THE CORE OF "THE GENERAL THEORY"

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I. *Sources of Philosophical Ideas of "The General Theory"*

It is not difficult to imagine that Keynes tried to make the foundation of philosophical ideas of "The General Theory", before he began to write it. However there are few which treated Keynes in this aspect. Perhaps "The Life of John Maynard Keynes" by Harrod may be the most helpful one.

In this section I want to look for the philosophical sources of ideas of "The General Theory" in reference to Harrod and others. In doing so, I think, the central theme may be the influences of Cambridge philosophy by Moore, Russell, Whitehead and Wittgenstein on Keynes. I want to seperate them into three categories—ethics by Moore, probability by Russell and Whitehead, and philosophy of logic by Wittgenstein.

(1) Influence of Moore

It goes without saying that Keynes was under the strong influence of Moore as a member of Bloomsbury group. Especially Moore's "Prinpicia Ethica" gave him strong impact. According to Harrod, "Ethica" tells that "'good' is an attribute, the meaning of which is indefinable" or that "what is good depend on direct intuition in each particular case".[1] This doctrine of intuitions

> "was interpreted—anyhow by those disciples who were to be for many years the intimate intellectual companions of Keynes—as giving fairly complete licence to judge all things anew."[2]

This ethical view of Moore overthrew the Victorian ethics. According to Robert Skidelsky, the Victorian ethical view was that "he once smoked a cigar and found it so delicious he never smoked again".[3] This is nothing less than asceticism. As Pigou pointed out, "You would have to recall the immense range of his interests—drama, painting, bibliography, college finance, college buildings, farming, even the number of wives that a boar—I don't mean a human bore—has to have if he is to be kept really happy." But moreover, according to Paul Levy[4]

> "Society was that of the 'higher sodomy', a sort of ideological home-sexuality, which manifested itself more in words than in deeds.

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[1] Harrod, Roy, The Life of John Maynard Keynes. London. 1951. p. 76.

[2] Harrod, *ibid.*, p. 77.

[3] Skidelsky, Robert, "The Revolt against the Victorians", The End of the Keynesian Era. London 1977. p. 3.

[4] Pigou, A.C. Keynes' General Theory. London 1951. pp. 67–8

> With the advent of Strachey, and later Kenyes, this tradition was powerfully reborn, and its emphasis on verbal behaviour may have shifted just a little. In fact, Keynes's affair with Hobhouse was probably, as his letters to the younger man seem to show, as chaste as Strachey's own."[5]

So this tells us that Keynes showed just revolt against Victorians by his unusual conduct. And this conduct in itself has no relation to "The General Theory".

How did Moore's "Ethics" form the philosophical background of "The General Theory"? Moral implication of "The General Theory" is, as Joan Robinson stresses in her "Economic Philosophy", that "private vices are public interests" or "private virtues are public vices".[6] But these slogans were not directly derived from Moore. As Keynes wrote in the chapter titled "Notes on Mercantilism, etc.", they were derived from Petty, Mandville, Barbon, Hecksher, Johnson and Malthus. Here I want to quote them from "The General Theory".

(1) Hecksher;

> " 'the deep-rooted belief in the utility of luxury and the evil of thrift. Thrift, in fact, was regarded as the cause of unemployment, and for two reasons: in the first place, because real income was believed to diminish by the amount of money which did not enter into exchange, and secondly, because saving was believed to withdraw money from circulation.' In 1598 Laffemas (*Les Trésors et richesses pour mettre l'Estat en Splendeur*) denounced the objectors to the use of French silks on the ground that all purchasers of French luxury goods created a livelihood for the poor, whereas the miser caused them to die in distress. In 1662 Petty justified 'entertainments, magnificent shews, triumphal arches, etc.', on the ground that their costs flowed back into the pockets of brewers, bakers, tailors, shoemakers and so forth. Fortrey justified 'excess of apparel'."[7]

(2) Barbon;

> "Prodigality is a vice that is prejudicial to the Man, but not to trade ... Covetousness is a Vice, prejudicial both to Man and Trade.' In 1695 Cary argued that if everybody spent more, all would obtain larger incomes 'and might then live more plentifully'."[8]

