PREFACE

The Purpose of this Book

This is a book about a book: J.M. Keynes's *The General Theory of Employment, Interest and Money*. It is the outcome of several years' experience using the *General Theory* as the core of my macroeconomics courses for undergraduates at UCL. I believe it sheds new light on Keynes's book, and in that respect my intended audience is my fellow-academics, but it is also meant for students: I feel strongly that the current practice of separating one's audience, reserving new thinking for the professionals and giving students only what is generally accepted, is both patronising to students and inimical to the vitality and progress of our subject.

Therefore I hope to encourage others, by means of this book, to bring the *General Theory* back into mainstream teaching — not because there is anything sacrosanct about Keynes, but because I would argue (*do* argue, in this book) that the *General Theory* gives a far richer understanding of the structure of macroeconomic interactions and methods of analysing them than much of what has been written since.

The macroeconomics that has been developed after Keynes, though claiming inspiration from the *General Theory*, in my view has not, with some outstanding exceptions, been macroeconomics after the *manner* of Keynes — with the method and perspective and insight of Keynes. My title is intended to indicate this jarring fact: that the macroeconomics which has followed the *General Theory* in time has not followed it in spirit. It is the latter we need.

I would go so far as to argue not only that Keynesian economics is not Macroeconomics After Keynes, but that it is not even macroeconomics! Consider the approach in any textbook. One is told that there are three central behavioural equations in Keynes: the consumption function, the investment equation and liquidity preference. That is not unreasonable. Much detailed exposition of these three functions then ensues, based entirely on principles relevant to individual behaviour. There is nothing wrong with choosing the individual level: that is where these decisions are made. But then, flying in the face of what is (usually) said in introducing macroeconomics about the fallacy of composition, the equations representing individual behaviour are regarded as relating to aggregates and given the simultaneous-solution treatment.

The approach of the neoclassical synthesis is one of splitting up the theory into components, tinkering with the parts and never quite enquiring whether they still legitimately fit together into a coherent theory at the macroeconomic level. Nor is the method of simultaneous equations challenged.

In contrast, Keynes set out with the objective of providing a theory of, as he called it, 'output-as-a-whole', one which would admit the possibility of unemployment which was neither voluntary nor transitory. The components were seen as crucial elements in that whole picture. The difference is one between a 'holistic' and a 'reductionist' attitude to theory.

I believe passionately that the urge to simplify a theory, to reduce it to its component parts chiefly because these are easy to handle mechanically, is largely responsible for the unhappy state of the subject and of economic policy.

Consider, for example one effect of presenting 'macroeconomics' as the three behavioural equations mentioned above (substitute a saving function for consumption for greater familiarity, though I argue in the book that the substitution has been disastrous) and an exogenous money supply. Separate the 'monetary' from the 'real' in an *LM* and an *IS* curve, respectively. Then it is easy to talk of fiscal policy without regard to the consequences of the mode of its financing, as if any 'monetary' effects operate solely through the *demand* for money. For a long time this was standard 'Keynesian' theorising, which ignored what Keynes *did* say about the effects of financing and was insensitive to what he, not envisioning intervention on such a scale, did *not* say. Thus the way was left wide open for monetarism's challenge, and the enfeebled theory was too weak to combat it effectively.

It was my dissatisfaction with conventional macroeconomics which first prompted me, in a search for something better, to go back to the *General Theory* and to use it instead of a textbook in my macroeconomics courses for second-year undergraduates. There seems to me to be no point at all in perpetuating the present state of affairs by teaching students about the 'Monetarist-Keynesian Debate', or latter-day alternatives such as New Cambridge and the New Classical economics, on the basis of the oversimplifications and algebraic manipulations which dominate the textbooks, for they are not thereby given any criteria for evaluating the theories or choosing between them. It is my experience that students end up by saying no more than 'X's theory is this' and 'Y's theory is that', making no attempt at evaluation and choosing, if they choose at all, on the basis of their political preferences for some policy prescription associated with a particular theory. If the policy conclusions do not *follow* from the theory (which is all too often the case) the student is, it seems to me, in a worse intellectual state than if he had never learnt any economics at all.

So this is not a particularly easy book, and for that I make no apologies. Macroeconomics by its very nature requires that one keep track of a fair number of things at once, and a holistic vision is something every reader must construct for himself, from the 'clues to your thought which you are trying to throw him'.*

Students do not find the *General Theory* particularly easy either: it is all words, for a start, with only one diagram and few equations to seize upon. The analysis is often far from clear and particularly difficult to penetrate after learning some 'Keynesian economics'. (Students are quite stunned to see how different the two are, and often quite excited by the discovery.)

Initially, therefore, I conceived this book as an aid to understanding the *General Theory*, sharing what I had learned in returning to it — an exercise, if you like, in restoration, stripping off layers of 'Keynesian' varnish so that the original object could be seen. Leijonhufvud (1968) had also done this of course, but I felt he had still more layers to go. So, it turned out, had I.

The first attempt, in 1974(!), came unstuck on its way round the circular flow of income. Later I came to realise that the circular flow and Keynes's treatment of finance and money were not really compatible. It was right that I should come unstuck.

As first conceived it was also largely an 'anti-text', critical in detail of textbook macroeconomics. I found however that the Keynesians kept getting in the way of my trying to say what I thought Keynes was about. And I wanted also to rework and extend parts of the theory and to point the way to necessary changes. These aims took precedence, so with some exceptions where I felt that prevailing conceptions needed to be dealt with explicitly, I have left the Keynesians more or less in peace. In any case there were more sinister foes around by the time I came back to the project.

