Some Implications of Keynes General Theory of Employment, Interest, and Money

E.E. Hale

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That Keynes' *General Theory of Employment, Interest, and Money* has exercised more influence upon economic inquiry and thinking and upon public policy than has any other book in the whole history of economic thought within an equal length of time (thirteen years) after its publication has been proclaimed equally by friend and foe, by convert and critic, by Keynesians and non- or anti-Keynesians. Thus Professor Seymour Harris, a Keynesian, believes that Keynes has not had an equal "in influence upon economists and men of action of his day." "The miracle of Keynes," he says, "is that, despite the vested interests of scholars in the older theory, despite the preponderant influence of press, radio, finance, and subsidized research against Keynes, his influence both in scientific circles and in the arena of public policy has been extraordinary."[1] Though Professor Harris admits that the *General Theory* does not solve all economic problems of the modern age, and that it will require supplementation and, possibly, some revision, his judgment remains that

> ...Keynes was undoubtedly the great figure in economics of twentieth century and may well prove to be the giant of modern economics... Out of the straws of his predecessors, with some additions of his own, he built a structure which no economist or economic practitioner can afford not to inspect and use. [2]

Professor Alvin H. Hansen ranks the *General Theory* as equalling the *Wealth of Nations* and the work of Jevons, the Austrians, and Walras in significance in the development of economic thought. Though "it is too early to say," he writes, "it does not now appear an extravagant statement, that Keynes may in the end rival Adam Smith in his influence on the economic thinking and government policy of his time and age.[3]

Similar opinions have been voiced by non- and anti-Keynesians. Thus Professor Schumpeter, in an essay written shortly after Keynes' death in 1946, notes that "the success of the *General Theory* was instantaneous, and, as we know, sustained." He continues

> A Keynesian school formed itself, not a school in that loose sense in which some historians of economics speak of a French, German, Italian school, but a genuine one which is a sociological entity, namely, a group that professes allegiance to one master and one doctrine, and has its inner circle, its propagandists, its watchwords, its esoteric and its popular doctrine. Nor is this all. Beyond the pale of orthodox Keynesianism there is a broad fringe of sympathizers, and beyond this again are the many who have absorbed, in one form or another, readily or grudgingly, some of the spirit or some of the individual items of Keynesian analysis. There are but two analogous cases in the whole history of economics — the Physiocrats and the Marxists.[4]

And Dr. Paul Sweezy, a Marxian and hence an anti-Keynesian, has characterized Keynes as "one of the most brilliant and versatile geniuses of our time... the most important and illustrious product of the neoclassical school,... whose mission was to reform neoclassical economics, to bring it back into contact with the real world" from which it had wandered far since 1870. Sweezy has said that he has no doubt that "Keynes is the greatest British (or American) economist since Ricardo," and that he thinks "his school sheds a flood of light on the functioning of the capitalist economy."[5]

How account for this phenomenon? How is it that Keynes' highly abstract and rather complex static equilibrium analysis has had so sweeping an influence on public policy? Why has the *General Theory* compelled all economists to reexamine their thinking and many economists to revise their theories? Wherein precisely lies the significance of Keynes' book?

The answers to these questions are many and diverse. As might be expected, the Keynesians account for the remarkable success of the *General Theory* on the ground that it has made large and lasting contributions to economics, that it has given us a kit of analytical tools by the use of which we can solve the pressing economic problems of our time — the problems of appropriate interest rates, central bank policy, inflation, deflation, wastage of economic resources, and, above all, depression unemployment. Professor Paul Samuelson, probably the leading Keynesian among the younger economists of our country, finds the significance and the contribution of the *General Theory* to lie in "the fact that it provides a relatively realistic, complete system for analysing the level of effective demand and its fluctuations."[6] Professor Seymour Harris believes the great contribution of the *General Theory* to be its adaptation of economics

> To the changing institutional structure of modern society... Up to 1936, when the *General Theory* was first published, accepted economics in general belonged more to the vanished age of competition, of capital deficiencies, of full employment or transitional unemployment and the like than to the twentieth century economy which tolerated and to some extent encouraged monopolies, rigidities, excessive savings, deficiency of demand, and unemployment. To make up for the growing lag, Keynes sailed boldly and vigorously into uncharted waters.[7]

Professor Hansen selects the formulation of the consumption function as the greatest contribution of the *General Theory*. This formulation, he holds, is "by far the most powerful instrument which has been added to the economist's kit of tools in our generation." Lack of this tool, he says, caused business cycle theorists from Malthus, Wicksell, Spiethoff, and Aftalion to "fumble around in the dark, and never quite reach shore."[8] The consumption function has at long last, says Professor Hansen, elevated income analysis to a place equally important as price analysis.

