REVIEW ARTICLE

UNEMPLOYMENT: AND MR. KEYNES'S REVOLUTION IN ECONOMIC THEORY[1]

I. *The Revolutionary Approach to the Problem*

WHAT Mr. Keynes ostensibly does in his already widely discussed volume published over a year ago is to effect a revolution in general economic theory. His work does not purport to be an extension of theory in the way of removing abstract generalizations and bringing it into closer touch with reality under particular conditions; rather its fundamental assumptions are rejected outright and others are substituted. These are still more general, and the accepted notions are treated as "special case" propositions not justified by the facts. The general character of the argument is indicated by the title, which is not "The Theory of Unemployment", but in contrast, "The Theory of Employment". In particular, the book is not ostensibly or directly a treatise on the business or trade cycle, to be incorporated into, and by qualifying to supplement, a general theory of stable equilibrium. It claims to be itself a theory of stable equilibrium, like the conventional systems in being free from cycles, but different in that instead of full employment a large amount of unemployment, involuntary and not due to friction, is characteristic of the equilibrium position.

I may as well state at the outset that the direct contention of the work seems to me quite unsubstantiated. Its value is, I think, to be sought in the opposite direction from that of its pretensions, as just indicated; *i.e.*, the treatment suggests modifications of conventional equilibrium analysis to account for temporary, possibly more or less chronic, disequilibrium conditions or, in other words, makes indirect contributions to the theory of business fluctuations. The argument, therefore, requires extensive re-interpretation and integration with a general theory running in terms of equilibrium with full employment, before it can be accepted as sound or useful.

[1]*The General Theory of Employment, Interest, and Money.* By JOHN MAYNARD KEYNES. London: Macmillan and Co. [Toronto: The Macmillan Company of Canada.] 1936. Pp. xii, 403. ($1.50) In view of the late date of this review, and particularly of the number of extensive reviews already published, some familiarity with the content of the book may be assumed, and this article will be made primarily critical in character.

Mr. Keynes himself sets his position in contrast with that of "the classical economics" at every opportunity. He begins with an introductory chapter of a single short paragraph which, repeating statements in his Preface, condemns the classical economics for dealing with a "special case", the characteristics of which "happen not to be those of the economic society in which we actually live", and follows with a full-length chapter entitled "The Postulates of the Classical Economics". In this chapter and throughout the book, his references under this phrase are, in general, the sort of caricatures which are typically set up as straw men for purposes of attack in controversial writing. I mean, of course, that that is the way in which they impress me. In the great majority of cases the doctrines so labelled seem to be quite at variance with, and often contradictory to, anything I was ever taught as classical doctrine in any modern sense—and I went through the academic "mill"; and they are certainly alien to anything I have ever taught as such, and I have been rated, and have supposed myself, an adherent of the general type of position referred to by the term. On the other hand, many of Mr. Keynes's own doctrines are, as he would proudly admit, among the notorious fallacies to combat which has been considered a main function of the teaching of economics. The general issue—in so far as there is an issue, and not merely the sort of amiable misrepresentation customarily assumed to be necessary to make an interesting fight—has to do with procedure in analysis. The accepted view among theorists has been that theory must begin with drastically simplified situations, described in abstract and over-general terms, and must proceed by stages toward the complexity of real life. In particular, it has been assumed that the theorist must consider a society free from the complications of speculation and of monetary changes, and hence from cyclical unemployment, before taking up these phenomena.[2] In the interest of clarity as to the underlying meaning, the reader of Mr. Keynes's book would do well to keep in mind that references to "the classical economics" are to be interpreted as relating to economic analysis *at the stage* at which uncertainty and monetary disturbances are assumed absent. It may also be helpful to suggest that Mr. Keynes's own procedure is typically that of replacing conventional assumptions which do not tell the whole story, and were never represented as doing so, with some antithetical proposition, or familiar qualification, which is then treated as quite general, though the context of the book itself makes it clear enough that the argument cannot be taken as meaning what it says.

[2]On page 292 the author finally mentions satirically the fact that traditional economics may get around to monetary phenomena, "in Vol. II, or more often in a separate treatise".

In chapter 2, Mr. Keynes states two "postulates", both having to do with labour and wages. The first is that "the wage is equal to the marginal product of labour"; the second, that "the utility of the wage when a given volume of labour is employed is equal to the marginal disutility of that amount of employment". The first is accepted, "subject only to the same qualifications as in the classical theory" (p. 17), the second rejected. The argument on this point need not be considered in detail; the main conclusion is that money wages are not revised downward in case of involuntary unemployment, because "fortunately", the workers are "instinctively more reasonable economists than the classical school" (p. 14).[3] In more general terms, the contention is that in the labour market the prevalence of a price which leaves a large quantity of the commodity in question unsalable but with the owners willing and anxious to sell, produces no effective tendency to reduce the price to a level which will "clear the market". It is almost, if not quite expressly, stated that workers bargain through an organization as a unit, *i.e.*, a monopoly, yet the situation conspicuously is not brought under the principles of monopoly price, and, of course, nothing is said of any arrangement for distributing the burden of loss of sale (*i.e.*, of unemployment). Mr. Keynes states repeatedly that the normal presence of a large amount of involuntary and non-frictional unemployment is a fact of common observation (pp. 7, 10, 16, 32, *etc.*). There is no reference to depression conditions. As neither the relation to friction nor even the involuntariness of unemployment is open to direct observation, the conclusion must be that his belief is based on deduction from the principles of his "system",—just the crime of which he accuses the classical writers (p. 16) in connection with the contrary conviction.

II. *The General Statement of the Theory*

It is imperative to keep the fundamental position above stated clearly in mind in interpreting the book as a whole, for little more is said about it, yet it is assumed throughout. It represents the first main step in the author's argument. Viewed as a theory of unemployment, the drift of this argument may be sketched as follows (as far as I am able to figure it out). To explain unemployment, Mr. Keynes first *assumes* (*a*) unemployment, and (*b*) such a price situation, and (*c*) such a mode of operation of the price mechanism, that growth in employment is blocked. This blocking is the fundamental mystery. It does not seem to be a matter primarily of wages being too high in relation to product prices, plus wage

[3]Chapter 19, entitled "Changes in Money-Wages", deals with the *effects* of wage *increases*.

and price "stickiness", but rather a matter of rigidity in the total monetary circulation, plus rigidity as regards decline in both prices and wages. The first step in the argument is intended to dispose of the popular heresy (derived from "classical" reasoning) that employment might be increased through a downward adjustment of wages. It has been argued (in chapter 2) (*a*) that the pressure of unemployment does not tend effectively to lower wages, and (*b*) that if it did, or if effective pressure in this sense were somehow brought to bear, wage reduction would not tend to increase employment, and hence "ought" not to happen. The bulk of the book, then, assuming initially more or less "correct" relative levels of wages and product prices, attempts to explain the failure of employment to increase spontaneously, and to suggest the type of social policy to be pursued in connection with the problem. The explanation runs in terms of the workings of the monetary system, especially in relation to the investment market.

