GPKE, ed. Eichner: References to Keynes listed in Index.

On Marshall HEA 833-40

6 Marshall desired to transform political economy into the science of economics. His Principles presented the most sophisticated exposition of marginalist analysis that had as yet been developed, and his text book through seven editions remained dominant in English-speaking countries until after WWII.

Still, as heir to the Ricardian tradition, he was not entirely at ease with the static framework of marginal analysis, and was aware that it offered an incongruous vehicle for the study of mankind in the ordinary business of life. Hence bifurcation between neoclassical view that gained ascendency in UK and that developed on the continent by Walras. and his followers. E. G. the contrast between the time-specific (short and long run) partial analysis of the Marshallians and the timeless general equilibrium analysis of the Walrasians.

With this in mind it is easier to understand the transformation of Keynes as a theorist from a minor Marshallian specializing in monetary matters to the most effective challenger of orthodoxy since the triumph of marginal analysis. For in Keynes the separate Ricardian and institutional sides of Marshall finally burst through in a new type of theoretical synthesis, one firmly responsive to the political problems of the day.

7 While Keynes was preeminent in prestige, still he was but the leading figure among a group of like-minded individuals who would put economics on a wholly new path.

Richard Kahn contributed the "multiplier"

Joan Robinson her imperfect competition

Piero Sraffa after unsettling Marshallian micro analysis on returns to scale in 1925 (cf bibl) embarked on the task of restoring Ricardo's reputation

Michal Kalecki, who arrived in England with his own prior version of the General Theory and thru Joan Robinson soon became part of the same group.

8 Keynes contributed the emphasis on the uncertainties surrounding investment in a monetarized economy

Kalecki the distributional and other effects of investment and savings

with both contributions essential for a complete analysis of production over time in a money using economic system.

Still it was the real sector analysis of Kalecki that became the basis for further work at Cambridge

Keynes' monetary perspective was sustained in the UK by G. L. S. Schakle and in the US by Sydney Weintraub, Paul DAvidson, and HYman P. Minsky.

The version of Keynxesian theory brought to the US by Alvin Hansen and Lawrence Klein (which became the dominant version of the theory in this country) was closer in spirit to Kalecki's simple mathematical model than to the General Theory, even though it totally ignored Kalecki's emphasis on distributional effects.

\# with

A first step towards a post-Keynesian, as distinct from Keynesian, analysis came with Harrod's work on growth dynamics.

NC was concerned to explain how departure from position initially at rest came to new position at rest.

Harrod sought a body of theory explaining how economic system changed over time. He worked out the formula (familiar in the US as the Harrod-Domar formula) in which the rate of growth is determined by the propensity to save and the incremental capital/output ratio (HEA 966 n 8)

9 In 1956 two key writings ushered in distinctive post-Keynesian body of literature:

Joan Robinson, The Accumulation of Capital.

Nicholas Kaldor, "Alternative Theories of Distribution," Review of Economic Studies

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Simultaneously others were endeavoring to contain Keynesian conclusions. A new neoclassical synthesis was produced by Paul Samuelson who/grafted the Keynesian macroeconomic model on prevailing microeconomic theory with the distinction between the Marshallian and the Walrasian approaches lost. Compatibility of Keynes with Walras was defended on the ground that Keynes was concerned simply with the short run (true of Keynes but not of post-Keynesians).

11-16 Five contrasts between PK and NC.

19 Keynes concentrated on income generating or multiplier effects of investment. But there are two effects: the multiplier effect develops demand; the investment effect increases capacity. For Harrod the rate of growth of demand

that kept capacity fully utilized was termed the arranted rate, while that which was sufficient to employ a growing labor force (with its growing productivity) was the natural or potential rate. But is it likely or even possible that the two should coincide?

BL In the initial and the early transitional surplus expansion, it is possible. But when the basic expansion has gone far enough to absorb all the product of a declining surplus expansion, a transformation of human assumptions and choices is needed.
22-24 The neoclassical change of the orientation of macrodynamics.

44 Keynes (1936): "I expect to see the State, which is in a position to calculate the marginal efficiency of capital on long views and on the basis of the general social advantage, taking an even greater greater responsibility for directly organising investment."