Critics of Keynes, such as Professor Schumpeter and Haberler, have somewhat different ideas as to the cause of the victory of the *General Theory*. Professor Haberler attributes, as a partial cause,

> ...the brilliance of (Keynes') style, the versatility, flexibility, incredible quickness, and fecundity of his mind, the many-sidedness of his intellectual interests, the sharpness of his wit, in one word the fullness of his personality. (These were) found to fascinate scores of people in and outside the economic profession. Only a dullard or narrow-minded fanatic could fail to be moved to admiration by Keynes' genius.[9]

He further notes:

> The tremendous appeal of the *General Theory* to theoretically-minded economists has been attributed by many to the (alleged) fact that it uses for the first time in the history of economic thought a general equilibrium approach in easily manageable macroscopic (aggregative) terms.[10]

Yet in Professor Haberler's opinion neither the brilliance of Keynes' style and wit nor the attractiveness of macroscopic general equilibrium analysis is the major cause of the sweeping success of the *General Theory*. On the contrary, "we can safely assume," he says, "that the concrete content and the policy recommendations which Keynes and others deduced from his system had even more to do with its persuasiveness (even for his theoretically-minded followers) than its theoretical beauty and simpleness.[11]

Professor Schumpeter in an even more straightforward manner accounts for the appeal of the *General Theory* to the fact that it once more reduces economics, which over the past decades "had been growing increasingly complex and increasingly incapable of giving straightforward answers to straightforward questions... to simplicity" and enables "the economist once more to give simple advice that everybody can understand." Yet, Professor Schumpeter continues, "exactly as in the case of Ricardian economics there was enough to attract, to inspire even, the sophisticated. The same system that linked up so well with the notions of the untutored mind proved satisfactory to the best brains of the rising generation of theorists."[12]

This reminds one of Keynes' answer in the *General Theory* to a similar question relative to Ricardo's *Principles*, viz., what accounts for the victory of Ricardian economics over the Malthusian doctrine of inadequacy of general demand. Ricardo, says Keynes, "conquered England as completely as the Holy Inquisition conquered Spain." Keynes regards the completeness of the Ricardian victory as something of a curiosity and a mystery.

> It must have been due to a complex of suitabilities in the doctrine to the environment into which it was projected. That it reached conclusions quite different from what the ordinary uninstructed person would expect added, I suppose, to its intellectual prestige. That its teaching, translated into practice, was often austere and unpalatable, lent it virtue. That it was adapted to carry a vast and consistent logical superstructure, gave it beauty. That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority. That it afforded a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social force behind authority.[13]

Like Ricardo's *Principles*, the *General Theory* too was highly suited to the environment into which it was projected — the breakdown of capitalism in the great depression between the wars. Like Ricardian theory, the *General Theory* reached "conclusions quite different from what the ordinary uninstructed person might expect." We may note, among others, the conclusions that employment and real income are independent of the price level and money wage rates, that saving is a residual and is determined by the level of investment, that thrift is generally an economic vice and spending an economic virtue, that boondoggling in a depression increases income and the wealth of the nation. The *General Theory*, like Ricardo's *Principles*, is "adapted to carry a vast and consistent logical superstructure." Here, though, the similarity ends.

Keynes' teaching translated into practice is not, like Ricardo's, austere and unpalatable. Quite the contrary. It calls for higher living, more consumption, and more leisure. Hence it is without virtue. It explains social injustice and apparent cruelty not as an inevitable incident in the scheme of progress, but as a result of stupidity and ignorance which prevent the formulation of policies and the use of controls already at hand to establish and maintain full employment and maximum income. Since these policies, though, call for a rather severe redistribution of income and a vast deal of government interference in the activities of businessmen, the *General Theory* is damned by authority and by the dominant social force that stands behind authority.

