John Maynard Keynes
Yesterday, Today And Tomorrow[1]

Rod O'Donnell*

We are gathered this evening, on the half-centenary of his death, to commemorate the greatest economist of the 20th century. In so doing, we echo a similar event held fifty years ago at the University of Sydney with similar links to the Economic Society of Australia (NSW Branch). The subject is enormous and much will have to be omitted. What I propose to offer is some comment on Keynes's contributions, their subsequent fate, and possible revitalisation. To add some flavour, I shall argue a point of view.

Keynes died on the morning of 21 April 1946 of a heart attack at Tilton, his country residence in Sussex. He was only 62. A downhill walk the previous day may have been the final straw, but the real cause of death was overwork. He had just returned from the US after negotiations finalising the IMF and World Bank and, although exhausted and in poor health, had resumed his typically staggering workload. This time it was more than his frame could bear and he expired, worn out by service to economics, his country, the world, and civilisation.

Why is Keynes a Great Economist?

Economists typically attribute Keynes's greatness to his role as the central figure of the 'Keynesian revolution', the most significant sea-change in 20th century economics, the nature, consequences and history of which have been more discussed than any other event of the same period. His most famous book, *The General Theory of Employment, Interest and Money* of 1936, mapped out the new terrain which we now call macroeconomics, and proclaimed a revolution with theoretical, empirical, policy and methodological dimensions. Theoretically, it provided a framework within which unemployment, and not merely full employment, was an equilibrium outcome of the workings of a market economy. Empirically, it greatly stimulated the collection of economic data, the measurement of aggregate variables and the publication of national accounts on which we now heavily rely. In the policy arena, the state acquired guardianship of economic performance and thus a significant and active role, the scope of which fluctuated with circumstances. And methodologically, it introduced new ideas concerning the foundations of economics, including the critical area of rational decision making under irreducible uncertainty.

But to my mind there is a second element to Keynes's greatness which is less widely known because it goes *beyond* economics. This is that Keynes was a philosopher whose philosophy possessed two important characteristics. Firstly, it recognised connections between philosophy and the social sciences. The interdisciplinary dimensions of economics were embraced so that economics was not cut off from, but connected to philosophy, politics, history, psychology and other disciplines. And secondly, it viewed the social sciences as means in the service of higher ends, so that economics is ultimately the servant, and not the master, of ethics. Economic objectives are not ends in themselves but means to non-economic goals. As it happens, they are vitally important means for they help establish the environment and preconditions for attaining greater ethical goodness. But ultimate priority belongs to ethical ends which, in Keynes's philosophy, are autonomous and not reducible to economics.

Thus, in stark contrast to modern tendencies, Keynes was never just an economist, he never thought all important issues could be reduced to an economic calculus, and he never regarded economic goals as ultimate. In a telling criticism applicable to much modern political and economic discussion, he portrayed the Benthamite tradition, with its 'over-valuation of the economic criterion' as 'the worm ... gnawing at the insides of modern civilisation and ... responsible for its present moral decay.'[2] In this era of so-called 'economic rationalism', the worm has grown larger and stronger than ever and is now feeding on the exterior as well.

These two philosophical characteristics of Keynes's thought give it a very wide appeal, not only to economists as economists, but also to those concerned with exploring the links between different branches of thought and to everyone concerned with promoting more civilised societies. One of his key remarks in this context occurred in concluding an address to the Royal Economic Society in 1945 – 'Economists are not the trustees of civilisation, but of the *possibilities* of civilisation'.

Keynes's Contributions to Economics

Let us remind ourselves of the revolutionary contributions Keynes sought to make in economic theory and policy, and in so doing dispel some misconceptions.[3] These days, hardly anyone reads Keynes in the original so that fundamental aspects of his theories have become obscured, distorted and lost. Many authors of articles and books have fallen into the habit of inferring Keynes's thought from subsequent Keynesianism, with the result that appalling mistakes are perpetuated. But, as we should all know by now, Keynes's economics is sometimes vastly different from what goes under the name of Keynesian economics.[4]

1. Economic Theory

In economic theory, Keynes provided a *new conceptual framework* for analysing the economy as a whole.[5] This new framework reposed on two main and interconnected foundations:

(i) an aggregate supply-aggregate demand analysis capable of generating multiple equilibria, and

(ii) the incorporation of comprehensive concepts of uncertainty and expectations into the analysis of economic behaviour.

