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Keynes's model portrayed the market as a driver without a steering wheel, a driver that could push the economy off the road at any time. He taught that the economy needed a large and activist government to steer it
on the road of full employment. Keynesianism, or the 'new economics,'
became widespread -- the 'general' theory.

Modern economics textbooks thus focused primarily on the ups and downs
of the capitalist system and how government policy could attempt to ameliorate the business cycle. They include many chapters studying cyclical fluctuations, while burying the study of economic growth and development -- otherwise known as supply-side economics -- in the back pages. Now Mr. Mankiw has changed all that, putting classical economics back at the forefront, where it belongs.

This is more than some free-market economists have been able to accomplish in the past. James Gwartney and Richard Stroup, authors of 'Economics: Private and Public Choice' (Dryden, 1997), don't believe in the Keynesian model of aggregate supply and aggregate demand, or AS-AD, but they were forced to include it by their publisher's review board, which consists of mainstream economists. Roger LeRoy Miller, author of another best-selling textbook, 'Economics Today' (Addison Wesley, 1997), told me, 'AS-AD is a bunch of nonsense, but I'm required to teach it.' (One small victory: Paul Heyne refused to put AS-AD in his 'The Economic Way of Thinking' (Prentiss-Hall, 1997) and got away with it because he writes for a niche market.)

So, in a Nixon-goes-to-China twist, it took a Keynesian to accomplish what the free-market economists couldn't -- relegating Keynesian models to a minor role in textbooks.

Mr. Mankiw calls his classical model 'the real economy in the long run.' His textbook, published by Harcourt Brace's Dryden Press, teaches that increases in government spending crowd out private capital, producing higher interest rates. Higher thrift and greater savings produce lower interest rates and higher economic growth. Unemployment is caused not by greedy industrialists, but by minimum wage laws, collective bargaining, unemployment insurance and other regulations that raise the cost of labor.

Mr. Mankiw even approvingly quotes Milton Friedman: 'Inflation is
always and everywhere a monetary phenomenon' -- not the product of rising labor or supply costs, as many Keynesians believe. In fact, Mr. Mankiw cites Mr. Friedman more than he cites Keynes. This is not to say that Mr. Mankiw's textbook isn't without a few sins of omission. He fails to tell students about the great postwar economic miracles of Japan, Germany, Hong Kong, Singapore and Chile. He also ignores the current debate over Social Security privatization. And there are no references to the great Austrian economists Ludwig von Mises and F.A. Hayek, or to Nobel laureate James Buchanan and the public choice theory he espouses.

But these complaints are small compared with the book's overall message, that classical economics is now the 'general' theory and Keynesian economics is the 'special' case. Amazingly, Mr. Mankiw doesn't mention most of the standard Keynesian analysis: No 'consumption function,' no 'Keynesian cross,' no 'propensity to save,' no 'paradox of thrift' -- and only one short reference to the 'multiplier'!

That's quite a feat for Mr. Mankiw, a man who named his dog Keynes.

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(See related letters: 'Letters to the Editor: The Evolution of Keynesianism' -- WSJ Oct. 23, 1997)