Undoubtedly all of the opinions noted as to the cause of the impact of the *General Theory* on economists and economic theory and public policy point to significant factors. I venture the thought, however, that possibly the most trenchant reason is not mentioned in the list above. Schumpeter gives a hint of this reason, but he misses the essential point. He notes that in economics such enthusiasm — and correspondingly strong aversions — as greeted the *General Theory* "never flare up unless the cold steel of analysis derives a temperature not naturally its own from the real or putative political implications of the analyst's message."[14] That is true. Economic theory is not developed in a vacuum. Original contributions to economic thought always have resulted from the particularly pressing economic issues and problems of the time. Major problems demand solution. And the great systems of thought originally were developed in an attempt to solve problems and resolve issues. In consequence each of the great systems in its time derived "a temperature not naturally its own" from the political implications of its message. There can be no doubt, it seems to me, that the *General Theory* resulted primarily from the momentous economic problems and issues posed by the breakdown of capitalism in the Western world between the World Wars I and II. For the orthodox, and indeed for the liberal-minded as well, the events of the interwar years were terrifying. The most direful predictions of Marx seemed to be coming true. Capitalism appeared to be in its death throes. A socialist economy was established and stabilized in a nation covering one-sixth of the land area of the earth. In Germany, Italy, and some of the smaller European nations, capitalism was saved for a time only by resort to the desperate expedient of fascism. Even in the United States, the wealthiest and strongest of the capitalist countries, the system faltered, stumbled blindly, and collapsed completely in the spring of 1933. Something had to be done if capitalism were to be saved.

Something had to be done, but what? What remedies were required to check and cure the sickness of the acquisitive society — a sickness that was rapidly proving fatal? Obviously, remedies could be prescribed only on the basis of knowledge of the nature and causes of the disease, that is to say, on the basis of an adequate economic theory of the capitalist economy. The received doctrine, the theory upon which reliance had been placed for more than one hundred and fifty years in the formulation of policies and the solution of problems — classical and neoclassical economics — proved its utter bankruptcy as a guide to effective action at a time when effective action was imperative if the economic system which that theory hitherto had so effectively rationalized and defended were to survive. For the postulates of the classical theory, as Keynes has said, were applicable only to a special case, and "the characteristics of the special case assumed by the classical theory happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience."[15]

To provide a theory adequate to diagnose the illness of capitalism in the Great Depression and thus to indicate what was required to be done to restore that system to health and vigor was the task Keynes set himself in the *General Theory*. The problem to be solved seemed to him of transcendent importance, for Keynes was an ardent believer in and defender of the virtues of industrial capitalism. That system, he believed, possessed great values and advantages, values and advantages that must be preserved in the interest of economic efficiency and of human dignity and freedom.

The illness of capitalism in the Great Depression, as well as similar but less disastrous attacks of the same malady periodically throughout its lifetime, made obvious to Keynes, as it has to a host of others, that the system had its faults. For Keynes its outstanding faults were "its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income," and these faults, in his opinion, were linked as cause and effect. But no system is perfect. And these faults of the capitalist economy, he was convinced, could be corrected or removed by measures that would not impair the basic institutions of the system or injure any of its vital organs.

It is financial capital that is the villain, not industrial capital. It is on financial capital that Keynes lays the blame for the malfunctioning of capitalism, for its periodic sicknesses, and for its distress and collapse in the Great Depression. His sharpest barbs are reserved for the *rentier*, the idle and functionless receiver of property income, and the speculator, who, he says, has made the capital development of the country a "by-product of the activities of a casino." Keynes would eliminate the rentier by reducing the rate of interest to zero. Such a measure not only would mean the "euthanasia of the rentier", as he puts it, but also would cause investment to increase to the point at which the marginal efficiency of capital, the expected return over cost, would fall to zero — that is to say, capital goods would cease to be scarce. He would make up for deficiency of private investment and eliminate the speculator as the guiding force in investment by what he calls the "socialization of investment." He does not say precisely what he means by "the socialization of investment," but he seems to mean a wide expansion of public investment and a strict and sweeping public control of private investment. These measures, together with progressive taxation and regressive expenditures to raise the propensity to consume, constitute the major means proposed by Keynes for correcting the faults of capitalism and making it function effectively at high levels of employment, output, and income. Socialism, or collective ownership of the means of production, he insists, is unnecessary. "If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them," he says, "then it will have accomplished all that is necessary."[16] He admits that the controls required to insure full employment involve a large extension of the traditional functions of government, but contends that "there will still remain a wide field for the exercise of private initiative and responsibility." "By right analysis," he concludes, "it is possible... to cure the disease whilst preserving efficiency and freedom."[17]