In chapter 3, "The Principle of Effective Demand", the main argument of the book is sketched out in the form of a relation between aggregate demand and supply functions, *i.e.*, functions expressing supply-price and demand-price of amounts of employment (labour) as functions of the amount. The demand-price for labour (D in Mr. Keynes's notation) is the "proceeds" to be expected by entrepreneurs from employing a given amount. The supply-price is represented by Z and the quantity of employment by N. We read (p. 25):

> Now if for a given value of N the expected proceeds are greater than the aggregate supply price, *i.e.* if D is greater than Z, there will be an incentive to entrepreneurs to increase employment beyond N and, if necessary, to raise costs by competing with one another for the factors of production, up to the value of N for which Z has become equal to D. Thus the volume of employment is given by the point of intersection between the aggregate demand function and the aggregate supply function; for it is at this point that the entrepreneurs' expectation of profits will be maximized. The value of D at the point of the aggregate demand function, where it is intersected by the aggregate supply function, will be called *the effective demand*. . . . This is the substance of the General Theory of Employment, . . .

For "factors of production", we clearly should read "labour", and for "costs", "wages". In view of the fixity (against downward change) of the wage-level, this ought to say that there is a tendency to increase N until D is lowered, in consequence of diminishing returns, to equality with Z. What is meant by maximizing profits, I cannot see (the same statement is repeated on page 89), as the author surely does not assume that all entrepreneurs are organized as a monopoly, and if they were, the marginal productivity of labour would not be made equal to wages—the first "assumption of the classical economics", which he has said he accepts.

The page following the paragraph quoted again emphasizes the contrast with "the classical doctrine". The contrast is exceedingly strained and almost seems designed to distract attention from the essential assumption of the (downwardly) fixed supply-price for labour. The "special assumption as to the relation between these two functions" which classical economists are accused of making (p. 24 at bottom), which Mr. Keynes forcibly identifies with "Say's Law", actually means precisely the assumption that there is no such fixity of price preventing an adjustment which will clear the market.[4]

In the following section (of the same chapter, ch. 3) is given a "brief summary of the theory of unemployment to be worked out in the course of the following chapters". We read (pp. 27-8):

> The outline of our theory can be expressed as follows. When employment increases, aggregate real income is increased. The psychology of the community is such that when aggregate real income is increased aggregate consumption is increased, but not by so much as income. Hence employers would make a loss if the whole of the increased employment were to be devoted to satisfying the increased demand for immediate consumption. Thus, to justify any given amount of employment there must be an amount of current investment sufficient to absorb the excess of total output over what the community chooses to consume when employment is at the given level. For unless there is this amount of investment, the receipts of the entrepreneurs will be less than is required to induce them to offer the given amount of employment. It follows, therefore, that, given what we shall call the community's propensity to consume, the equilibrium level of employment, . . . will depend on the amount of current investment. The amount of current investment will depend, in turn, on what we shall call the inducement to invest; and [this] will . . . depend on the relation between the schedule of the marginal efficiency of capital and the complex of rates of interest. . . .[5]

[4]Mr. Keynes quotes Mill on Say's Law, but does not mention either Mill's explicit exception for crisis conditions which occurs a few pages previously in his *Principles*, or, of course, Mill's doctrine that the demand for products is not a demand for labour, which (however absurd) was one of his chief bids for fame.

[5]The first difficulty in following up and interpreting this statement is the confusion between what is dependent upon the actual magnitude of a variable and what is dependent on changes in that variable. It is no exaggeration to say that the book is "packed" with examples of this confusion. If we interpret the statement in accord with what it actually says, the questions raised have to do with speed of change and differences in speed of change between independent and dependent variables, *i.e.*, with "lags" in response, and the length of time required to establish a new equilibrium of the same sort which must be assumed as the starting point of the initial change, to make sense of the statement. But this view is contradictory to the conception of equilibrium in terms of which the theory as a whole is couched. The main assumption as to the psychology is repeatedly referred to in the book as a "law". The statements alternate more or less at random between the form of a relation between changes (almost always increases) in income and changes (increases) in "non-consumption" (as to saving, see below) and the form of a relation between income itself and non-consumption. For the latter, see page following quotation (p. 28 at bottom) and the apparently crucial definition on

III. *The Monetary Demand for Labour*

So far we have been dealing with what is essentially introductory material; the title above (of this present section of our study) is practically the subject of Mr. Keynes's book. (On page 89, he remarks that the aggregate supply function involves few considerations which are not already familiar, that it is the part played by the aggregate demand function which has been overlooked.) The thesis of the work is, first, that unemployment is due to the failure of effective demand, that neither actually nor properly, naturally nor artificially, is unemployment to be remedied otherwise than by an increase in the effective (monetary) demand for labour.[6] The reader's task could have been made indefinitely lighter if key sentences in the early part of the book had been so worded as to make it clear that, theoretically in the course of nature, and practically as a matter of policy, supply-price is fixed and the adjustment is all on the demand side, instead of being worded so as to give the impression that the supply-price function is a real function in the sense ordinarily understood.[7]

After dividing the monetary demand for labour into the two parts, demand for consumption purposes and demand for investment, the logical order of procedure might seem to be that of examining the forces which

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page 90, which calls the propensity to consume the functional relation between income and expenditure on consumption out of that income. But on page 96 "the fundamental psychological law" is again a relation between increases, and on page 97 the two formulations are apparently identified. (*Cf.* also pp. 115, 121, 251, 247.)

It is to be noted as a separate source of confusion that a relation between changes in one direction does not necessarily hold for changes in the other. A sufficiently industrious and painstaking reader will finally discover that in this case the reverse change, decrease in monetary flow, is supposed not to occur. (*Cf.* p. 307, at middle, and discussion below in this review.)

[6]Secondly, as we shall presently see, the thesis is specifically that the failure occurs in the demand for labour for use in connection with investment, not in connection with consumption.

[7]Immediately following the last long quotation above (*General Theory*, p. 28), the author reiterates his special-case accusation (without using the words "classical economics"), asserting that the equilibrium level of employment cannot correspond to more than full employment, since wages cannot exceed marginal productivity, but that there is no reason for expecting employment to be as much as full, that this will be the case only "when the propensity to consume and the inducement to invest stand in a particular relationship to one another". He means when they stand in a particular relationship to wages, the interest-rate, and general prices, which is obvious. What is mysterious and difficult to state clearly is the manner in which Mr. Keynes sets up an economic system on the basis of assumptions which imply that these variables or variable-complexes are either fixed or are determined by other forces than the mutual adjustment of supply and demand, *i.e.*, by "bargains" or public authority, or "psychology", or some other *deus ex machina*.

control the division of money income between the two fields and then following through the course taken by the "money" in the two channels until it either results in a demand for employment or for some explained reason fails to do so. But before taking the suggested next step, Mr. Keynes finds it necessary to insert a group of four general chapters under the caption, "Definitions and Ideas" (book II, chs. 4-7). These are chiefly devoted to explaining the meaning of investment.