51-54 The equivalent of my diagram: my shift in terminology ~~removes the~~ frees the enunciation from its restrictions.

63 Kalecki, Econ Journ 1937 = Dynamics of Capitalist Econ 37-42.

71 Equivalent to generally acceptable restrictions on scientific definitiveness and mathematical certitude
104 Keynes rejection of NC view: rigid money wages are a major cause of unemployment
106 PK view:the demand for labor corresponds to the planned level of employment and output without reference to marginal productivity theory
117 Restrictive fiscal and monetary theories may keep unemployment high but they are ineffective in combating inflation
121 Historical time: a monetary economy is not just a complicated barter system. PK has reluctantly abandoned general equilibrium
122 PK rejects the NC view that money is neutral
123 Keynes 1936: it is the expectation of stable, that is, sticky money wage rates that encourages the public to hold money as a temporary abode of purchasing power.
125 .. perhaps the most fundamental difference between post-Keynesians and mainstream economists concerns their views as to how the stock of money comes into being. Post-Keynesians regard the stock of money as being essentially endogeneous, responding to and accomodating to changes in the level of money wages. In the Treatise (1930), Keynes insisted that "money comes into existence along with debts" -- in other words, that

the supply of money is related to production contracts and any debts that they necessitate. Money does not enter the system like manna from heaven -- or from the sky via Milton Friedman's helicopter.

128 This leads to the importance of what Keynes (1936) termed "animal spirits" in the investment process, and the independence of investment from saving decisions. If business men wish to invest, and bankers accommodate their demands for credit; it is investment that determines saving rather than the reverse. The endogenous nature of the money stock, meanwhile, permits investment expenditures to be carried out independently of current savings flows.

129 Hence possibility of boom and crash.

134 As Keynes argued, economics is essentially a moral and not a natural science. It employs introspection and value judgments. Once there are disparities in income distribution within a country, or among countries, the market mechanism ceases to function equitably, since it is weighted heavily in favor of the purchasing power the rich command. It is, for example, now increasingly recognized in the development literature that economic growth does not automatically filter down to the poorest sections of a society.

140 In The General Theory (1936) Keynes showed that much of what happens in an actual economy can be understood only by assuming the existence of uncertainty. The essence of a real economy that operates in historical time is that its past cannot be changed and its future cannot be known. In such an economy there may be no tendency to move towards long-run equilibrium... These two themes also dominate the differences between post-Keynesian and the neoclassical approaches to international trade.

146 Prior to the publication of Keynes' The General Theory the study of economics was divided into two parts: the theory of value (or relative prices) and the theory of money. Alfred Marshall's Principles of Economics held that demand and supply determine relative values, or prices, given the assumption of the full employment of all resources. The quantity theory of money, with the stock of money as the key determinant, was then introduced to explain the level of absolute prices. In The General Theory, Keynes held this to be a false division of the subject, but his point (that the theory of value and distribution would have to be adapted to a monetary economy in which the past cannot

be changed) was mot taken seriously. In the reconstruction of economics after WW II, the subject was again divided into macroeconomics and microeconomics. Microeconomics combines Marshall's partial-equilibrium analysis (HEA 836, 959, 990-98) with Walras general-equilibrium analysis. The two parts taken together constitute the "neoclassical synthesis." The incompatibility between the parts is glossed over. The microeconomic theory assumes wage and price flexibility so that a full-employment equilibrium is assured, while the macroeconomic
/147/ theory explains/why the economy may be at less than full employment equilibrium for some time because of rigidities... Consistency between the two parts is maintained by omitting the main difference between Keynes and his precedessors -- the role of uncertainty and of money in an actual economy.

154 One of the basic PK conceptual tools for analyzing the use of natural resources is the concept of "user costs" for, as Keynes emphasized in The General Theory (1936), "In the case of raw materials the necessity of allowing for user cost is obvious. (Keynes borrowed the term "user cost" /155/ from Marshall but was the first to develop the concept and apply it to the question of intertemporal production from any depletable properties.) [User cost developed, 155 ff]

163 Unlike the Pavlovian response of neoclassical equilibrium theorists, PK analysts do not immediately see rising natural resource prices as evidence *per se* that the law of diminishing returns is operating in perfectly competitive markets -- in other words that we are running out of cheap energy and other raw materials.