This is not a book in the history of economic doctrine as such, which is concerned with illuminating the author's point of view as brightly as possible on his own terms. I hope at several points to have done that, though I do not claim that this book reveals 'what Keynes really meant'. It is obviously important when reading *anyone* to use one's sympathy and intuition to approach as closely as possible the author's point of view, to attempt to understand him or her to the best of one's ability. That effort, and basic respect, is necessary even to make effective criticism — one does not have to agree. But it is a philosophical impossibility to *know* what someone else 'really meant'; what matters is to make coherent sense for oneself of what an author says and to evaluate its relevance to the problem at hand.

The question of relevance ultimately dominates the book, whether evaluating Keynes's ideas vis-à-vis those of his predecessors and their modern representatives or the applicability of his ideas to the present. Theory is all too often presented as if its origins were totally abstract. This helps to foster the idea that later ideas are better, as Truth gradually

* Keynes's *Collected Writings*, Vol. XIII, p. 470.

overcomes Error. When theories are presented for what they are — products of living human minds, with their particular interests, strengths and failings, working in a particular place at a particular time — students can understand that certain minds capture the essence of a problem better than others and even the best theory is only provisional. It is unfortunate that in macroeconomics a very good theory has been superseded by much more limited ones, but even when the better theory has been understood one must not stop there. The book ends by suggesting areas where substantial, perhaps radical, revision is needed.

It follows that the student looking for the Truth here will not merely be disappointed; the disturbing idea will have been put to him that there really is no such thing. Theories are rarely True or False, but they may be judged more or less relevant to the place and time to which they are applied.

Having said that, it will strike the reader as odd, to say the least, that there is precious little in this book on the international aspects of the economy, or on government outside the frame of reference of stabilisation policy. This is the case despite the urgings of many who have seen the manuscript at various stages to include these matters. Let me say immediately that I agree with them that it is a matter of great importance, even urgency, to develop a macroeconomic model which fully incorporates these aspects. It is thus with regret and apologies that I have not followed their advice; very simply, I do not feel I have the depth of understanding required to treat these aspects on the same level as what does appear here and to integrate them with the rest of the analysis rather than merely tacking them on, and I feel strongly that 'tacking-on' is not good enough. At points there are some suggestions in these directions which others might like to follow. One does what one feels one can, and leaves the rest to others.

Thanks

One cannot even do what one can without the help and support of others, and I have many debts.

Some of my debts go back a long way, to my student days at Berkeley. There, David Alhadeff and Harvey Leibenstein taught me microeconomics in a way which allowed me to see more in supply and demand analysis than the point where two curves cross. That perception is the fulcrum on which almost all the theoretical argument of this book rests.

Also at Berkeley, Hyman Minsky tried to teach me *The General Theory*, but I didn't really see the point then. I wish to thank him for trying and to apologise for being so obtuse at the time.

I have had the marvellous opportunity of trying out many of the ideas in this book in seminars at many British and several Italian universities and at greater length while a visitor to McGill University and the University of Aarhus. I am most grateful for these invitations and for the stimulating discussions which resulted.

There are many people to thank for reading part or all of the manuscript at various stages. Susan Howson, David Laidler and a student on the course, Hyginus Leon, read almost all the manuscript and Richard Lipsey a great chunk of it. Comments on particular chapters were also forthcoming from Michael Danes, Sheila Dow, Peter Earl, Nicolas Rau, Colin Rogers, Kerry Schott, Thanos Skouras, John Sutton, Christopher Torr, Valeria Termini, and Claus Vastrup. I thank them all for giving so generously of their time and offering me their expertise and their criticisms. They are not to be held responsible for the result.

Those who helped the book take physical shape are also to be thanked. Too many have been involved in the typing at various stages to name them all. I am grateful to all of them, but particularly to Celia Rhodes. Celia, a former student (so she knew what I was about) undertook not only a vast amount of typing in the final stages but also editorial tasks including most of the responsibility for the index. Not only was her nearly faultless typing and intelligent editorial work a boon, but she was always calm, greatly alleviating the stress of such a project. I was very lucky — indeed I wonder if this book would have seen the light of day without her.

I wish also to thank Philip Allan, first for his patience and then, equally, for knowing exactly when and how to lose it. Both were vital, as were his constant support and enthusiasm. Thanks are due him also for organising the book's almost alarmingly rapid production. I should particularly like to thank Ann Hirst, who was both a superb copy-editor and such fun to work with. Geoffrey Harcourt and Basil Moore also spotted some late errors.

Notes on Reading this Book

Keynes was a skilful tactician: he stated the main outline of his theory and drew the lines of dissent with existing theory after a first chapter of only half a page. In retrospect I might have been wise to follow that format. My Chapter 4 corresponds to his Chapter 3 and the three preceding chapters can be pretty heavy going in places. My advice is to have a go but feel free to skip to Chapters 4, 5 and 7 and then come back. (But *do* come back: too much is built on those early chapters.)

I have brought forward the analysis of changes in money-wages (*G.T.* Ch. 19) to Chapter 8; other topics are fairly clearly indicated by the chapter titles. There is a table of correspondences between chapters of the *General Theory* and this book following the Table of Contents.

For teaching purposes there will undoubtedly be a need to make cuts. I cut or skim over different material every year. Any cut damages coherence, but it is not obvious what is most dispensible. (If I knew, the book would be shorter.) My view is that the balance should be determined by what does and does not turn the students and the lecturer on. Students will probably need further background for Chapter 9 than I was able to provide without distorting the shape of the book.

Acknowledgement

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Bibliographical Note

Although other references are indicated by author and date, the *General Theory* and items for which Keynes's *Collective Writings* are the only or most convenient source have been indicated by *G.T.* and *C.W.* (with volume number following) respectively. Page references to the *General Theory* are to the original (1936) edition.

Chapters of the *General Theory* Relevant to Each Chapter of this Book

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