The main task of chapter 4, on "The Choice of Units", is to assume out of existence the complicating circumstance that the demand for labour is a two-stage affair of prices, a price offered by entrepreneurs to secure the labour for use in making products which either are to be sold at prices or have an estimated money value to the entrepreneurs themselves. It might well have been made clear that the discussion of the chapter deals only with the demand for consumers' goods, since in Mr. Keynes's set-up only these are assumed to be sold by entrepreneurs in the market. Capital goods are held by them for use. The nominal capitalized value of such goods is, however, the crucial factor in the workings of the author's theoretical system. The argument advanced for treating the demand-function for labour as a single function is that the notion of a general price level is unnecessary and lacks "perfect precision —such as our analysis requires". The subject of prices is henceforth almost entirely avoided, sometimes apparently with effort, until the last chapter in the body of the work. The assumption is that prices, like wages, are fixed in one direction; they may go up, but never go down. This is virtually stated in so many words in chapter 21 (p. 307). And again, the sellers who according to the theory never cut prices, are, like the workers who refuse to accept lower wages, held to be pursuing the right policy (though in this case their superiority in wisdom to classical economists is not explicitly asserted).[8]

[8]As already remarked, the question of the reversibility of functional relations predicated for change in one direction is a confusing feature of Mr. Keynes's argument as a whole. The most general and pervasive example is the fact that the whole work explains unemployment by showing why increase in employment is brought to a stop, or blocked before it can get started. Except in chapter 22, "Notes on the Trade Cycle", which is really an appendix with a different point of view, little or no intimation is ever given that unemployment might result from a decrease in employment. In historical fact, as far as I know, unemployment on the scale of a serious social problem is not a typical state of affairs, and in every known case such a situation has followed at no long remove a period of relatively full employment—and has followed upon a sequence of change fairly uniform and familiar in its more general features and, similarly, periods of serious unemployment have in due course come to an end. But the question of how unemployment comes to pass is excluded from this work by the predetermination to make it a "normal" phenomenon, characteristic of an enterprise economy in stable equilibrium. It always follows upon equal or greater unemployment, never upon more

The consumption demand for employment (for labour) need not detain us much longer, as it is the failure of demand in the investment field which is the crux of the theory. It may be observed that labour applied to given equipment is assumed to be subject to diminishing returns (pp. 17, 40, *etc.*) and that this fact is made to imply rising prices with increasing employment (p. 249, *etc.*). The reasoning is doubtfully sound under the actual conditions in which serious unemployment occurs, *i.e.*, when the equipment has been built for use with a much larger complement of labour; but it would hold under ideal and instantly effective competition, and in any case the point plays no important role in the general argument. We pass for the present over chapter 5, on "Expectations", which contains important matter but it is properly relative to the theory of investment, and is badly stated, out of order, and not effectively integrated with the main argument. Chapter 6, on "The Definition of Income, Saving and Investment", begins with a discussion of production in terms of revenue and cost. This seems intended to illuminate the relation of costs, especially capital depreciation (a special formulation of which is here called user cost), to the producer's decisions affecting volume of production. But the argument is confused and unrealistic, and is hardly used in the later discussion, where marginal wage cost seems to be treated as controlling.[9]

The outstanding point made in book II is that saving and investment are so defined as to be necessarily and continuously equal. What this amounts to in the first place is simply that saving money is treated as "investing" in money, which is logically correct from the point of view of the saver. But in Mr. Keynes's first definition of investment, "current" investment is defined as "the current addition to the value of the capital equipment which has resulted from the productive activity of the period" (p. 62). This is correct only if the "productive activity" is interpreted

employment. In this connection the interpretation of Mr. Keynes by Professor Alvin H. Hansen (*Journal of Political Economy*, Oct., 1936) is interesting in that the position of equilibrium is established on the way down and not on the way up, as in the book itself.

[9]It is difficult to tell what is Mr. Keynes's conception of the relation between short-run and long-run conceptions and of their role in managers' decisions. The weakness of chapter 5 is again in point. It should be recognized that in the shortest short-run all, or virtually all, production of goods is for stock (in possession of some one) and all sales are sales from stock, hence that both are a matter either of speculative conversion of investment between goods and money, or of choice between consumption and investment. On the other hand, in the ultimate long-run there are no fixed costs, and for a system in equilibrium, stationary, or with growth (*i.e.*, unless the system as a whole is decadent), there is no capital charge except interest. In the "theoretical" long-run, moreover, there is no speculative factor; but in reality the farther ahead plans must look the greater this factor becomes.

to include everything that has happened during the period in question which affects values in any way, especially any shrinkage in general values due to money saving *not* resulting in investment as ordinarily understood and as implied in the phrase "productive activity"; and it must include any change in values in either direction consequent upon any monetary changes. Mr. Keynes's exposition seems calculated to conceal these facts, though in them lies the core of the explanation of depression and unemployment in accord with his own theory, if the latter is interpreted so as to make it defensible or intelligible. In this connection we may quote what seem to be the two most important sentences in the book (pp. 83-4): "The error [in the "old-fashioned view that saving always involves investment"] lies in proceeding to the plausible inference that, when an individual saves, he will increase aggregate investment by an equal amount. [This] conclusion . . . fails to allow for the possibility that an act of individual saving may react on someone else's savings and hence on someone else's wealth." In familiar language this, of course, means simply that the saving may be hoarded and by reducing monetary circulation lead to sales reductions or price declines with all the consequences of these in train; but familiar terms and modes of expression seem to be shunned on principle in this book.