Professor Dillard undoubtedly is correct in his thesis that "Keynes' major purpose may be characterized as an attempt to buttress political liberalism with a new economic program and to fortify this economic program with a new political economy."[18] That was his purpose, but Keynes could believe that his new economic program fortified by his new political economy would buttress political liberalism and capitalism only because he failed to draw the logical conclusions of his theory. These conclusions are startling, to say the least. For the reduction of the rate of interest to zero surely could not be effected short of complete nationalization or socialization of the banking system, and the banking or credit system is the very heart of capitalism. Further, on Keynes' assumption that investment will be pushed to the point at which the marginal efficiency of capital equals the rate of interest, a zero rate of interest would lead, as he notes, to a zero marginal efficiency of capital — that is to say, to the disappearance of property incomes as such. And what is left of private property if it is stripped of that which primarily gives it meaning to an owner, its income yield? But this is not all. Keynes admits that no measures could avail to cause the volume of private investment to be sufficient to absorb the difference between the income produced in modern society at a full employment level and the amount of that income which people would choose to spend on consumption. Hence, public investment will be necessary to compensate for deficiency of private investment. This is in part what constitutes his "socialization of investment." Yet it must be obvious that public investment would in time inevitably and necessarily result in government ownership of all industries, that is, would result in the destruction of whatever may be left of the institution of private property after its income-yielding power to private owners has been destroyed. For a while government could invest in farm-to-market roads, in school houses, in parks and playgounds, and in leaf raking. But after all the farm-to-market roads have got constructed, all the school houses built, all the parks and playgounds laid out, and all the leaves raked, government would have to find something else in which to invest. Nothing else could be found except in those fields which previously had been posted and held for private investment only — the railways and other public utilities, steel, automobiles, and so on through the whole list. And thus not only would finance capital get socialized, but industrial capital as well. A program that could have no other result than the socialization of the entire economy is indeed a strange way in which to preserve capitalism.

And even this is not all. For just as in time government would get all the public works constructed that lie outside the field of private enterprise, further continued compensatory investment would get all the steel mills built, all the railways and utilities constructed, all the automobile plants erected. Modern industry is inordinately productive. We never knew just how productive it is until World War II. Even the most optimistic estimates of America's capacity to produce made before 1940 greatly underestimated this capacity, underestimated it by as much as thirty or forty per cent. In the absence of some external or non-economic expansive force impinging on our economy to increase the need for goods, surely a relatively small expansion of our existing capital equipment would suffice to produce a real income of such size that people would prefer to have more leisure than to have more goods, to have time to engage in other pursuits than to devote as much time as hitherto to the work of producing economic goods and services. At this point, we would have a full investment economy. Keynes obviously envisaged a full investment economy. "I feel sure," he says, "that the demand for capital is strictly limited in the sense that it would not be difficult to increase the stock of capital up to a point where its marginal efficiency had fallen to a very low figure."[19] And elsewhere he says that he "should guess that a properly run community with modern technical resources, of which the population is not increasing rapidly, ought to be able to bring down the marginal efficiency of capital in equilibrium approximately to zero within a single generation."[20]

He realizes some of the consequences of full employment, but not all, and not the most significant or important. He recognizes that full investment would mean "a quasi stationary community where change and progress would result only from changes in technique, taste, population, and institutions, with the products of capital selling at a price proportioned to the labour, etc., embodied in them," that "enormous social changes would result from a gradual disappearance of a rate of return on accumulated wealth," that "the rentier would disappear," and the like, but he fails or refuses to recognize that not only the rentier but capitalism itself would disappear. On his assumption that it would be "comparatively easy to make capital goods so abundant that the marginal efficiency of capital is zero," he believes that this may be "the most sensible way of gradually getting rid of many of the objectionable features of capitalism." It would indeed get rid of many, in fact of all, the objectionable features of capitalism for it would get rid of nothing less than capitalism itself. In a full investment economy the whole of the net income produced during any given period of time would necessarily have to be consumed. By definition that would be no net additional investment, and hence there would have to be 100 per cent consumption of income. But a capitalist economy is a profit-making economy and a capital-accumulating economy. It is precisely profit making and capital accumulation that makes an economy capitalistic as distinguished from a socialistic or communistic economy. A zero-investment, 100-per cent consumption economy is an economy in which people work only to make a living, that is, to produce goods for consumption. It would be of like kind with the economy of a pioneer, self-sufficient agricultural society or of a socialist society — the antithesis of an economy in which capitalists engage in enterprise to make profits, not to make a living, and to acquire investment goods, not consumer goods.