Within this framework, Keynes concluded that market economies did not self-adjust to a single position of full employment equilibrium, but to one of a set of equilibrium positions which ranged from unemployment equilibria to inflationary full employment equilibria. What made this proposition revolutionary was the explicit contention that it referred to long period equilibria and not just short period equilibria. There was no fundamental challenge to orthodoxy in the idea of short period deviations around a long period position of full employment. But there was direct confrontation in the idea of long period unemployment equilibria which orthodoxy could not, and still cannot, accept. The truly revolutionary aspect of the *General Theory* lies in the development of a theory of output as a whole aimed not just at providing a better theory of short period fluctuations than that previously advanced, but also at providing a new and more general theory of long period output.

Associated with the new unemployment equilibrium was a new type of unemployment, involuntary unemployment. This was additional to the standard types of unemployment – frictional, structural and voluntary – which, it should be stressed, remained in Keynes's framework. Involuntary unemployment exists when a lowering of the real wage produced by an increased price level results in both the supply of, and demand for, labour exceeding the previously existing level of employment. Under these conditions, expansions of demand which raise prices and lower the real wage will lead to increases in employment and output until involuntary employment is reduced to zero. Full employment, defined in Keynes's framework as the absence of involuntary unemployment, thus coexists with the other types of unemployment which, depending on circumstances, may make considerable contributions to total unemployment.

The first of the twin foundations of Keynes's framework makes it evident that *both* aggregate supply and aggregate demand are essential to the determination of output. It is demand that receives most attention in the *General Theory* because it is on this side that Keynes had new and ground-breaking things to say – not only in giving demand an autonomy from supply that Say's Law refused, but also in theorising its components. Supply receives less attention because on this side Keynes had far fewer novelties to advance. With the important exception of labour supply, he accepted much of the then current theorisation of this subject. The accusation made by some critics that Keynes's analysis is purely demand side economics is thus mistaken, however much it might be true of parts of subsequent Keynesian economics. In hindsight, one can criticise Keynes's exposition of the supply side but one cannot accuse him of omission, or of ignorance of its role in determining output.[6]

The second foundational element, expectations and uncertainty, permeate the whole fabric of the *General Theory*. All its main variables are defined in terms of expectations or are subject to their influence, because the decisions of rational agents operating with varying mixtures of knowledge and ignorance are inevitably expectations-dependent. Uncertainty, moreover, is conceptualised in the broadest possible manner and not restricted to a single calculable form (as in orthodoxy). It ranges from reducible uncertainty where rankability, probabilification or determinacy exist, to irreducible uncertainty where non-rankability, non-probabilification or indeterminacy prevail. It is at this point we enter a new territory which orthodoxy, despite its claims to generality and its vast resources, still avoids. Once the preconditions of rationality as determinate maximisation break down, we are faced with the theory of rational behaviour under radical or irreducible uncertainty.[7] Keynes's contribution was to begin the exploration of this territory and to insist on its importance.

2. Economic Policy

Economic policy, in Keynes's schema, is largely the result of two currents of thought:

(i) his philosophy of practice, and

(ii) the economic reasoning to which he currently subscribed.[8]

For Keynes, the *ultimate* goal of practical reason was the augmentation of ethical goodness, with economics serving this goal by laying foundations in the present and future. Keynes's practical philosophy was a form of probabilistic consequentialism in which the rightness of actions is determined by their consequences, modified by probabilities (and other variables in particular cases) whenever consequences were uncertain (which was nearly always). Views on consequences were derived from factors such as historical experience, available knowledge, general theoretical principles and the particular facts of the situation. The important implications were that policies were dependent on consequences and hence on circumstances, and that no policy had a privileged *a priori* position. All policies (or policy mixes) were open to consideration with the right policy being determined by the foreseeable probable consequences under the prevailing circumstances.

