indicated once again that Hansen was thinking in terms of social policy and long-term development in addition to compensatory fiscal policy. This can be seen in such publications as Hansen's *The Economic Issues of the 1960s* (1960). Therein, he strongly believed that the business cycle

had not been conquered and that education must prove to be the key to further economic reforms to maintain "full employment and maximum-growth policies" (Hansen, 1960, p. viii). Later, Hansen argued that we had solved the problems of 80 percent of the population in terms of well-being, but we had not yet faced the problems of urban living and the income gap between the affluent 80 percent and the non-affluent 20 percent (Hansen, 1960, p. 5). It was Hansen's belief that the solution to these socioeconomic problems involved both compensatory finance (such as fiscal policy to solve the cyclical employment problem) as well as long-term planning and education (for solving the long-term employment problem; the problem of urban living; and the problems of the non-affluent 20 percent of the population).

The view of Hansen regarding stagnation and the proper role of fiscal policy to offset it, was not enthusiastically received by all. For example, William J. Fellner's *Trends and Cycles in Economic Activity* (1956) casts theoretical doubts concerning stagnation and upon the ability of private investment to survive public investment or fiscal policy. To Fellner, the threat to full employment was a "long-lasting insufficiency of the improvement process" (Hansen, 1960, p. 190). Hansen replied in his critique of Fellner that history has proved the opposite. There have been periods of stagnation in economic history. There has been successful fiscal policy for short-term fluctuations. To Hansen public investment is not antithetical to private investment as the rise in *private* investment in the South after the *public* investment in the Tennessee Valley Authority has proved. Therein, public investment did not compete with private investment, but stimulated it (Hansen, 1960, p. 203f). Thus, public investment could be argued to offset any "long-lasting insufficiency in the improvement process."

In the 1960s, the problem of stagnation was pushed aside. But it was not to remain dormant long. The 1970s raised the issue again, but the term was stagflation rather than stagnation. Earlier, in the 1970s, as the full employment budget concept of the Council of Economic Advisers under Walter Heller indicated, the gap between actual output and potential output had been rising generally since 1955. In an article published in 1977, Anthony Scaperlanda updates Hansen to cover the 1960s and the 1970s. Therein, the war-economy and the space frontier are mentioned by Scaperlanda as favorable factors to continued growth and investment. However, the growth of market barriers and the possibility that innovations stimulate clusters of innovation or increases in employment less than in the past are discussed by Scaperlanda as impediments to continued full employment growth. To Hansen and to Scaperlanda, the market structure itself is important. Simply stated, an oligopolistic market structure could block innovation and could keep prices high in a recession to delay the clearing of goods from the market necessary to end the recession. Scaperlanda then re-

minded us that Hansen would stress both the development of "new frontiers" at home (the clearing of urban blight) and that the government would have to cooperate with the private sector in developing successful economic policies (Scaperlanda, 1977, p. 237). Thus, once again, we see both the need for compensatory fiscal policy in the short-term and long-term planning for the longer term socioeconomic problems such as urban redevelopment, long-term unemployment and regional development.[5]

V

Conclusion

ALVIN HANSEN BELIEVED that the growth rates of the capitalist economy would be brought down by the concept of secular stagnation. Like the classical economists, he feared the problem of insufficient investment in the long-run. Unlike the classicalists, he did not believe in the efficacy of Say's law in the short-run and feared that its results in the long-run would be too drastic to tolerate politically even assuming its long-term efficacy. These beliefs, of course, made him an early advocate of Lord Keynes, especially as Hansen seems to have had an early view of a relatively flat consumption function. Hansen, however, did not believe that the demise of capitalism was inevitable. Fiscal and public policy to counteract cycles in the short-run and to stimulate autonomous investment in the long-run were the solutions. Hansen did not ignore monetary policy, but, as in the above quoted letter to Paul Samuelson, he believed it to be less effective than fiscal policy. Lastly, Hansen did not believe that fiscal and public policy was antithetical to private enterprise. It was instead supportive of private enterprise. Once again, I refer to the letter to Wright:

> *I think that it was J. M. Clark who said that 'laissez-faire' could be defined as government interference to which we had so long become accustomed that we took it for granted. All Terborgh's 'crutches'[6] will look like 'natural laws' and 'natural forces' before very long and will be taken for granted by business (Hansen; ibid., pp. 12–13).*