In book III ("The Propensity to Consume", chs. 8-10), we finally arrive at the author's development of his view as to the forces determining the division of individual money income between consumption and saving. In substance, little is added to the "psychological law" first stated in the summary of the theory in chapter 3 (already cited) and several times repeated in the meantime. Objecting (characteristically) to any designation already in use, the author has in the meantime regularly referred to the determining psychological principle or attitude by the name which is used as a title to book III. (See especially, at end of chapter 6, p. 65.) As already indicated above, the point emphasized is that the amount saved out of income increases when the income increases, *i.e.*, a part of the increase will be saved. The amount saved is supposed to be dependent only on the size of the income (or change in its size), or at least substantially independent of other influences, notably the interest rate. There is nothing novel in this last view; it is familiar in "classical" writings, where it is commonly emphasized that saving is an "institutional" matter, dependent upon social psychology rather than economic comparisons in terms of price. More interesting is the fact that in an elaborate analysis filling three chapters, the prices of consumption goods (or their price changes) are not mentioned. Perhaps they are assumed to be tied to the wage level, for it is specified that income is measured in wage units.[10]

It would have helped the reader to avoid confusion if the author had stated explicitly that by "amount" saved he meant the absolute amount, and not the proportional amount or fraction of the income. (At least this reader puzzled some time over the question as to just why the author so emphasized the increase of saving with increased income, making the natural assumption that an increase meant an increased proportion.) The importance of the "psychological law" is, in fact, that while money spent on consumption may supposedly be counted upon to result in demand for employment, that which is "saved" may fail to do so.[11] What is essential is that social money income shall increase with increased employment. This presumably must happen if wages are fixed as to decline, as the entire increase in total wages would hardly come out of profit or other outlay cost. Again, it would have been an aid in following the argument if Mr. Keynes had been clearer as to the nature of his organization set-up, particularly as to what decisions are made by whom. It seems to be assumed for the most part that wages represent the only outlay cost, or certainly the only variable outlay cost (apart, in chapter 6, from differential depreciation), and the express statement that interest paid is considered a part of profit (p. 290) indicates that wages and profit are the only forms of income. It would be particularly interesting to know whether anyone except the labourer is supposed to save (money).

As Mr. Keynes states the theory, the fact that some fraction of an increment of income "would be" saved "if" it were disbursed prevents its being disbursed in the first place, unless some "special conditions" insure that investment will keep pace with monetary saving. (The unconscious assumption that such conditions always obtain is the most important flaw found in classical theory.) In this form the theory seems to depend on the assumption that all entrepreneurs are organized and act as a unit, or at least that the consumption-goods and investment-goods industries are carried on in combination by the same firms. Under competition, the

[10]As already noted, it is expressly stated (p. 249) that prices rise, in terms of wage-units, with increasing employment—which seems to be the same as increasing income—in consequence of increasing cost (diminishing returns) in the short period.

[11]On page 83 (quoted above) it "may" fail. When we come to Mr. Keynes's theory of interest, we shall see that there is no indication of any way in which monetary saving, though it "is" an equal investment, can lead to any investment in the sense of technical production. The questions whether money savings are made by entrepreneurs as well as "owners of productive factors" (and *rentiers*?) and whether "owners of factors" means simply labourers, become important in connection with the effort to form any inclusive picture of the motives of saving and the way in which they operate; but I have not been able to find answers to them.

fact that employing an additional labourer in one enterprise would cause disemployment in another would not prevent the first increase in employment, and to establish equilibrium this process would have to be followed through to a defensible general adjustment, in which no single employer and unemployed worker would find it advantageous to make an employment agreement.[12]

This brings us to the theory of the "Multiplier", to which chapter 10 is largely devoted. It represents a drastic simplification of an argument developed by Mr. R. F. Kahn[13] to afford some basis for estimating the additional employment consequent upon "repercussions", beyond what would be directly provided by an expenditure on public works or the like. Mr. Keynes assumes (as he has done throughout the argument just summarized) that an increment of investment is made and paid for with new money from "somewhere", that the expenditure is divided by its recipients (owners of unemployed productive factors, *i.e.*, labourers) between consumption and "savings" (meaning hoarding) in the proportions corresponding to the prevalent "propensity to consume", and that the fraction devoted to consumption is divided in the same way by its recipients, and so on *ad infinitum*. The result, easily calculated, is that if the propensity to consume is represented by $\frac{r-1}{r}$, the total employment due to repercussions will be r times the direct expenditure (if the public spends three-fourths of its income and hoards one-fourth, the multiplier is 4). As usual, Mr. Keynes's arithmetic is correct, but the result is somewhat strange. It is undoubtedly true that "the logical theory of the multiplier . . . holds good continuously, without time lag, at all moments of time. . . " (p.122). This is rigorously correct because all money which exists at all must exist in some "hoard" at any moment of time. But it would surely be more realistic to assume that an addition to the monetary circulation simply continues to circulate at the prevalent velocity (or some other, to be explained), which would yield entirely different results.

Leaving the underlying usable meaning of the entire scheme for later consideration, we turn now to the theory of the investment demand for employment. This is necessarily the crux of any theory of unemployment and cycles, since it is a well-known empirical fact that it is in the capital-goods industries that boom and depression—and unemployment as a phase of the latter—are largely concentrated.

[12]As already suggested, Mr. Keynes's whole argument in connection with labour apparently assumes that it bargains as a unit, and that the complete unemployment of particular individuals (leaving them with no income? or none except "relief"?), will affect the supply price of labour in the same way as a fractional reduction in the employment and wages of a given group of employed men.

[13]*Economic Journal*, June, 1931.

IV. *The Investment Demand for Labour*

This topic is the pivotal one for Mr. Keynes's new theoretical system as well as for any realistic treatment of the problem of unemployment. It is discussed especially in book IV, "The Inducement to Invest", which occupies eight chapters (11-18) and well over a third of the volume, apart from two chapters which are really appendices. It is certainly in connection with this subject that we meet the most important ideas in the work, and also the most confused thinking and exposition. To begin with, the title of book IV is hardly in strict accord with the author's new-fangled definitions of investment and saving, as the intention clearly is not that of discussing the inducement to invest in the sense in which the latter is automatically and identically equal to saving. The reference is to investment in the ordinary acceptation, the use of money to hire productive services to create capital goods, which is done by entrepreneurs. In chapters 11 and 12 is discussed a "reformulation" of the doctrine of the marginal productivity of capital, renamed "marginal efficiency" for the purpose of emphasizing appreciation as an element in yield. (It is said to have been left out of account in "classical" theory.) The next two chapters (13, 14) deal with the rate of interest, contrasting Mr. Keynes's own theory with classical theory (Mr. Keynes's version). The significance of the rate of interest, for Mr. Keynes as in part for "classical" economists, is that it is the negative inducement, the impediment, to investment in the real sense. Chapter 15 ("The Psychological and Business Incentives to Liquidity") discusses the grounds of choice between holding money and holding wealth, apparently from the standpoint of entrepreneurs considering (real) investment. This argument must then be seen in relation to that of book III, where grounds of choice between "saving" (hoarding) and spending for consumption are treated from the standpoint of the income-receiver (in this system, the labourer, and possibly also the *rentier*). The next two chapters (16, 17) contain various observations on capital, money, and interest, and chapter 18 is a general restatement of the theory as a whole.