The second element, economic reasoning, comprises two elements in this context – economic theory, and its application to reality. Because of its inevitable abstractions, economic theory is never directly applicable to reality. One must also take into account all the factors omitted from the theory and their likely bearing on outcomes by using the faculty Keynes once termed 'practical intuition'.

With these thoughts in mind, let us now turn to the accusation of inconsistency that is often levelled against Keynes. If policies are consequences-dependent and consequences depend on reasoning and circumstances, then changes in reasoning or circumstances may engender altered views of consequences and changes of policy. Within Keynes's framework, policy changes for these reasons are entirely justifiable and do not constitute inconsistency. Thus it was rational for Keynes to switch from free trade to an import tariff in 1931 because of unprecedentedly severe conditions in the British economy.[9] It is also rational to change one's views when information changes. Butlin's anecdote – that during the Quebec Conference of 1944 Churchill cabled Keynes, 'Am coming around to your point of view', but then received the reply, 'Sorry to hear it, have started to change my mind'[10] – serves as an amusing illustration of rational behaviour, rather than evidence of slippery inconsistency.

Some of Keynes's particular policy stances deserve brief mention. These derive largely from Keynes's post-1936 writings because it was then, and not in the *General Theory* itself, that he gave closer attention to policy matters.

1. Objectives and Policies

All economic objectives, both macroeconomic and microeconomic, fall within the ambit of policy, including, for example, unemployment, inflation, external balance, income distribution, economic efficiency, restructuring and rationalisation. And in working towards these objectives, all policy tools were potentially available – fiscal policy, monetary policy, external policy, incomes policy, investment policy, structural adjustment policy, and so on.

2. Unemployment Reduction

Each type of unemployment requires different policy action. Increases in aggregate demand only attack involuntary unemployment and are not relevant to reducing frictional, structural or voluntary unemployment. Moreover, as the economy approaches full employment, the problem of aggregate demand management changes. It shifts from economy-wide increases in the overall level of demand to the *sectoral distribution* of a level of demand that needs to be growing *more slowly*. These two changes – the distribution and slowing of demand growth – are aimed at preventing the emergence of serious inflation during the final removal of involuntary unemployment. It is critically important to note that Keynes outlined the need for this shift in policy application in January 1937 when total unemployment in Britain was as high as around 12.5%.[11]

3. Fiscal Responsibility and Budgets

In rejecting annually balanced budgets, Keynes never advocated profligacy in state expenditure and borrowing. He reinstated fiscal responsibility over a longer time-span by means of the principle of *cyclical balance*. Deficits and borrowings are the right policies during slumps but they have to be balanced by surpluses and debt repayment during booms. The rational management of state finance was not grounded on permanent budget deficits and borrowing.[12] As a result, contractionary fiscal policy during booms is just as much a part of Keynes's thought as expansionary fiscal policy during slumps. Nowadays popular misunderstanding is such that only expansionary policy and deficits are labelled Keynesian, while contractionary policy and surpluses are portrayed as anti- or non-Keynesian.

4. Inflation

Serious inflation, it should be emphasised, was just as much an economic evil to Keynes as high unemployment. Low inflation might be necessary for a time to remove involuntary unemployment but this did not imply permissiveness or insouciance towards high inflation. As the economy neared full employment, his policies aimed to restrain the inevitable inflationary pressures, not to disregard them.

5. Criteria for Evaluating Public Projects

State projects were not to be universally evaluated by purely financial principles according to whether they 'paid' or not on commercial criteria. Non-economic values were just as critical to their evaluation, including the services and amenities rendered to the public, the beauty of natural and constructed environments, and the contributions to art and civilisation. Business arithmetic might be appropriate for commerce, but the aim of life was not to turn *everything* into a 'parody of an accountant's nightmare'.[13]