Keynes' blindness at bottom results from his failure or refusal to recognize that he had hit upon the contradiction in the process of capital accumulation which Marx had so clearly pictured three-quarters of a century earlier. For capital accumulation is a self-limiting and a self-destructive process. The very process of accumulation destroys the profitability of further accumulation. This has always been true. The economic heretics such as Malthus and Marx and Hobson recognized it, but all others failed to do so. The reason for their failure was that a conjunction of unique circumstances during the eighteenth and nineteenth centuries, and even the first two or three decades of the twentieth century, made possible rapid capital accumulation without disastrous effects on the values of previous accumulations and without destroying the profitability of further accumulation. As has been so frequently noted, these circumstances were a high rate of population increase, enormous geographic expansion, a remarkable series of great capital-using inventions, and a war, major or minor, on an average of once each ten years. Capitalism was fortunate only by lucky accident or by fortuitous chance. But any poker player knows that luck does not and cannot run forever. All except one of the expansive forces of the nineteenth century has seemingly spent its major force. We seem in this modern age to be reduced to only one expedient surely available (and surely adequate) to make possible profit making and further private capital accumulation on a scale adequate to the maintenance of reasonably full employment. That expedient is war and preparation for war. We doubtless are fortunate in having this one expedient left and doubly fortunate in that the one left is the most efficient of them all. It is, of course, the one upon which we are now placing, and for some time past have placed, sole reliance.

Keynes could maintain that his remedy would save capitalism only because he was blind, willfully or unconsciously, to its implications. Professor Schumpeter, then, is correct in his keen observation that the *General Theory* excludes from its formal analysis all phenomena that really dominate the capitalist processes. With the classical economists, capitalist evolution issues into a stationary state of full employment and maximum wealth and income. With Marx capitalist evolution issues into breakdown. With Keynes it issues into a stationary state that constantly threatens to break down and is only prevented from doing so by his *deus ex machina*, the state. But state action in support of capitalism, on the scale deemed necessary by Keynes, inevitably would end in the destruction of capitalism. For capitalism is an economy operated by free private enterprise, not one operated by a government bureaucracy.

Keynes and Marx, indeed, have much in common. The *General Theory*, like *Das Kapital*, teaches that unemployment and depression are the norms to which the capitalist economy tends. Both Keynes and Marx were aware of deficient demand and oversaving, of the declining profit rate resulting from limited investment opportunities, of the unwisdom of capital exportation. Both were highly critical of the excesses of the capitalist system. But Keynes was no socialist. For him the troubles of our society are due, not to the breakdown of a social system, but to a failure of intelligence. He is convinced that by the exercise of intelligence capitalism can be made more efficient for attaining economic ends than any alternative system yet in sight. He is firmly of the opinion that "in some respects the *General Theory* is moderately conservative in its implications." He believes that the policies offered by the *General Theory* are "the only practical means of avoiding the destruction of existing economic forms," and the only "condition of the successful functioning of individual initiative."[21] That Keynes could so believe proves his blindness to the logic of his argument.

It never occured nor could have occurred to Ricardo to draw the logical conclusions of his system of thought, but it did occur to the Ricardian socialists and to Marx, and they drew them. Keynes refuses to draw, or even to admit, the logical conclusions of the *General Theory*, but they are there nevertheless, and in plain sight for all to see.