The crucial assumptions in this crucial part of Mr. Keynes's system, viewed as a theory of unemployment, relate to the decision to save money and the decision to invest money in the creation of real capital. The two decisions are absolutely separated, as suggested above; they are made by two different sets of persons, with apparently no possibility of contact between their spheres of action in this connection. The rate of interest, it is to be observed, has nothing to do with the first decision, but is decisive in connection with the second; men do not save to get interest and never invest (in real production) except at the cost of interest. Saving, which appears to be done exclusively by owners of factors (labourers), neither influences the rate of interest nor is affected by it. (The novelty is in the first of these two positions.) Mr. Keynes's theory of interest is even more original than his theory of wages, but runs along somewhat the same lines. It is curious that no mention was made of it in his opening chapter dealing with the postulates of the classical economics, for it is much more important in the system and more of a departure from orthodox doctrine. In the capital market, saving has no influence on the interest rate, while on the other side demand is similarly without effect on price, even, apparently, in an upward direction. Men get control of capital through borrowing money, but there is never any connection between saving money and the offer of funds in the loan market. It almost seems as if the money which is saved is completely distinct from the money which is lent and borrowed, and that the former, if it ever reaches a bank, or any lending agency, is still kept entirely separate. The theory of interest is the most difficult part of the whole construction to take seriously.[14]

According to Mr. Keynes, interest is a purely monetary phenomenon. He is repeatedly explicit and emphatic that "the rate of interest at any time, being the reward for parting with liquidity, is a measure of the unwillingness of those who possess money to part with their liquid control over it. The rate of interest is *not* the 'price' which brings into equilibrium the demand for resources to invest with the readiness to abstain from present consumption. It *is the 'price' which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash*. . ." (my italics; *cf.* also pp. 174, 236, 246, ch. 14 *passim, etc.*). The positive part of the statement, asserting that the rate of interest does, at any time, equilibrate the desirability of holding cash with the quantity of cash, is not only badly worded (a desirability is not comparable with a quantity of cash), but is definitely beside the point. The things equilibrated are the desirability of holding cash and the desirability of holding wealth in any other form, the relation between the two being dependent upon the relative quantities of cash and of other forms of wealth—and upon other factors, among which the money prices of other wealth items can hardly be ignored!

The negative part of the statement is entirely indefensible; it is self-

[14]In the first of the chapters on "The Propensity to Consume" (ch. 8, p. 93), the rate of interest is referred to as being nearly the same thing as the ratio of exchange between present and future goods. But in the text no move is made to integrate this notion with the theory of interest. There is no indication of any causal relation either way between the interest rate and the exchange ratio or between either and the general price level. (*Cf. General Theory*, 140-1, reference to Fisher.)

evident that at any time (and at the margin) the rate of interest equates *both* the desirability of holding cash with the desirability of holding non-monetary wealth *and* the desirability of consuming with that of lending and so with both the other two desirabilities. For, to any person who has either money or wealth in any form, or to anyone who holds salable service-capacity, all three of these alternatives are continuously open. He can consume or hold wealth, and if he holds wealth he can hold it in the form of money or real things—and the latter, of course, in innumerable forms, and with various sorts of claims to money as intermediaries, other wealth being always the security back of such claims. The statement also involves all the abstractions which are involved in assuming that the rate of interest is merely a price ratio between present and future income, *i.e.*, that there always is a single known interest rate in terms of which either capital value or yield is known when the other is known.[15]

In the first two chapters of book IV, which bear directly on the incentive to invest, the main point emphasized is the speculative element involved in any decision to produce durable wealth. It is, I think, a point which has needed more emphasis than it has received and a matter on which the book should render service. (But as to its novelty, *cf.* again Mr. Keynes's reference to Fisher, p. 140.) My criticism of Mr. Keynes's treatment of anticipation, apart from the exasperating difficulty of following his exposition, would be that he does not follow through in accord with the importance and universality of the speculative aspect of capital production (and, in a lesser degree, capital-maintenance) in real life. In a pecuniary enterprise economy, production only very exceptionally takes place on direct order for the final consumer; consequently, as already noted, every act of production is a speculation in the relative value of money and the good produced. (This, of course, applies only to the production of goods, not of services from given agencies; *i.e.*, it applies to capital production.) The speculative element varies directly with the length of time the good may be expected to remain in the possession of the producer, and affects every purchaser of anything for resale, as well as technical producers; it varies inversely with the development of a market for the article in question. Above all, in practical import, such speculation affects producers or purchasers of durable goods for actual use, whether in consumption or in production. It does not seem to me an im-

[15]It will be noticed that Mr. Keynes's discussion of the interest rate (the terms of investment) comes in between the treatments respectively of the two alternatives compared by the entrepreneur who makes a real investment, namely, the incentive to invest and the incentive to hold cash, the latter called "the incentive to liquidity". But in fact neither of these alternatives has any reality apart from the other, or from the necessity of comparing them and making a choice.

provement in terminology to insist on lumping value changes into the concept of the productivity of capital, without discrimination. This is particularly dubious because, in the cases which are crucial for the problem of the cycle and of unemployment, the value change is due to something that has happened outside the field of real supply and demand for the particular good, namely in the field of money. It seems to me imperative rather to keep the different factors entering into demand and supply sharply separate, but, of course, that does not excuse neglecting any of them, as has perhaps happened until recently with respect to speculative anticipation.

The point which I think Mr. Keynes is really trying to get at is that the decision to produce is a speculation on the general price level, thought of as controllable from the money side. Again, his use of the term "liquidity" to designate everything that makes it desirable to hold money, apart from its purely relative character, already noted, does not seem to be an advance or justifiable. Of the four specified and numbered motives for holding money, the first two, income motive and business motive, might be lumped together as the convenience motive. The real issue for cycle and unemployment theory arises in connection with the third and fourth—the precautionary motive and the speculative motive—which are different cases of the speculative motive. Convenience and speculation or provision against contingencies are factors in any decision and are only conceptually separable, but it is the second of these which is suggested by the word liquidity, the general "feeling" that money is for the time being the safest form of property to hold. The feeling may, of course, be present when in fact the value of money is an especially dubious risk. The convenience motive is the familiar non-coincidence of barter of "classical" phraseology. There is finally no distinction between the two functions. For, as we approach the ideal of the perfectly stationary state with all economic activity reduced to an unvarying routine, uncertainty, and with it the need for money, tends to disappear. The essential function of money is that of meeting contingencies, and in the ultimate limit velocity becomes infinity, cash holdings, or "M", zero; physical money is replaced by some conventional unit of account or *numéraire*. In any case, why not call the general psychological attitude simply the "relative money preference", and keep the elements in, or grounds for, it a matter for separate discussion?