I should like to conclude this section with a comment on Keynes's most famous and most misinterpreted remark, uttered in 1923 – 'In the long run we are all dead'. According to popular mythology, this demonstrates that Keynes was only concerned with the short run and ignored the long run, an interpretation which is congenial to the orthodox reading of Keynes's economics (as well as to the view, sometimes uncritically foisted onto Keynes, that spending for today is a virtue and saving for tomorrow a vice). But this reading is utterly mistaken. It is a classic case of tearing a statement from its context. The correct interpretation of Keynes's one-liner is that it is a criticism of the *exclusive* reliance on long run theory as a means of understanding *current* events, and a plea for the consideration of *both* the short and long run. That is, long run theory is necessary but insufficient. Sufficiency is only attained with the additional ingredient of short run theory because the short run, according to both Adam Smith and Keynes, is capable of enduring for up to a hundred years. A careful reading of all of Keynes's works will reveal that he is typically aware of *both* the short and long runs.

Keynes and Australia

Keynes exerted considerable influence on Australian economists. This appeal, evident in the 1920s, rose to a high plateau from the 1930s to the 1960s from which it has declined to a lower but still significant level today. For his part, he had a continuing interest in the Australian economy, being kept more or less regularly informed through correspondence of Australian policy thinking, both domestic and international. He also mentioned Australia in the *General Theory* in connection with the theoretical case of a fixed real wage economy.[14]

His influence rested on at least two factors – a Cambridge connection, and the *General Theory's* appeal to younger economists. Among the several Australians who studied economics at Cambridge, Giblin was the most senior, having been a member of King's since 1893. He met Keynes in 1918, subsequently corresponded with him, spent the winter of 1937-38 in Cambridge and, in fact, preceded Kahn in developing the multiplier concept in 1930. Other notables were Colin Clark, the statistician and national accounts architect, who was in contact with Keynes from 1930 onwards; Ronald Walker, the academic, senior public servant and economic adviser, who was a student during the key years of 1931-33; and Sydney Butlin, the academic economist who met Keynes in 1932 and attended his lectures in 1933 and 1934. Reddaway, a British pupil of Keynes, also visited Melbourne in 1936-37 and favourably reviewed the *General Theory* for the *Economic Record*. Beyond these direct connections, a wider group of economists who were later to occupy positions of power or influence in Australia were highly sympathetic to Keynes's thought – Melville, Mills, La Nauze, Coombs, Swan, Crawford, Tange, Copland and Downing, for example.[15]

In 1944-5, certain democratic governments (particularly the UK, US, Australia and Canada) explicitly accepted full employment as a foundation of post-war economic policy, a commitment driven by two contrasting experiences – the mass unemployment of the 1930s, and the subsequent full employment of the war economies. In NSW, the 1945 Winter School of the Economic Society appropriately turned its attention to the full employment economy, with papers by two economists (Firth and Giblin) and two industry representatives (one each from the employers and employees), subsequently published in *Economic Papers* No.5.[16] The economists canvassed the central issues in creating and sustaining full employment in terms which largely echoed Keynes: attacking unemployment on two fronts by generating sufficient total demand for labour *and* reducing mismatches between jobs and workers; ensuring a sufficient level *and* distribution of aggregate demand, especially by variations in public investment; avoiding inflationary pressures arising from excess demand or wages; maintaining efficiency in production; and overcoming external imbalances by expanding exports, restricting imports (as required) and promoting growth in world trade. A more fundamental problem was also recognised – the achievement of lasting low unemployment required a change in economic culture. Government policies were necessary but not sufficient; agents also had to alter their behaviour. As Giblin put it, 'something like *a revolution in the canons of conduct* of a large proportion of ... people' needed to be brought about.[17]

Following Keynes's death, a symposium was organised at the University of Sydney to pay tribute to his contributions and memory. The main papers, published in *Economic Papers* No.6, were by Sydney Butlin, the newly appointed Professor of Economics at Sydney, and John Stuart Wilson, then a lecturer at Canberra University College.[18] It is interesting to glean from their remarks a brief glimpse of the impact of the Keynesian revolution on Australian economists in the 1940s and the differences with today.