(3) Johnson;

> "Mandeville gave great offence by this book, in which a cynical system of morality was made attractive by ingenious paradoxes ... His doctrine that prosperity was increased by expenditure rather than by saving fell in with many current economic fallacies not yet extinct. Assuming with the ascetics that human desires were essentially evil and therefore produced 'private vices' and assuming

[5] Levy, Paul, "The Bloomsbury Group". Essays on John Maynard Keynes, London, 1975. p. 64.
[6] Robinson, Joan, Economic Philosophy, Penguin Books. p. 73.
[7] J.M. Keynes, The General Theory, Collected Writings VII. pp. 358–9.
[8] Keynes, *ibid.*, p. 359.

with the common view that wealth was a 'public benefit', he easily showed that all civilisation implied the development of vicious propensities . . ."[9]

(4) Mandville;

"The great art to make a nation happy, and what we call flourishing, consists in giving everybody an opportunity of being employed; which to compass, let a Government's first care be to promote as great a variety of Manufactures, Arts and Handicrafts as human wit can invent; and the second to encourage Agriculture and Fishery in all their branches, that the whole Earth may be forced to exert itself as well as Man. It is from this Policy and not from the trifling regulations of Lavishness and Frugality that the greatness and felicity of Nations must be expected; for let the value of Gold and Silver rise or fall, the enjoyment of all Societies will ever depend upon the Fruits of the Earth and the Labour of the People; both which joined together are a more certain, a more inexhaustible and a more real Treasure than the Gold of Grazil or the Silver of Potosi."[10]

(5) Malthus;

"The question is whether this stagnation of capital, and subsequent stagnation in the demand for labour arising from increased production without an adequate proportion of unproductive consumption on the part of the landlords and capitalists, could take place without prejudice to the country, without occasioning a less degree both of happiness and wealth than would have occurred if the unproductive consumption of the landlords and capitalists had been so proportioned to the natural surplus of the society as to have continued uninterrupted the motives to production, and prevented first an unnatural demand for labour and then a necessary and sudden diminution of such demand. But if this be so, how can it be said with truth that parsimony, though it may be prejudicial to the producers, cannot be prejudicial to the state; or that an increase of unproductive consumption among landlords and capitalists may not sometimes be the proper remedy for a state of things in which the motives to production fail?"[11]

We can say that the common ethical view of these quotations is "private vices are public interests" or "private virtues are public vices". This new view took a right about face of Victorian asceticism. Finally I want to show how Keynes criticised Victorian's squinting ethical view from the quotation from Joan Robinson's

"In Europe, or at least in some parts of Europe-but not, I think, in the United States of America—there is a latent reaction, somewhat widespread, against basing society to the extent that we

[9] Keynes, *ibid.*, pp. 359–60.
[10] Keynes, *ibid.*, pp. 361–2.
[11] Keynes, *ibid.*, pp. 362–3.

do upon fostering, encouraging, and protecting the money-motives of individuals. A preference for arranging our affairs in such a way as to appeal to the money-motive as little as possible, rather than as much as possible, need not be entirely *a priori*, but may be based on the compairson of experiences. Different persons, according to their choice of profession, find the money-motive playing a large or a small part in their daily lives, and historians can tell us about other phases of social organization in which this motive has played a much smaller part than it does now. Most religions and most philosophies deprecate, to say the least of it, a way of life mainly influenced by considerations of personal money profit. On the other hand, most men today reject ascetic notions and do not doubt the real advantages of wealth."[12]

We can not affirm how far ethical, or moral view of Keynes was influenced by Moore. But it can be affirmed that Keynes' view was supported by Moore. Harrod proved this point by quoting one of memoirs in "Eraly Beliefs".

"There was one chapter in the *Principia* of which we took not the slightest notice. We accepted Moore's religion, so to speak, and discarded his morals. Indeed, in our opinion, one of the greatest advantages of his religion was that it made morals unnecessary—meaning by "religion" one's attitude towards oneself and the ultimate, and by "morals" one's attitude towards the outside world and the intermediate."[13]

(2) Influence of Russell and Whitehead

As Harrod pointed out, "A Treatiese on Probability" is not necessarily pure mathematics but rather it is a sort of symbolic logic, or philosophy. How does "A Treaties" have a relation to "The General Theory"? We have answer given by Keynes himself.