This is indeed the Keynesian revolution. Those who look for it elsewhere necessarily fail to find anything revolutionary. How could they? In methodology the *General Theory* is severely orthodox. Its technique is that of static equilibrium analysis, as was Ricardo's and Marshall's and that of classical economists generally. For Keynes, as for the classicists, this technique involves a host of highly unrealistic assumptions, and Keynes yields to none in the unrealism of his assumptions. He assumes that the techniques of production and the amount of fixed capital are unchanged throughout the periods with which he deals. He assumes that perfect competition exists throughout the economy. There is not a single reference to or mention of monopoly or monopolistic competition in the whole of the *General Theory*. He assumes that returns diminish and costs increase as output is increased. This follows from his assumption of constant techniques. He assumes that the economy is closed.[22] It is difficult, indeed impossible, to find anything revolutionary in the technique of analysis or in the assumptions of the *General Theory*.

Professor Haberler, in his essay on the place of the *General Theory* in the history of economic thought, concludes that the same is true of its logical content. After an analysis of what he regards as "the purely scientific content of *The General Theory of Employment, Interest, and Money*," he concludes that "as far as the logical content of Keynes' theory goes, i.e., apart from his judgment as to the typical shape of the various functions and of concrete situations and apart from policy recommendations, no revolution has taken place; the *General Theory* marks a milestone... but not a break in the development of economic theory."[23] Taking the logical content of the system, as does Professor Haberler, to be the individual relationships ("functions" or "propensities") of which it is composed, the interactions of the various parts, and the working of the system as a whole, I believe his judgment is essentially sound, though I think he minimizes certain differences between the Keynesian and the classical systems and is in error in holding generally that where they differ, as for example, in the theory of interest or the relation between money wages and employment, the classical theory is more realistic and useful. Surely, however, nothing revolutionary is readily apparent in the consumption function, the marginal efficiency of capital function, the liquidity-preference function, the wage-unit and the labor-unit concepts, and the assumption of a given quantity of money — and it is these that, according to the *General Theory*, determine income and employment. Not revolutionary indeed, but what a *tour de force!* "What a *cordon bleu*," exclaims Professor Schumpeter, "to make such a sauce out of such scanty material."

Professor Hansen does not agree that the logical content of the *General Theory* is not revolutionary, at least as concerns economic thought. On the contrary, as we have noted, he regards Keynes' formulation of the consumption function as a revolutionary innovation in economic analysis. It is true that Keynes is the first clearly and specifically to formulate this function and to use it as an analytical tool, but surely the consumption function is implicit in the whole analysis and argument of the underconsumptionists. It is virtually stated, in fact, in Engel's Law of Consumption, which used to be included in the elementary text books. This, though, is not to detract from Keynes' achievement. He is the inventor of the consumption function in the same sense that Malthus is the inventor of the Malthusian doctrine of population or that Ricardo is the inventor of the differential rent theory.

Schumpeter finds the revolutionary element in Keynesian economics to be its all-out attack on thriftiness and its espousal of spending. "Savings," says Professor Schumpeter, "had come to be regarded as the last pillar of the bourgeois argument."[24] As we all know, orthodox theory holds saving to be essential to capital formation and capital formation to be the *sine qua non* of economic progress. Though classical economists of humanitarian impulses, as Marshall and Pigou, admit the inequity of the gross inequality in the distribution of income which capitalism generates, they nevertheless justify gross inequality as essential to rapid capital accumulation and increasing national wealth. Keynes attacks this pillar of classical theory and smashes it into dust. His doctrine teaches, in effect, that an undue propensity to save reduces capital accumulation and impoverishes the nation, and that unequal distribution of income is one of the major causes of unemployment. "This," says Professor Schumpeter, "is what the Keynesian Revolution amounts to."[25]

It may be. But the doctrine of saving has been subjected to repeated attacks over the past two centuries and more. Barnard de Mandeville delivered a telling blow against thrift in his *Fable of the Bees* first published (under another title) in 1705. The underconsumptionists from Lord Lauderdale and Malthus to Hobson and Gordon Hayes have never tired in their spirited attacks on this doctrine. The thesis that saving is a vice and spending a virtue may be revolutionary, but Keynes is not the subversive who began this revolution. He came on the scene some two hundred years too late to play that role. His contribution consists in lending his prestige and respectability to a doctrine that, in his words, had hitherto lived on only furtively, in the underworld of economics, espoused by such unorthodox, and hence suspect, characters as Malthus and Hobson, or such disreputable characters as Karl Marx and Silvio Gesell. To lend the doctrine respectability is no mean contribution, but surely it is no revolution.