Keynes recognized that the "user cost" concept applied not only to raw materials such as fo il fuels but to all capital equipment, "for in deciding his scale of production an entrepreneur has to exercise a choice between using up his equipment now and preserving it to used later on."

For Keynes the concept of user costs was the keystone of his analysis of production; and in The General Theory he insisted, "*Supply price* is, I think, an incompletely defined term, if the problem of defining user cost has been ignored... The exclusion of user cost from supply price... is inappropriate to the probelm of supply price of a unit of output for an individ firm."

165 In the light of the analysis presented in the preceding pages, it is hardly astonishing that public economic policy -- what used to be termed political economy -- should find itself in so sorry a state. For the policy, not only of the US but throughout the North Atlantic and Pacific Atlantic communities of market-oriented economies, is based on the neoclassical paradigm in economics, a paradigm that is both pre-Keynesian and pre-scientific. In other words, it involves
166 the same conceptual framework, formulated to demonstrate the self-correcting mechanisms of markets, that Keynes had to overcome in his day. Moreover, the theory initially obtained its hold on men's minds, and continues to retain that hold today, without having to meet the types of tests which are necessary to establish a paradigm in the natural sciences.

Those who are accustomed to thinking that the policies which governments have pursued since WW II as "Keynesian" will be surprised by this statement. But that is only because they are confusing Keynesian theory with the "neoclassical synthesis" -- developed by Paul Samuelsonand his colleagues in Cambridge, MA -- which has come to dominate the academic economics of the day...

But these concessions aside [the use of fiscal and monetary measures to relieve unemployment] the pre-Keynesian theory, with its emphasis on supply and demand determining price-and-quantity relationships under competitive conditions, is still regar ed as an essentially correct analysis of the functioning of a modern, technologically advanced economy based on market institutions.

167 While the broad outlines of the new paradigm can already be discerned, much of the detailed argument remains to be worked out. What it offers is the prospect of uninhibited inquiry, and not the promise of quick and simple solutions to long vexing problems. Indeed the theory's first important contribu ion will be to free economics as a discipline from the intellectual dead weight of neoclassical orthodoxy. This should be as invigorating to the cumulative growth of economic knowledge as the overthrow of the geocentric theory was to astronomy
168 and the overthrow of the ether theory was to physics.

168 The advantage of the post-Keynesian approach is that it enables one to confront the problems directly and openly rather than conceal them under simplifying assumptions.

169 The Walrasian model which forms the core of neoclassical theory encompasses little more than substitution effects. Within the logic of the model one good can increase only at the decrease of the demand for another good, and then only because the relative price of the former has fallen. Similarly, one type of input, such as capital goods, can be used more intensively in the production process only at the expense of another type, such as labor, and then again only because the relative price of the former has fallen. This approach usually eliminates by assumption the possibility that the demand for all goods and the use of all types of inputs may increase together.... as a result of the higher income and level of demand which economic growth brings with it. Reliance on the neoclassical model makes it diffiult, therefore, to provide a plausible and coherent explanation of economic growth.

170 It was he (Keynes) who called attention to the fact that a decline in wages, rather than encouraging the substitution of labor for capital equipment, would instead depress business confidence and business investment, thereby increasing the number of unemployed workers. But others, following in his path, have come to the same conclusion -- namely, that whether the issue be lo g-period growth, short-period fluctuations, the distribution of income, the pattern of trade, or one of the other topics covered in this volume, it is the level and composition of investment, together with the income effects that derive from that investment, which are the principal operative factors, not any change in relative prices.

Econometric studies have led to the same type of conclusion, and it seems that only the dead weight of neoclassical orthodoxy has prevented the economists, who work inductively, from generalizing this result into an empirical principle.

.. When the scope of the analysis is restricted to substitution effects, as it is in the neoclassical approach, there is always some new equilibrium position which a change in relative prices will bring about, and that new position can be determined simply by solving the mathematical equations that define the new system or, in a partial analysis, by examining the point of intersection between the new supply and demand curves.