"But these more recent writers like their predecessors were still dealing with a system in which the amount of the factors employed was given and the other relevant facts were known more or less for certain. This does not mean that they were dealing with a system in which change was ruled out, or even one in which the disappointment of expectation was ruled out. But at any given time facts and expectations were assumed to be given in a definite and calculable form; and risks, of which, though admitted, not much notice was taken, were supposed to be capable of an exact actuarial computation. The calculus of probability, though mention of it was kept in the background, was supposed to be capable of reducing uncertainty to the same claculable status as that of certainty itself; just as in the Benthamite calculus of pains and pleasures or of advantage and disadvantage, by which the Benthamite philosophy assumed men

[12] Joan Robinson, *ibid.*, p. 23.
[13] Harrod, *ibid.*, p. 78.

to be influenced in their general ethical behaviour."[14]

"Actually, however, we have, as a rule, only the vaguest idea of any but the most direct consequences of our acts. Sometimes we are not much concerned with their remoter consequences, even though time and chance may make much of them. But sometimes we are intensely concerned with them, more so, occasionally, than with the immediate consequences. Now of all human activities which are affected by this remoter preoccupation, it happens that one of the most important is economic in character, namely, wealth. The whole object of the accumulation of wealth is to produce results, or potential results, at a comparatively distant, and sometimes at an *indefinitely* distant, date. Thus the fact that our knowledge of the future is fluctuating, vague and uncertain, renders wealth a peculiarly unsuitable subject for the methods of the classical economic theory."[15]

"By 'uncertain' knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty; nor is the prospect of a Victory bond being drawn. Or, again, the expectation of life is only slightly uncertain. Even the weather is only moderately uncertain. The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention, or the position of private wealth owners in the social system in 1970. About these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know. Nevertheless, the necessity for action and for decision compels us as practical men to do our best to overlook this awkward fact and to behave exactly as we should if we had behind us a good Benthamite calculation of a series of prospective advantages and disadvantages, each multiplied by its appropriate probability, waiting to be summed."[16]

"Perhaps the reader feels that this general, philosophical disquisition on the behaviour of mankind is somewhat remote from the economic theory under discussion. But I think not. Though this is how we behave in the market place, the theory we devise in the study of how we behave in the market place should not itself submit to market-place idols. I accuse the classical economic theory of being itself one of these pretty, polite techniques which tries to deal with the present by abstracting from the fact that we know very little about the future"[17]

[14] J.M. Keynes, The General Theory and After, Collected Writings XIV. pp. 112–3.
[15] Keynes, *ibid.*, p. 113.
[16] Keynes, *ibid.*, pp. 113–4.
[17] Keynes, *ibid.*, p. 115.

As Harrod states, "A Treatiese" was created under the influence of Russell, Whitehead and W.E. Johnson.

> "Keynes got quickly to work upon Probability. He had had the benefit of comments and suggestions by W.E. Johnson. Whitehead also sent him an exposition of the points in which he was in incomplete sympathy. During the summer there was a joint discussion on Probability with Russell and Moore."[18]

When Keynes published "A Treatiese", Russell and Whitehead both praised it, but professional insurance mathematicians did not give him appraisal because Keynes treated probability as philosophy.

(3) Influence of Wittgenstein

In this respect I read works "Ludwig Wittgenstein" by Norman Malcom and "Letters to Russell, Keynes and Moore" by G.H. von Wright. But I could not recognise the influence of Wittgenstein on Keynes in philosophical sense. Rather it is true that they could not understand each other even though they exchanged their publications. For example let us look at the letter from Keynes to Wittgenstein dated 29th march 1924. This letter was written for apologising that Keynes had not written to Wittgenstein for a year. The reason why Keynes had not written is that

> "A whole year has passed by and I have not replied to your letter. I am ashamed that this should have been so. But it was not for want of thinking about you and of feeling very much that I wanted to renew signs of friendship. The reason was that I wanted to try to understand your book thoroughly before writing to you; yet my mind is now so far from fundamental questions that it is impossible for me to get clear about such matters. I still do not know what to say about your book, except that I feel certain that it is a work of extraordinary importance and genius. Right or wrong, it dominates all fundamental discussions at Cambridge since it was written."[19]

Fundamental question in this context is of course fundemental question of Wittgenstein's philosophy. Furthermore we can find the same reason in Wittgenstein's reply to Keynes.