Butlin viewed Keynes as a genius whose intellectual supremacy was such that virtually all his critics were as much 'Keynes-dominated' as his most ardent disciples – 'Thousands of economists throughout the world think in Keynesian terms about Keynesian problems, even when they believe themselves to be reacting against him'. But Butlin was no particular fan of the *General Theory*. On the one hand, it was poorly composed – he endorsed the view of his predecessor, Professor R.C. Mills, that it was a book that should be started, neither at the beginning nor end, but in the middle and read both ways at once – and on the other hand, it was not even Keynes's greatest work. This honour belonged to the *Treatise on Money* which was 'the really revolutionary book' that accomplished the Keynesian revolution. By advancing this heresy and pointing to what he saw as Keynes's fallibilities as well as strengths, Butlin was evidently trying to counter the adulation of 'the Keynes-worshippers amongst the young men', most of whom had not read any Keynes prior to the *General Theory*.[19]

Wilson, too, was concerned about the growth of 'uncritical Keynesians' but did not share Butlin's heresy about the origins of the Keynesian revolution. Though certain threads of continuity in Keynes's earlier economic works were detectable (especially concerning saving and investment), it was the *General Theory* which heralded the revolution. Of the notable aspects of Wilson's paper, let me mention three in passing. The first picked out a methodological departure of Keynes's analysis from that of orthodoxy – 'The burden of the Keynesian argument would appear to be that the ultimate causal factors depend less on the operation of the price system than upon the *behaviour patterns* of people.' Today we might elaborate on this by saying that Keynes moved away from the closed system of orthodoxy towards an open system which, in its inclusion of radical uncertainty and psychology, introduced additional exogenous parameters and links to non-economic disciplines. (Orthodoxy, by contrast, has always preferred a closed system with a specific set of exogenous parameters and no reliance on theorising in other disciplines.) The second aspect is the importance of dynamics, and the evident excitement of generating cycles from the multiplier-accelerator interaction, including shorter cycles superimposed on longer cycles. Finally, Wilson noted an imbalance in contemporary policy discussion. Policymakers had become preoccupied with the deficient demand/depression case which the *General Theory* had appropriately emphasised in the 1930s, and had given little attention to the excess demand/inflation case which was more important in a high employment economy.[20]

Both Butlin's and Wilson's concerns about the growth of uncritical Keynesianism, even at this early stage, were prescient.

The Response of Orthodoxy

The dominant currents in the orthodox response to Keynes's challenge provide extremely interesting case studies in the development of economic thought. Rather than displaying virulent hostility, orthodoxy assimilated altered versions of his thought within its own framework, thereby defusing potential theoretical explosions. The assimilation process took time but commenced almost immediately in 1936 while the infant revolution was still cradle-bound. Depending on one's standpoint, the result was the 'Neoclassical synthesis' or 'bastard Keynesianism'. I confess to not liking either of these labels overmuch – the first has elements of deception and pretence, the second is abusive and ungenerous. My alternatives would be something like the 'Neoclassical defusion' and 'crippled Keynesianism'.

Reinterpreting Keynes within a Neoclassical/Walrasian framework naturally produced dramatic reversals, contractions and distortions of some of Keynes's central propositions. The general outcome is familiar. Instead of Keynes's being the general theory within which orthodoxy was a special case, orthodoxy became the general case with Keynes the special instance of depression economics. The long period equilibrium position of the economy was reinstated at full employment, with Keynes's theory providing a new analysis of short period fluctuations around the long period position. It was a disequilibrium theory, not a (long period) equilibrium theory. Keynes's emphasis on variations in demand as the main source of fluctuations in the *General Theory* meant his name became primarily associated with the demand side. And since Walrasian self-adjustment to full employment required flexibility in all prices, the ultimate cause of impediments to self-adjustment had to be rigidities of some kind so that such rigidities or imperfections became the true origins of Keynes's conclusions. In this manner orthodoxy reasserted itself to regain control of the terrain.

Keynes's theoretical contribution was thus bowdlerised into an improvement of an aspect of orthodox economics. This was hardly revolutionary, however. What preserved the notion of a revolution was a shift into the policy arena, the area that received only superficial treatment in the *General Theory*. Keynes's major innovation became an increased role for government intervention, particularly through fiscal policy. Whenever the adjustment speeds of market forces were too slow, Keynes's demand management policies could legitimately expedite the return to full employment, from which it was but a short step to the notion that 'fine tuning' was an essential element of Keynes's system.