And in any case, it is the speculative motive for holding money which varies widely in connection with the cycle and immediately causes the trouble. (What causes this variation is the central problem of cycle theory.) Of course this is not necessarily true of the individual "holder". A man with an obligation to meet in a specified number of money units on a specified day will try harder to accumulate cash, apart from his own speculative feelings, when loans are costly and especially when they are precarious; for at such times it is quite erroneous to assume a perfect market for the use of cash.[16] This applies to anyone in business when there comes to be a general demand for, and premium on, cash. Practically speaking—apart from the short period of crisis when there is danger of actual inability to secure cash for contractual or otherwise fixed needs—the speculative consideration which causes the trouble is opinion or fear as to prospective unfavourable change in the price-level or such a change in the relation between product prices and cost prices as results directly from changes in the general level. In the ordinary course of events, changes in relative prices are a risk of the individual business and are related only as effect, not as cause, to cycles, depression, or general unemployment.

Conversely,—as Mr. Keynes, like most writers on capital, fails to see or to make clear—in every case where either risk or futurity in any form is in question, the activity is necessarily one of investment, or disinvestment. Any act or outlay by way of production which does not yield its fruit instantly and finally in the form of a service enjoyed, yields it in the form of an addition to the value of some specifiable thing, hence a quantity of capital. If it does not instantly yield either service or capital value, it is not productive, and if intended to be, represents failure and waste. The opening sentences of chapter 5, for example, are ambiguous and will undoubtedly be generally read in a sense which commits the author to the widely accepted but fallacious doctrine that present production typically results in a future value. The discussion in chapter 16 (pp. 213 *ff*.) endorsing the old classical (as well as pre-classical) view that everything is produced by labour, still further commits him to this untenable position. (What *can* anyone think he means by a physical unit of labour? Yet from beginning to end Mr. Keynes treats labour as a homogeneous fluid with a uniform price per unit.) Moreover, in a world in which capital goods were actually produced by labour, or any "primary factors", and worn out in use in a fairly short period, the Austrian view that "capital formation occurs when there is a lengthening of the period of production" would be sound, and Mr. Keynes has expressly repudiated it (p. 76). In contrast with his general position in this connection, which is muddy if not unequivocally wrong, we find on page 105

[16]It would surely have been in accord with Mr. Keynes's line of attack to emphasize the fact that at a time of deep depression there is little relation between the prices of capital goods or even securities (relative to yield) and any market rate of interest. Interest rates and capital values are both abnormally low. See above, p. 113, and below, p. 116.

the correct statement that wants are satisfied by objects produced previously only in connection with disinvestment. However, we still lack anything definitive, since real disinvestment means disinvestment at one point in a capital system without reinvestment somewhere else in the system, and everything depends on what are considered to be the boundaries of the "system".

What this all finally amounts to for a theory of employment or unemployment, we have another chance to attempt to find out in the last three chapters of book IV, especially the last (18), which is a formal restatement. I cannot see that we are really carried beyond the argument developed in the earlier summary chapters already summarized, including especially the statement quoted from *General Theory*, pp. 83-4 (see above, p. 108), but with the predicate regarding possible effects of monetary saving changed from a contingency to a positive assertion. We must take as the starting point, as given and unexplained, an economic system in which there is (*a*) extensive unemployment, (*b*) such an adjustment and pegging of prices and of quantity and distribution of exchange medium, and (*c*) such attitudes, especially such a relative desire to own "money" in comparison with other forms of wealth (at existing prices?) that the only possibility for absorbing unemployment is an interference by some "god" outside the economic system leading to increased real investment. Any new light on the question why this is so must be obtained from such statements as the following, which surely deserves quotation as a sample of lucid exposition (p. 236).

> Our conclusion can be stated in the most general form (taking the propensity to consume as given) as follows. No further increase in the rate of investment is possible when the greatest amongst the own-rates of own-interest of all available assets is equal to the greatest amongst the marginal efficiencies of all assets, measured in terms of the asset whose own-rate of own-interest is greatest.
>
> In a position of full employment this condition is necessarily satisfied. But it may also be satisfied before full employment is reached, if there exists some asset, having zero (or relatively small) elasticities of production and substitution, whose rate of interest declines more slowly, as output increases, than the marginal efficiencies of capital-assets measured in terms of it.

This, if I understand it at all, is, taken with the context, Mr. Keynes's way of saying that if new capital wealth is to be produced, its anticipated yield, including appreciation, must exceed interest on the money expended in its production. Possibly this is a revelation in economic insight. There is no reference to any possible difference between interest actually paid and interest which might have been received, and apparently the author assumes a perfect market, in which there would be no difference; there is also no reference to any speculative element in either the holding or the lending of money.[17] In reality, of course, every choice between forms in which wealth is to be held, including money, reflects a speculative comparison, a comparison between speculative prospects.

Discussion of this section may be brought to a conclusion by noticing one or two statements of the implications of the system as regards policy, which serve as a basis for the positions taken in the final chapter of the book, to which we must now turn. In the final section of chapter 16, we read (p. 220) of "steps to be taken" to "ensure that the rate of interest is consistent with the rate of investment which corresponds to full employment". This means, of course, that the rate is to be artificially kept down to such a point. Immediately following we are asked to assume that "state action enters in" to regulate "the growth of capital equipment". This is followed with a statement of conviction that it would be "comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero" (p. 221).[18] The rest of the section briefly argues for the desirability of this result.

V. *Social-Philosophical Implications of the New Theoretical System*

In his final chapter (24, following two chapters which are really digressions), Mr. Keynes sets down a number of "inferences" from his general theory which have to do with the problem of social-economic reform, reconstruction, or revolution, as the case may be. This section is of especial 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.

The first inference drawn is that the new economic theory removes "one of the chief social justifications of great inequality of wealth". For "in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it" (p. 373).[19] This inference is held to affect

[17]This is probably more or less in accord with the general thinking of the business community, which fact, and its relation to the realities of the situation, might have been worth noting. Mr. Keynes makes no reference to the patent fact of the business cycle that men rarely borrow money to hold money, but do so to hold other forms of wealth (or to pay off some other debt) and that the rate of interest is highest when exchange medium is most abundant and its velocity of circulation most rapid (with the exception of the brief period of acute crisis, when the demand for cash rests primarily on actual, prospective, or feared needs to meet contractual or other obligations fixed in monetary terms.)

[18]I think this idea fantastic, but the issue cannot be argued here.

[19]This indeed is qualified to apply "up to the point where full employment prevails" (p. 372), but the text of this chapter, as well as the book as a whole, makes it clear that the qualification is essentially "theoretical".

particularly our attitude toward death duties; but even within any given generation, "much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them", in stimulating those "valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition" (p. 374). From the standpoint of moral idealism, this is an agreeable conclusion to draw, and is not implausible, with sufficient emphasis on the qualification, "as soon as they are used to it", with what it may be taken to imply regarding caution and gradualness in taking measures.