No, the Keynesian revolution does not lie in the analytical tools which he forged. As Mr. Arthur Smithies has said, the true greatness of the *General Theory* "could never have been achieved had its author been fully dependent on these analytical tools."[26] It does not lie in the argument which, by the use of these tools, Keynes deduces from his unrealistic assumptions. It does not lie in this or that specific element of his theoretical structure. It lies rather in the *obiter dicta* which are liberally sprinkled through the book. It lies in what is easily read between the lines. It lies in the implications of the argument, in the logical import of the system as a whole. It is revolutionary precisely in the sense that Ricardo's *Principles* was revolutionary. A host of what Marx refers to as "vulgar economists" busied themselves mightily to obscure or argue away the revolutionary implications of the Ricardian system, but to little avail. It finally proved necessary to scrap that system and substitute what purported to be another for it — the marginal utility analysis — which sought to avoid the sins of its predecessor by concentrating attention on the individual process of consumption in place of the social process of production which had occupied the older classicists. By this substitution and shift of emphasis, orthodox economics was rid of its dangerous and frightening implications. It is unfortunate, possibly, that it likewise was rid of almost all, if not quite all, economic content.

And now the *General Theory* and its "new economics" have upset the apple cart again. Once again the defenders of the *status quo*, both in theory and in practice, have to try to repair the damage. They are already busy at this task, and their efforts employ the same technique as the earlier efforts to undo the damage of Ricardianism, that is, they attempt to obscure or to argue away the revolutionary implications of the *General Theory*.

Professor Haberler, for instance, finds nothing in the *General Theory* to be worried about. After convincing himself, and possibly also the reader, that there is not much that is new and nothing that is revolutionary in the logical or "scientific" content of the book, he then denies what seem to me to be the obvious, viz., that the logical conclusions implicit in the system are revolutionary. "Differences about policy," he says, "cannot logically be explained by basic theoretical disagreement but must be explained by different judgments concerning concrete situations, administrative efficiency, the possibility of rational policy making, and, perhaps most important, by different attitudes concerning the broad issues of government intervention and central planning versus *laissez faire*. It follows from our analysis that specific policy recommendations derivable from the Keynesian system are not at all revolutionary. They are in fact very conservative."[27] But the Professor, like Keynes, is surely deceiving himself or else trying to deceive us. Or is he merely whistling to keep up his courage?

Professor Schumpeter tries to draw the poisonous fangs, by adopting a somewhat supercilious and patronizing attitude toward the *General Theory*. The model presented in the book is, he says, a simple one, and "the first condition of simplicity of a model is, of course, simplicity of the vision which it is to implement."[28] Again, "Keynes refused to go beyond the factors that are the immediate determinants of income (and employment)." This enables him greatly to simplify his picture of the world and arrive at very simple propositions. Anyone can do this, says Schumpeter, if he is content "with arguments of the form: Given A, B, C, ..., then D will depend upon

E." Since in the Keynesian system A, B, C, ... "are part of the phenomena to be explained, the resulting propositions about what determines what, may easily be made undeniable and acquire the semblance of novelty without meaning very much."[29] Or again, the *General Theory* abounds, he says, in overstatements — "overstatements moreover which cannot be reduced to the defensible level, because results depend precisely upon the excess."[30]

Taking another tack, Professor Schumpeter finds the *General Theory* to be very narrowly circumscribed in its application and hence innocuous. We must note, he says of the book, "first, its specifically English quality; second, *ex visu of England's short-run interests and of the kind of Englishman the advisor was* (Author's emphasis), its sober wisdom and conservation. It cannot be emphasized too strongly (he continues) that Keynes' advice was in the first instance always English advice, born of English problems... He was surprisingly insular, even in philosophy, but nowhere so much as in economics... Like the old freetraders, he always exalted what was at any moment truth and wisdom for England into truth and wisdom for all times and places."[31]

The earlier attacks on the *General Theory* were less ingenious. Professor Seymour Harris, in a review of the appraisals of the book which were published in 1936 and 1937, notes that not a single enthusiastic early review has come to his attention, though there were many critical ones.[32] Pigou, in his review published in the May, 1936, issue of *Economics*, sarcastically observed that "Einstein actually did for physics what Mr. Keynes believes himself to have done for Economics," viz., developed a real general theory.[33] "We have watched an artist," he continues, "firing arrows at the moon. Whatever we thought of his markmanship, we can all admire his virtuosity."[34]

Professor Knight was equally bitter in 1937. Keynes' interpretations of classical economics are, he wrote, "the sort of caricatures which are typically set up as straw men for purposes of attack in controversial writing." And, he continues, "Chapter 24 of the *General Theory* is of special interest to the present writer as one inclined to take economics as a 'serious subject' rather than an intellectual puzzle for the diversion or even the improvement of the mind."[35] Professor Knight found little in the book with which he could agree, though he found some things which were new and true. Unfortunately, he said, that which is true is not new and that which is new is not true.