Some of the prominent names in the development and dissemination of the 'Neoclassical synthesis' were Hicks, Modigliani, Patinkin and Samuelson, though others also made important contributions. According to Hicks (1937), Keynes's theory and modern classical theory (in the form of revised and qualified Marshallianism) are almost indistinguishable. What differentiates Keynes and constitutes his novel contribution is the consideration of *extreme or limiting cases* in which the interest rate mechanism of classical theory breaks down completely. The liquidity trap, when the LM curve is horizontal, is thus taken to be the key to the *General Theory*, from which it follows that the book's useful contribution is to the 'Economics of Depression'. Having thus reduced Keynes to a limiting case of modern classical theory, Hicks then developed a more general ISLM apparatus (which he called the 'Generalised General Theory' but which could *equally* well have been called 'Generalised Modern Classical Theory') which embraced modern classical theory and Keynes's limiting cases in the one framework. Hicks's 1937 article helped give us ISLM analysis which, interestingly, was not then for Hicks a representation of Keynes, but a *neutral* apparatus which could clarify all schools in the debate. But viewed as a model of interpretative reasoning, Hicks's article is appalling. It ignores central elements of the

General Theory, distorts other parts, and identifies its revolutionary aspect with a situation that its author thought had probably never happened.

Modigliani (1944) followed Hicks in using ISLM as an appropriate vehicle to distinguish Keynes from orthodoxy, but found that Keynes's conclusions depend in general, not on liquidity preference, but on the assumption, wrongly attributed to Keynes, of rigid money wages. Again Keynes became a special case, this time of orthodox flexible wage theory. However, Keynes did not assume a rigid money wage but a money wage which could, and did, change. This was accepted by Patinkin (1956)[21] who, using a general equilibrium framework with flexible wages and prices, concluded that involuntary unemployment only exists in disequilibrium, during the self-adjustment period to full employment equilibrium. The main reason for involuntary unemployment is neither the liquidity trap nor rigid wages, but factors of any kind which inhibit the smooth and rapid convergence to the full employment equilibrium (chiefly interest-inelasticities but also distributional and price/wage expectational effects). In such cases, when the self-adjustment process operates too slowly (the short run endures for long calendar periods), Keynes's policy remedies become extremely important in accelerating the return to full employment. Thus the *General Theory* becomes a study of the dynamics of disequilibria with slow self-adjustment speeds.

Samuelson's contribution was coinage of the phrase 'Neoclassical synthesis' in 1955 (in the third edition of his famous textbook, *Economics*), his goal being to harmonise Keynesian income determination and Neoclassical theory in a single 'scientifically neutral' analysis. He also advanced the tendentious argument that once Keynesian policies had established continuous full employment, Keynesian economics would wither in importance and orthodoxy would reign. Like many others, Samuelson is here speaking entirely from the orthodox perspective. From a Keynesian perspective, Keynes's economics cannot cease to be important because (a) it is essential to maintaining full employment, and (b) it embraces orthodoxy as a part of itself. The theory of a full employment economy has always been as much part of Keynes's economics as the theory of the underemployed economy.

Keynesianism Today

Keynesianism, or what went by that name, dominated the economics profession and many policy makers from the mid 1940s to the late 1960s. So complete was the dominance that some confidently declared that 'We are all Keynesians now'. But from the 1970s on, under attack from successive waves of orthodoxy in different forms – monetarism, supply side economics and new classical macroeconomics – it went into decline, and the distinctly unconfident question, 'Is Keynes dead?', began to circulate.