It is not so clear what the conclusion has to do with Mr. Keynes's particular theories, or, still less, what "measures" would be implied. The indirect and subtle social-psychological accompaniments of wealth ownership are (in my opinion) far more important than its direct consequences, and the same applies even more to any political substitute for the economic machinery of private property; and some political substitute is the only conceivable possibility, unless one plans for such a moral-religious conversion of human nature as would make a completely anarchistic utopia feasible. Such facts make the issues much less simple to me than they evidently seem to Mr. Keynes. When he goes on, for example, to say that institutional saving is now "more than adequate" (p. 373), very large questions regarding ideals of policy, as well as regarding facts, are raised in my mind. The difficulties, and dangers, in any ambitious programme of deliberate social reorganization make too large a topic to go into here.[20] In my own opinion, the distribution of actual consumption not only is rather a side issue in importance (the statistical facts set narrow limits to the possible gains from mere redistribution), but in addition, the distribution could not be much less unequal under any conceivable system of socialism, and the concentration of power, which is a more important issue, would certainly be much greater.

In any event, the mere mechanical problem of securing a supply of capital presents no serious difficulty, if productive efficiency is maintained. Any government in effective control of the economic life of a nation can certainly set aside any fraction of the social product it may

[20]One difficulty which may be mentioned is that if modern technology, with specialization and large scale organization of production, is not to be simply scrapped, great concentration of authority in the hands of individual human beings, or committees or "boards", is unavoidable, and the issue is one of methods of selecting, motivating, and remunerating such functionaries, and of maintaining "responsibility" in the face of social objectives which must also be formulated through the workings of the social system itself. Reformers seem characteristically to pass somewhat lightly over the fact that these are human problems, essentially political problems, that there is no way which men will generally agree upon as valid to call in God and the angels to make the decisions and carry out the policies.

decide upon, and can also invest it in any way it pleases. It is pertinent to note that Mr. Keynes has explicitly provided for all that, in advocating "a somewhat comprehensive socialization of investment" in addition to "the influence of banking policy on the rate of interest" as "the only means of securing an approximation to full employment" (p. 378). I can only comment that phrases like socialization of investment, with no indication of what procedure is in mind, sound (to me) more like the language of the soap-box reformer than that of an economist writing a theoretical tome for economists. Even the "influence of banking policy" cannot, in fact, be carried far without the banking authority passing upon the soundness of, and taking responsibility for, real investment for long periods, which would necessitate a large measure of actual management. That is, this in itself involves socialization of investment, which again certainly cannot be carried far without largely "socializing" economic life in general, and this means taking it out of business and putting it into politics. More specifically, it is hard for me to believe that Mr. Keynes has tried very hard to picture in his mind the effects on the competitive economy of having a political banking authority dedicated to the permanent policy of maintaining an artificially low rate of interest. He calls such suggestions "moderately conservative" (p. 377)! (I wish to state explicitly that—as I think Mr. Keynes might also have recognized—any statement as to what would, or would probably, happen in consequence of any considerable politico-legal-administrative measure is a political rather than an economic prediction.)

The second inference drawn by Mr. Keynes, and labelled "much more fundamental", repeats a statement already quoted, along the same general line. It is that since "the extent of effective saving is necessarily determined by the scale of investment and [since] the scale of investment is promoted by a *low* rate of interest" (up to full employment), "it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment" (pp. 374-5). Passing over the fact that there is no way of knowing at all accurately when there is full employment, meaning no "involuntary" or "frictional" unemployment, there are two notable omissions. Again, nothing is said either as to the consequences, monetary and other, of having a central bank unremittingly pumping money into the system by an arbitrarily low interest rate, or as to the political status of the official or board by whom it would be done. It surely requires an optimist to believe that it would or could be done without resulting in an unbalanced capital structure in industry, and more of an optimist to believe that the resulting situation could be cured—as Mr. Keynes must imply—by a further overdose of the same medicine which would have brought it about.

Mr. Keynes ends his chapter and volume with a short and very optimistic section on the favourable effects for world peace which would result from abandoning the international gold standard, and a final short section on the great power and influence of economists' ideas. Whether this faith is also optimistic or not depends on one's opinion of the quality of economists' ideas, and whether the faith itself is justifiable is another question.

VI. *Concluding Summary and Comment*

From the standpoint of economic theory, the important fact is that all these conclusions are supposed to depend on the principles of Mr. Keynes's system. These are formally summarized at the beginning of chapter 18 (pp. 245 *ff.*): "We take as given the existing skill and quantity of available labour, the existing quality and quantity of available equipment, the existing technique, the degree of competition, the tastes and habits of the consumer, the disutility of different intensities of labour . . . the social structure." "Our independent variables are, in the first instance, the propensity to consume, the schedule of the marginal efficiency of capital and the rate of interest."

> The schedule of the marginal efficiency of capital depends, however, partly on the given factors and partly on the prospective yield of capital-assets of different kinds; whilst the rate of interest depends partly on the state of liquidity-preference (*i.e.*, on the liquidity function) and partly on the quantity of money measured in terms of wage-units. Thus we can sometimes regard our ultimate independent variables as consisting of (1) the three fundamental psychological factors, namely, the psychological propensity to consume, the psychological attitude to liquidity and the psychological expectation of future yield from capital-assets, (2) the wage-unit as determined by the bargains reached between employers and employed, and (3) the quantity of money as determined by the action of the central bank.

"Our dependent variables are the volume of employment and the national income . . . measured in wage units."[21] It would surely appear that if

[21]As to the import of the "sometimes" I have no inkling. Why the national income is measured in wage units is also obscure to me; presumably there is some connection with the dictum in the next section of the chapter, where it is explained that an increase in employment will increase the demand for money because of increased quantity and value of output, the latter in turn being due to rising wages and diminishing returns from labour "in the short period". Why either money or real wage rates should rise before unemployment is absorbed is not explained and the increase in labour cost under conditions of unemployment is dubious; and granting both, the rise in prices rests on the dogma that they "must" equal or correspond to wage cost, which is the kind of reasoning we have been told earlier (p. 12) would have been expected of the classical school. More interesting is the fact that in the formal classification itself, prices were not mentioned, either as given, as independent variable, or as dependent variable.

one is willing to make assumptions of this sort—along with those already pointed out, namely, that there *is* unemployment, that wages and prices cannot fall (but are free to rise), that wages are uninfluenced by the supply-offering of labour, that the price of capital-service is dependent only on the speculative attitude of the public toward money (*i.e.*, toward general prices) and the quantity of money fixed by the arbitrary fiat of a central banking authority entirely uninfluenced either by saving or by the demand for capital—one should indeed find little difficulty in revolutionizing economic theory in any manner or degree or in rationalizing any policy which one might find appealing.