There were many other reviews of like tenor. They sound somewhat juvenile and somewhat archaic today, just twelve or thirteen years later. But one should not be too critical of them, for they represent the first startled and angry reactions of the orthodox who sensed that the renegade was despoiling the temple. Professors Haberler and Schumpeter do a much better job, as they should after a decade in which to marshall forces and determine strategy and tactics. Nevertheless it is a losing battle. In fact it is already lost. The damage has been done and it is irreparable. What the bushy-bearded, heavy-handed German revolutionary did with malice aforethought and by frontal attack, the English aristocrat, a scholar of Eton and King's College, Cambridge, a director of the Bank of England, an advisor to the Chancellor of the Exchequer, a peer of the Realm, performed neatly, skillfully, and unconsciously, by flank attack.

E. E. Hale
Professor of Economics 1923-1962
Professor Emeritus 1962-1975
University of Texas at Austin

NOTES

1. Harris, S.E., "Keynes' Influence on Public Policy," in *The New Economics*, ed. by S.E. Harris, p. 13.
2. Harris, S.E., "About this Book," in *The New Economics*, pp. 6-7.
3. Hansen, Alvin H., "Keynes and the General Theory," *ibid.*, pp. 143-144.
4. Schumpeter, J.A., "John Maynard Keynes, 1883-1946," *ibid.*, p. 97.
5. Sweezy, Paul M., "John Maynard Keynes," *ibid.*, pp. 102-108.
6. Samuelson, P.A., "Lord Keynes and the General Theory," *ibid.*, p. 151.
7. Harris, S.E., "About this Book," *ibid.*, p. 4.
8. Hansen, A.H., *op. cit.*, p. 135.
9. Haberler, Gottfried, "The Place of the *General Theory of Employment, Interest, and Money* in the History of Economic

Thought," *ibid.*, p. 161.
10. *ibid.*, p. 162.
11. *ibid.*, p. 162.
12. Schumpeter, J.A., *op. cit.*, pp. 99-100.
13. Keynes, J.M., *The General Theory of Employment, Interest, and Money*, pp. 32-33.
14. Schumpeter, J.A., *op. cit.*, p. 98.
15. Keynes, *op. cit.*, p. 3.
16. *ibid.*, p. 378.
17. *ibid.*, pp. 380-381.
18. Dillard, D., *The Economics of John Maynard Keynes*, p. 318.
19. Keynes, *op. cit.*, p. 375.
20. *ibid.*, p. 220.
21. *ibid.*, p. 380.
22. Cf. Smithies, Arthur, "Effective Demand and Employment," in *The New Economics*, pp. 558-559.
23. Haberler, Gottfried, *op. cit.*, p. 193.
24. Schumpeter, J.A., *op. cit.*, p. 99.
25. *ibid.*, p. 100.
26. Smithies, Arthur, *op. cit.*, p. 559.
27. Haberler, Gottfried, *op. cit.*, pp. 176-177.
28. Schumpeter, J.A., *op. cit.*, p. 94.
29. *ibid.*, pp. 95-96.
30. *ibid.*, p. 96.
31. *ibid.*, p. 88.
32. Harris, S.E., "The Appraisals of the *General Theory*, 1936-1937," in *The New Economics*, pp. 26-38.
33. Pigou, A.C., "Mr. J.M. Keynes' *General Theory of Employment, Interest, and Money*," in *The New Economics*, p. 29.
34. *ibid.*, pp. 29-30.
35. Knight, F.H., "Unemployment and Mr. Keynes' Revolution in Economic Theory," *Canadian Journal of Economics and Political Science*, 1937, p. 101. Quoted in Harris, S.E., *op. cit.*, p. 31.