Today Keynesianism is alive, but occupies a significant minority position. It still attracts a considerable following among economists, partly because of its positive appeal and partly because of the inadequacies of Neoclassical economics. As a whole, however, Keynesians form a very heterogeneous and fragmented group and any characterisation is likely to do injustice to some of them. So-called 'New Keynesianism' is merely a continuation of the 'Neoclassical synthesis' and hence as far from Keynes's economics as ever.[22] 'Post Keynesianism' is a loose label covering economists sympathetic to Keynes who seek to extend and supplement his work. Other sympathisers aim to graft or integrate Keynes with the work of other non-Neoclassicals such as Marx, Sraffa or Kalecki. A further group of economists stress the significance of Keynes's philosophical writings because they cast light on his thought as a whole and his economics in particular. And finally there are those who, while not directly involved in Keynes research, are sufficiently unimpressed with mainstream economics as to offer general support and encouragement. Within these variegated currents, any hope of revitalising Keynes's framework rests with those willing to engage in the double task of returning to Keynes's original writings in search of more accurate understandings of his thought, and of modernising and adapting these to the present.

An important event in recent times has been the stimulus given to Keynes scholarship by the Royal Economic Society's edition of *The Collected Writings of John Maynard Keynes* in thirty volumes. With a writer such as Keynes whose meaning is not always transparent or fully explained in any one passage, it is essential in interpreting his thought to have as many of his relevant writings available as possible. The existing edition has taken a huge step in this direction by printing roughly seventy percent of his published and unpublished output of academic importance. But it is *not a complete writings*, and a supplementary edition is in preparation to publish the remaining philosophical, economic and political material, much of which is of high significance.[23]

The Uncompleted Revolution

Keynes created the foundations and framework of a more comprehensive approach to economics but the structure was never completed. Cruder imitations were erected, some of them naive simplifications which lacked robustness, and some of them distortions amounting to parodies. Side-tracked, reinterpreted and diluted into an adjunct of orthodoxy, the revolution lost momentum, partly lost its way, and now proceeds at snail pace. Even after sixty years and considerable work by earlier Keynesians, I think it a defensible, although perhaps provocative, proposition to say that the theoretical foundations of *The General Theory*, as a whole, have not yet been adequately determined, exposited and developed. The revolution, in other words, is uncompleted.

Much work therefore remains to be done if we are to gain adequate understandings of Keynes's contributions to economic theory and policy. Such work is not merely of academic or doctrinal importance, moreover, but is vitally relevant to the theoretical diagnosis and policy cures of modern economies.

As I see it, the task has two components. One is to return to Keynes's original writings to understand their actual nature. The other is to develop an improved form of Keynesianism that is relevant to modern conditions. To borrow a phrase, the aim is to create Keynesianism Mark II to replace Keynesianism Mark I, the main difference being that Mark II will be developed as much as possible within Keynes's own conceptual framework rather than the Neoclassical framework that nurtured Mark I. At least three basic features are required for revitalised Keynesianism:

(i) a foundation in a thorough understanding of Keynes's own conceptual framework and the theories advanced within this framework,

(ii) openness to the incorporation of modern theoretical insights and developments, either within Keynes's initial framework or as modifications to this framework, and

(iii) adaptation of the theories (and the framework if necessary) to alterations in historical circumstances, institutional arrangements and empirical data.

Though the execution of this project will be largely undertaken by those sympathetic to Keynes, it is one that should be welcomed by all economists, including those in the Neoclassical mainstream. Intellectual competition between different schools is healthy for economics, a point that doubtless will not be lost on those who praise the virtues of competition elsewhere. And competition yields its greatest benefits as a whole when competitors are at full strength, not when one of them is enfeebled by omission and distortion. It also deserves remembering that some common ground exists between Keynes and orthodoxy at full and near-full employment.

Achieving an improved Keynesianism which avoids the mistakes of the crude and naive forms that dominated the past obviously requires considerable continuing research activity on a number of fronts.