The next general comment which must be made on Mr. Keynes's book as a whole is that it is inordinately difficult to tell what the author means. This is true in particular because on general issues it appears certain that he does not mean what he says. The theory is ostensibly one of equilibrium with extensive involuntary unemployment, and with the things taken as given, or independently variable, which have been set out in our preceding paragraph. Moreover, as already emphasized, it is an equilibrium reached "on the way up", and in the bulk of the exposition there is no explicit reference to cycles or oscillations and little hint that such phenomena exist. Now I for one simply cannot take this new and revolutionary equilibrium theory seriously, and doubt whether Mr. Keynes himself really does so. Scattered through the work are innumerable references to the short period, several which indicate that reactions are more or less reversible (*e.g.*, pp. 248, 251), and a few which run frankly in terms of comparative stability or stickiness rather than fixity (pp. 236, 237); in particular, there is a reference (p. 249) to the capacity of the economic system for remaining in a "chronic" condition of sub-normal activity for a "considerable period". This is a far cry from the "stable equilibrium" of page 30 and the tone of most of the book. Then, of course, there is chapter 22, "Notes on the Trade Cycle", which hardly seems to be a part of the book, but, along with a few other allusions to cycles, cannot be left entirely out of the picture.

As suggested at the beginning of this article, it is my own conviction that we must simply "forget" the revolution in economic theory and read the book as a contribution to the theory of business oscillations. This, of course, involves laborious interpretation, amounting to rewriting the book as one reads—or re-reads for the *r*th time. Even from this point of view, I cannot see that it gets very far or says anything very original, but perhaps its wild overstatement may serve to emphasize some factors which have been relatively neglected. In my own case, which is that of one who has happened to work primarily in economic theory at the more general levels, and who pretends to no expert knowledge of monetary and cycle theory, the book has been useful in emphasizing the need of more effective integration of monetary theory and general equilibrium economics.[22] Perhaps I may also be allowed to add that as a theorist, I have always made a special point of emphasizing (along with rigour in theorizing) not only the dangers of drawing conclusions from the propositions of a theoretical construction without carefully making allowance for all the factors ignored in building it, but also the dangers of taking any step in the theoretical construction itself without full awareness of all the abstractions involved. Among these abstractions (or "disturbing factors"—speaking from the standpoint of practical implications), "monetary repercussions" constitute an item or a group of items the importance of which can hardly be over-estimated.

Whether this point has been neglected, or especially needed urging against the "classical" economics is a matter of opinion. Personally I had not been aware of any striking dearth of publication in the field indicated, in the period in which I have been a student and teacher of economics, and am inclined to guess that the issue is one of kind and quality rather than quantity; but that may be a prejudice. Speaking from the same point of view, I am disposed to echo and to underline the doubt expressed by Mr. Robertson whether the "multiplier"—and I should add

[22]This, of course, is a line on which a number of thinkers have been working and writing in recent years. I am thinking especially of the work of Mr. Hawtrey, the Swedish school, and Mr. Robertson; but only an authority on subject-matter can be an authority on the literature.

In the very first paragraph of his Preface, Mr. Keynes says: "Those, who are strongly wedded to what I shall call 'the classical theory', will fluctuate, I expect, between a belief that I am quite wrong and a belief that I am saying nothing new. It is for others to determine if either of these or the third alternative is right." The prediction has been largely correct in my own case, though I should say that my difficulty (and no little annoyance) has been that of choosing between interpretations, one apparently nonsensical and the other more or less commonplace. "It is for others to determine" whether such a result proves that the one who arrives at it is "wedded" to some antique mode of thought. This, of course, is one of two "arguments" regularly hurled by revolutionary thinkers at those who do not immediately join up, the other being that the refusal is based on a vested interest. This the revolutionary is sometimes "polite" enough to imply is done unconsciously (*i.e.*, blindly instead of intelligently); Mr. Keynes may be thanked for omitting the second. Since it has become quite the fashion to account for differences in intellectual position by psycho-analysing, or somehow "explaining", one's opponent (and the example of following the fashion having in this case been set by Mr. Keynes), it may be permissible to note that our civilization of to-day, being essentially romantic, loves and extols heretics quite as much as its direct antecedent a few centuries back hated and feared them. The demand for heresy is always in excess of the supply and its production always a prosperous business. Where once it was necessary in writing to pose as merely restating and interpreting doctrine handed down from the Fathers, the surest way to public interest and acclaim now lies through pulling down and overturning everything established or accepted.

the other novel conceptions of Mr. Keynes, in so far as they are novel—constitute much advance over more crudely "monetary" weapons of thought;[23] and I would also insert the adjective "classical" before the word "monetary". It seems to me that the value of the book is in emphasizing the need of a sound monetary theory, rather than in contributing to the construction of such a theory. At least, after much labour spent in trying, I have extremely little conception of Mr. Keynes's monetary theory, if he has one. It seems to me reasonable to interpret the entire work as a new system of political economy, built around, and built to support, Mr. Keynes's conception of inflation as the cure for depression and unemployment—with especial reference to a situation in which this condition has become more or less "stabilized", such as Mr. Keynes's own country in and since the later 1920's. With this general position, I happen to be in sympathy—for whatever that statement may be worth. But I had hopes of learning more about the problems involved, especially whether society should wait until such a situation is existent before taking action or should rather take steps to prevent its arising; and also what concrete measures are likely to be effective without aggravating the situation, or preparing for a recurrence, possibly worse, or introducing other evils more than offsetting the gain. In this regard, I must confess that the labour I have spent on *The General Theory of Employment, Interest, and Money* leaves me with a feeling of keen disappointment. The chief value of the book has seemed to lie in the hard labour involved in reading it, which enforces intensive grappling with the problems.[24]

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[23]See *Quarterly Journal of Economics*, Nov., 1936, p. 175.

[24]Perhaps a constructive suggestion from a "mere theorist" may not be entirely out of order. It has long been in my mind that in the welter of cycle theories (most of which have merit in pointing to real factors in the problem) one point is still neglected which must be of some importance. It has been recognized for at least a century that within some limits speculative psychology tends to give rise to a kind of momentum or cumulative tendency in price changes. The equilibrium point being uncertain, the tendency of speculation for a rise to create a rise in the price of any commodity within limits outweighs the "force" tending toward equilibrium—and conversely. Reasoning which cannot be developed here would show that this tendency should be especially strong in the case of money, the essential function of which is to be held speculatively. I should not be surprised if this is the most important factor in the general tendency to oscillation in an economic system—in contrast with specific "cycles" affecting particular commodities, which according to the laws of chance should be distributed in periodicity and phase and so cancel out for the system as a whole.