> "I've only read parts of *one* of the books ("The economic consequences of the peace"). It interested me very much, though of course I understand practically nothing about the subject. You ask in your letter whether you coúld do anything to make it possible for me to return to scientific work. The answer is, No: there's nothing that can be done in that way, because I myself no longer have any strong inner drive towards that sort of activity."[20]

But Keynes admitted the importance of Wittgenstein's philosophy, because he told Ramsey as follows;

[18] Harrod, *ibid.*, p. 132.
[19] Letters to Russell, Keynes and Moore, Wittgenstein, edited by G.H. von. Wright p. 116.
[20] Wright, *ibid.*, p. 116.

> "Keynes gave him encouragement in the pursuit of these studies on the borderline between mathematics and logic, and it was partly through his influence that Ramsey was later offered a Fellowship of King's in mathematics."[21]

Attachment of Keynes to Wittgenstein would lie in his character rather than in his philosophy. Look at the letter from Keynes to Dancan Grant dated 12th November 1912.

> "Wittgenstein is a most wonderful character—what I said about him when I saw you last is quite untrue—and extraordinarily nice. I like enormously to be with him."[22]

Harrod also points out

> "Wittgenstein had something of the waywardness of genius, and was not naturally inclined to follow the conventional path of an academic career. Keynes was fascinated. His love of the unusual and the exciting, his sympathetic understanding and his capacity for friendship came into play."[23]

II. *Essence of "The General Theory"*

(1) Reassessment of "The General Theory"

Since integration of Keynes' Economics into general equilibrium system, or neo-classical synthesis had been done by Hicks and Samuelson, there emerged reflection that the essence of "The General Theory" had been misunderstood. This reflection urges reassessment and reinterpretation of Keynes' Economics. Why did such a reflection emerge? The reason can be found in the facts that on the one hand, Joan Robinson —one of the members of "The Circus"—protected Keynes against neo-neo-classical economists through the controversy between Cambridge U.K and Cambridge U.S, and the publication of "An introduction to Modern Economics", and on the other hand, Leijonhufvud and Clower took a new interpretation of "The General Theory" by critisizing Walras' tâtonnement and forming "micro foundation of macro economics."

But there is another movement to reassess "The General Theory". For example "The Crisis in Keynesian Economics" by J.R. Hicks pointed out limitation of "The General Theory" and synthesised 'Marginal efficiency of capital' and 'Liquidity preference' by using intertemporal port-folio selection. This is not only reassesment, but also critics and new idea. Moreover this new idea was introduced into new monetary policy in England since 1971.

So if we want to find out the essence of "The General Theory", it is the best way for us to describe and summarise recent views of Keynes' Economics by Robinson, Clower, Leijonhufvud and Hicks.

(2) Micro-foundation of macro-economics

This is a sort of approach to reassessment of "The General Theory" by Clower,

[21] Harrod, *ibid.*, p. 320.
[22] Harrod, *ibid.*, p. 161.
[23] Harrod, *ibid.*, p. 161.

Leijonhufvud and Negishi. But I have an argument against this line of approach.

If we admit 'Fallacy of Sum' in logic, is it possible to get the world of macro by adding-up micro activities? For example, in micro-world, savings will increase in the aggregate if every one wants to increase savings. But in the world of macro, if every one wants to increase savings, saving as a whole will decrease through decline in income. So a world of macro which is derived by adding-up of micro individual behavior is not the same as the world of "The General Theory". So I wonder whether we can transit to Keynes' world starting from Walras' world.

