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REPLY TO PROFESSOR MEHTA

By TAKEO MINOGUCHI

Many apologies for not replying sooner to youı comments on my article in this Journal. Your comments are very stimulating and suggestive to me.

I entirely agree with you that the bearishness theory of the price of securities developed in the *Treatise* is fundamentally important to a 'monetary theory of production' and it denies an automatic linking mechanism between saving and investment.

Although the bearishness theory provides the basis for the development of a 'monetary theory of production,' I do not think it also provides the basis of the effective demand theory in the *General Theory*. The effective demand theory is the device which enables us to explain under-employment equilibrium, whilst the bearishness theory together with fundamental equation is the device which enables us to explain Wicksellian cumulative process in the course of industrial fluctuations, as you can see in the Keynes' explanation of Gibson's Paradox and banana Parable. The purpose of the effective demand theory is to construct an equilibrium theory of under-employment, whilst the purpose of fundamental equation with the bearishness theory is to build up disequilibrium theory of industrial fluctuations.

With respect to quantity adjustment, you refer to 'contraction of output before fall in prices' quoted from CWK XIII, 1973. But there is also the evidence against your arguments in the same volume of CWK. Keynes replied to comments by Joan Robinson as follows, "it is quite true that I have not followed out the consequences of changes of output in the earlier theoretical part. I admit that this wants doing, and I shall be doing it in my lectures; *though that does not absolve me from criticised for not having done it in my Treatise*" (p. 270).

Secondly you refer to two mechanisms in the *Treatise*. But as Keynes argues that 'both courses are likely to aggravate their loses by reducing the cost of investments,' two mechanisms tend to bıoaden investment and saving's gap. So I can not exactly say there is a mechanism which makes saving to contract via variation of output and leads to under-employment equilibrium in the *Treatise*.

I am now thinking that the bearishness theory togetheı with industrial and financial circulation of money is fundamentally important to the development of a 'monetary theory of production.'

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