To summarize Hansen on this point of fiscal and public policy and its socioeconomic implications, we may return to his letter to David McCord Wright and to Hansen's lecture notes. In his letter to Wright concerning George Terborgh, Hansen writes:

> I am convinced economists have been grossly negligent in not really examining the deficiencies of our society. We could have full employment through private enterprise for a hundred years and it would not solve the gross deficiencies which we have in education and public health or in the slums and blighted areas of our cities. Our greatest deficiencies are exactly in the areas where only public outlays can meet the problem! (Letter to David McCord Wright, July 30, 1945, p. 15).

In his notes, he adds to this sentiment by stressing what Hansen believes to be the key to our future prosperity:

> A democracy lives or dies by the ability of its peoples to choose wisely. We need better schools to teach us how to understand the alternatives before us. Schools must help us with the knowledge and the judgments that we need to make these great decisions (Hansen: Box 5, Lectures, Misc.).

Finally, in terms of the social and economic policy, Hansen in 1957 wrote in terms of the future of socioeconomic policy: a free society cannot be content with a goal of mere life without want The next frontier is the quality, the moral, intellectual and esthetic values of the free way of life" (Hansen, 1957, p. 146).

Notes

1. There have been questions raised about the professional relation between Keynes and Hansen. There were in the files of Hansen at Harvard (Pusey Archives) no correspondence with Keynes. To my knowledge, in the files of Keynes, there is no correspondence with Hansen. However, in his notes Hansen refers to meetings with Keynes in Chicago (1931); New York (1934); Washington (1941); London (1941); Washington (1943); and Bretton Woods (1944). His notes refer to Keynes by such phrases as: "Brilliant"; "arrogant"; "overshadowed his countrymen"; "sleep piercing comments—sting rather than humor"; "no tolerance for stupid people." Hansen believed, as indicated in a letter to George Bernard Shaw, that Keynes "will revolutionize thinking" (Hansen: Box 1 of 2, Lecture Notes, Hug (FP, 3.62).

2. It might be argued in 1980s that world population is growing rapidly, thus, according to Hansen, so should the economies. However, most of the population growth of many underdeveloped countries is into poverty. Furthermore, projections of current population growth rates in underdeveloped countries assume the present parameters (which have historically changed in the past). As the majority of population growth is in a few countries, its control is possible. Thus, current population rates of growth may not be constant in the future. However socially desirable this decline in population growth may be, it will influence growth rates based upon population, I_p, as Hansen indicated. But, as the policies of Hansen indicated, there are other ways to stimulate growth.

3. As was stated earlier, Hansen did not believe in a government controlled economy (complete economic planning) but, rather, a government managed economy (fiscal/monetary policy). Herein, I am assuming that any future implementation of the Humphrey-Hawkins Act would involve not complete control but, rather democratically decided upon "indicative planning" of only crucial sectors of the economy, as needed. It is this type of planning that I believe Hansen would support—democratic, decentralized, selective, and non-inclusive. Monetary policy is, of course, centrally "controlled" by the Federal Reserve. However, no western central bank has complete control over monetary expansion and, especially, credit expansion. Often, in terms of monetary policy, as central banks try to tighten the money supply in one place, money flows in from other places.

4. In a previous criticism of von Hayek, Hansen had indicated that Sweden proved that planning did not necessarily lead to totalitarianism, as Hayek, in his *Road to Serfdom,* had inferred (Hansen, Hug FP-3.42, Research Notes, Box 2, E-L).

5. For a more thorough analysis of the present, one might refer to *The Overloaded Economy,* Wallace Peterson.

6. The "crutches" referred to by Terborgh were the short-term compensatory monetary-fiscal policies that Hansen believed were necessary to maintain full employment.

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In the text, specific references are made to the Hansen literature in the Archives at Harvard University, Pusey Archives. The reference number of Hansen, the box number, the title of the contents of the box, and other details are given when possible. References to books are listed separately below. The author thanks the Pusey Archives, Harvard Library and Harvard University for their aid and for their every courtesy during August of 1986 and for their continued aid in June of 1987.

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