I have the same kind of doubt about Leijonhufvud. By the way in case of neo-classical economics, there are assumptions that all prices including wage and interest change flexibly, and at the same time, demand and supply response to change in price of labor, commodity and money markets, and the system tend to reach the state of equilibrium. But these assumptions will be realised when an auctioneer exists in the markets and acts as an intermediary between buyers and sellers. As we know, in Walras' world, except prices equilibrating demand and supply, buyers and sellers contract only preliminarily, and do not exchange in reality. Because an auctioneer would find in the end of the market day an equilibrium price which equilibrate demand and supply. But looking at the present state of markets, we can not find out an auctioneer except stock market, and agricultural and marine products' markets. And indeed there is no auctioneer in labor market. Therefore it is reasonable to assume the world of non-tâtonnement. By the way, in the world of non-tâtonnement, as there is not auctioneer who is well informed of all about the market, both sellers and buyers can not find an equilibrium price.

If they want to find such a price, they must pay enormous cost for gathering informations about market. Therefore they are obliged to exchange each other at the price other than equilibrium price, or at false price. In case of labor market, employment would be determined at the wage which would bring the unemployed, because workers and employers are not given the information of equilibrium wages. This is the reason why there is under employment equilibrium. Then Leijonhufvud concludes that non-tâtonnement economy is the world of Keynes.

> "To make the transition from Walras' world to Keynes's world, it is thus sufficient to dispense with the assumed tâtonnement mechanism. The removal of the auctioneer simply means that the generation of the information needed to coordinate economic activities in a large system where decision making is decentralized will take time and will involve economic costs. No other "classical" assumptions need be relinquished. Apart from the absence of the auctioneer, the system remains as before: (1) individual traders still "maximize utility" (or profit)—one need not assume that they are constrained from bargaining on their own, nor that they are "money illusioned" or otherwise irrational; (2) price incentives are still effective—there is no inconsistency between Keynes's general "elasticity optimism" and his theory of unemployment. When price elasticities are assumed to be generally significant, one admits the potentiality of controlling the the activities of individual traders by means of prices so as to coordinate them in an efficient manner. It is not necessary to deny

> the existence of a vector of nonnegative prices and interest rates consistent with the full utilization of resources. To be a Keynesian, one need only realize the difficulties of finding the market clearing vector."[24]

I still wonder whether the world of Keynes is non-tâtonnement economy. Anyway, in labor market in reality, it is true that there is not an auctioneer. But I can not understand why workers set wages higher than equilibrium wages. To know the reason, we have to examine the new concept of reservation prices.

> "A newly unemployed worker, for example, does not know where the best job at the best wage is to be found. He must *search* for it—which is to say, engage in a process of acquiring information that is costly, at least, in terms of immediate earnings foregone. In sampling available job opportunities, he must decide what offers at what wages he will turn down. This means setting himself a reservation-wage which, roughly speaking, will reflect the best terms that he *believes* he should be able to obtain for himself.
>
> Initially, the information relevant to fixing this belief will consist primarily of the 'memory' of his past wages and of his knowledge of the current wages of those still working at his past place of employment. As his sampling of job openings progresses, his knowledge of the current state of the market improves and his reservation-wage will be adjusted accordingly—downwards or upwards depending upon whether the market is found worse or better than initially anticipated. At some point, the rate at which the best offer known improves will appear no longer to warrant the costs of further search and he will accept a job."[25]

The level of reservation wage changes in response to job research. Anyway workers do not want to offer their labor at the wage under the reservation level, even if they make sacrifice of their income. In case of labor, as behavioral assumption is just the same as that of classical economists, workers behave in accordance with the principle of utility maximisation. If so, workers ask wages worthy of their marginal disutility of labor. I think this theory is just the same as the classical voluntary unemployment theory in itself. So I dare say that Leon's job research model can not be reassessment of Keynes' "The General Theory", although Leon's non-tâtonnement approach is valuable.

(3) Robinson-Eatwell Vintage Model

The second line of our reassessment is to examine how Robinson and Eatwell describe the essence of "The General Theory", in their book titled "An Introduction to Modern Economics". Some famous Japanese professors such as professor Hirofumi Uzawa and Ryutaro Komiya tried to analyse and interpret "An Introduction" but they were in vain. It is very difficult for them to understand what Robinson and Eatwell intended to say because those professors learned and were taught under the guidance of P.A. Samuelson.

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[24] Leijonhufvud, Axel, "Keynes and the Keynesians", A.E.R. May 1967. p. 404.
[25] Leijonhufvud, Keynes and the classics, I.E.A. Occasional Paper 30. London 1969. p. 31.

Robinson and Eatwell analyses corn-economy which is characterised as production by land, labor and liquid capital (wages fund) using Malthus-Ricardo Model, in the first chapter of the Part II. But in this corn-economy there are not old capital stock (machines) dated by vintage. This will be clear if we compare the model in chapter 1 and the model in chapter 3 and 4. This means that corn-economy is the world of flow-equilibrium. In contrast with this, the world of vintage model is the world of stock-disequilibrium. As Robinson and Eatwell regards the corn-economy as the world of neo-neo classical economists, and vintage model as the world of Keynes or true Keynesians, the essence of "The General Theory" can be found in stock-disequilibrium. In this context, I want quote Harrod's next caution

> "We tend to think of this in terms of the full employment of labour. Their thought ran rather in terms of the full employment of capital; it was perfect nonsense to suppose, so the argument ran, that a capitalist would be content to see his capital underemployed."[26]

In order to understand the importance of existing stock, we have to examine history of England in 1920's. According to professor Suenaga in his "Emergence of Modern Economics", England at that period, was deprived of her supremacy over the world market by the United States, Germany, Japan, Brazil and India who succeeded in industrialization after the lst World War. So old capital stock which England had accumulated since her industrial revolution became idle or under-utilised by the loss of oversea markets. This historical fact tells the state of stock-disequilibrium. In order to get back supremacy it is necessary for England to build new machines as efficient as those of Japan, Germany and the United States. But if England wished to have flow equilibrium by new investment, stock disequilibrium would be enlarged by capacity creating effect of new machines. As Keynes said,

> "Each time we secure to-day's equilibrium by increased investment we are aggravating the difficulty of securing equilibrium tomorrow."[27]

Robinson and Eatwell also interpret the above quotation in their own style.

> "Translated into terms our model, the central point of Keynesian theory is that the key to the level of employment (and utilization of the stock of machines) lies in the orders placed for new machines to be produced for the corn sector, which, in turn, stimulate the production of machine-sector machines. The determining factor is the decisions that govern the volume of investment."[28]

In the great depression there would be no motive for private investment. Robinson and Eatwell appropriately points out,

> "The path of a decline into a slump is described in Table 3.8. In this case, also, we tell a more dramatic story than could occur in a more complex economy. The slump is the consequence of a reduction in machine-sector employment by 200. Investment is related

[26] Harrod, R.F. Policy against Inflation. New York, 1958. p. 21.
[27] Keynes, The General Theory. p. 105.
[28] Robinson Joan and Eatwell John, An Introduction to Modern Economics, p. 107.

> to the change in profits in the preceding period in the same way as for the boom. By period 4, pessimism is so great that no further orders are placed for machines.
>
> From period 4 on, profits are maintained only to the extent of rentier consumption; there is no tendency for output to increase and the slump may continue indefinitely. The story is illustrated in Fig. 3.2."[29]

"The General Theory" was written in the circumstances of great depression, so that there were no investment although there were investment demand function—the marginal efficiency of capital. Because in "The General Theory" there is no chapter for loanable funds market although Keynes discusses about stock and security markets in detail. That he neglected loanable funds market is appropriate if we consider the historical state of 1920's England. In stock market there were only old stocks and in security market there were only consols. So new funds were directed not to home investment but to government consols and oversea loan market. If there were home investment, it should be autonomous type of investment such as investment for new industries. Then if we denote r for the rate of interest for loan, Y for national income, I for home investment, and S for saving, it can not be allowed to write equation $I(r)=S(Y)$ in "The General Theory". Rather we have to write equation $A+G=S(Y)$, here A=autonomous investment and G=government expenditure. Here we must face new question. What significane the liquidity preference theory could have in the determination of the rate of interest?

(4) Criticism and Synthesis by Hicks

In order to give answer to the above question I would like to quote sentence form Hicks in his "Crisis in Keynesian Economics".

> "I pass to consider the other main parts of the Keynes theory —the marginal efficiency of capital and the theory of money. *I shall take them together, for I think I can show that they belong together.* In the multiplier theory which I have been discussing, Keynes is dealing with the effect of changes in investment on income (and so on employment); he then turns to examine the possibility of controlling investment by monetary means. Both the marginal efficiency of capital and the theory of money belong to this second subject.
>
> So much of his book is concerned with this second subject that Keynes must have attached great importance to it; yet for many of his followers its message has been purely negative. In the end (they conclude from what he says) there is nothing important that can be done with monetary policy. It can hardly be that Keynes took that view himself; he must surely in some sense, perhaps a very weak sense, have been a monetarist. He has nevertheless been read to imply that there is nothing to be done with money. So all that remains, as an instrument of employment policy—or of *general*

[29] Robinson and Eatwell, ibid., pp. 124–6.

economic policy—is the government's budget. Thus it is that Keynesianism, in practice, has become fiscalism.

This is curious; as many have felt, it needs to be explained. Now one of the things which needs to be noticed, if we are to have an explanation, is a thing which is embedded in the formal structure of his work. *By taking the marginal efficiency of Capital as one topic, and the theory of money as another, he committed himself to the view that the link between money and investment is the rate of interest.* He discusses (1) the effect of interest on investment, the marginal efficiency of capital, (2) the effect of money supply on interest, the liquidity preference theory of money. *They are taken separately, because it is taken for granted that interest is the link.*

But there is here an ambiguity. There are two distinct senses in which the term 'rate of interest' is used by economists. Sometimes it means a particular tare of interest, such as can be identified in practice on a particular market; sometimes it means something much vaguer, a kind of index of terms of lending, or of willingness to lend, quite generally. *That interest, in this vaguer sense, is the link between money and investment is, I suppose, a fairly uncontroversial statement;* I would certainly not dispute it myself. But this is not the sense in which *rate of interest* is used in the *General Theory. Keynes's rate of interest is a particular rate: the rate of interest at which a sound borrower, a borrower of unimpeachable credit, can raise a long-term loan on the market. Or, what is supposed to be much the same thing, the rate of interest on long-term government bonds.*

Whether the rate of interest, in this latter sense, is an important determinant of investment is an empirical question; that is to say, it is a question which may be answered positively at some times and in some places, negatively in others. It is perfectly possible that in some countries and on some occasions it is to be answered positively; *it was, however, the general impression, from discussions and investigations that took place soon after Keynes's ideas were first promulgated, that in the England and in the America of the 1930s that not the case.* Businessmen did not appear to be greatly influenced by this 'rate of interest' in their investment decisions. That was a major reason why all this part of Keynes's book underwent an eclipse. It was a major reason why Keynesianism became fiscalism."[30]

As italicised parts of the above sentence tells us, the rate of interest given by liquidity preference does not determine the level of investment because of historical facts. If so, well-known I=S and L=M analysis, or the general equilibrium analysis which determines the rate of interest and the level of national income both at the same time, can not be applied to "The General Theory". Then Hicks supplements the theory of investment determination by

[30] Hicks John, The Crisis in Keynesian Economics. Oxford 1974. pp. 31–3.

synthesis of liquidity preference theory and marginal efficiency of capital theory. This is his intertemporal port-folio selection theory. Their level of loan—investment—can be determined as one type of assets holdings. But I still wonder whether his new theory could synthesise two theories of "The General Theory". Because marginal efficiency of capital theory is no more than demand function of investment, and port-folio is no less than supply function of investment. If we can not say that supply determines demand, we can not agree with Hicks.

Anyway so called I=S, and L=M analysis is not appropriate for interpretation of "The General Theory". The essence of "The General Theory" can be found in the fact that it was written under the historical circumstances of 1920's England. In this sense it is very important to recognise that there is historical limitation in the generality of "The General Theory".