1. There is editorial work to be done to complete the published record of Keynes's writings in economics, philosophy, politics and other areas.
2. Keynes's conceptual framework needs to be assembled as a whole from a wide array of different writings. This should be done for both theory and policy. The *General Theory* is naturally central, but its complexity and incompleteness make it necessary to turn also to the writings leading up to the *General Theory* and to those after the *General Theory* which address, in greater detail, matters only peripherally treated in that work (such as policy, inflation and the open economy). One can also draw on Keynes's earlier writings in so far as they contain themes more or less untouched by the Keynesian revolution. A vital element of this task is determining the meaning of Keynes's concepts and clarifying their differences from orthodoxy. The meaning of long period equilibrium is a case in point.
3. Further exploration of Keynes's methodology is required, including his approach to abstraction, assumptions, realism, epistemology, model building, formalism, econometrics, and openness. As commentators on both sides of the debate have noted, disputes in economics often reduce to disputes in methodology.
4. We must continue to examine Keynes's philosophical writings for further insight into his economic theory and policy. These writings have turned out to be foundational to parts of Keynes's economics for they have enabled solutions to be advanced to conceptual puzzles in, and debates over, Keynes's economic theory (such as expectations and rationality under uncertainty), his economic methodology (such as the role of formalism in economics) and his economic policy (such as his probabilistic consequentialism and the ultimate priority of ethics).
5. Links between economics and other social sciences, never closed off in Keynes's economics, merit further investigation.
6. The analysis of the full and near-full employment economy needs more attention within Keynes's framework, including various inflation scenarios at or near full employment, and the transition zone in which involuntary unemployment reduces to zero. The large scale involuntary unemployment of the 1930s when total unemployment ranged between 20 and 30% in industrialised countries, has, since 1945, given way to unemployment rates typically fluctuating between 1 and 12%. The post-war situation has not been *mass* unemployment in which involuntary unemployment is the dominant category, but (a) relatively lower unemployment in which involuntary unemployment is smaller (even zero) and the other categories of unemployment more predominant, and (b) inflationary pressures from both the demand and supply sides. For Keynes, theory should always be applicable to reality, and the zone of near-full employment is as much a part of his general theory as the zones of mass unemployment and full employment.
7. And finally, if Keynes's economics is to contribute to the betterment of the world, we need to explore the relationships between economics and ethics, and the deeper notions of rationality which allow both these disciplines to work, over time, in a common direction.

Before closing let me make two observations. One underlying question is whether the *General Theory* has a single, simple essence. Many have thought so, and that they have detected it. Hicks (1937) thought it lay in the liquidity trap, Modigliani (1944) in money wage rigidity, Shackle in irrationality and disorder, Clower (1965) in the dual decision hypothesis. In my view, however, the quest for a single simple essence is mistaken. Essences are tricky things, dependent on such factors as the purposes, objectives and conceptual framework of the analyst. Within these dependencies, I am not disputing that the *General Theory* does have an essence. I therefore support the quest, but think it has mis-specified its object. If the essence is single, it will not be simple, but *complex and multi-faceted*, as different as a polygonal solid is from a sphere. And if the essence is internally coherent, the facets will fit together neatly without jagged edges. Whether this complex essence, and all its facets, can be *wholly* captured by formalisation is doubtful, but I leave that as an open question. However, if we are to picture the *General Theory* in a single diagram, it must surely be an aggregate demand-aggregate supply diagram, and certainly not an ISLM diagram.[24]

My second point is that while I think it is important to defend Keynes against various kinds of misinterpretation, there is nothing sacrosanct about Keynes's writings on theory or policy. Stimulating as it is, the *General Theory* is complex, incomplete and poorly constructed, and no surprise should be occasioned by the discovery of confusions or errors. The task of improving Keynes within his own framework may thus involve modifying, casting off, or extending parts of the original schema. We respect Keynes's thought best if we first try to understand it in its own terms, and then subject it to the test of criticism. We do him no service merely by presenting textual exegesis without analytical exploration. The allegiance of all economists, whether of Keynesian, Neoclassical or other persuasion, should be to scientific inquiry, not faith in dogmas.

Conclusion

There could be no greater memorial to Keynes in the foreseeable future than the revival of his economic thought in ways that are faithful, as far as is defensible, to his conceptual framework and methodology, and that make it relevant to the modern economy and its problems. As well as the knowledge and experience of the older generation, the task requires the energy and inquisitiveness of younger economists to whom I recommend it as an intellectually worthy and stimulating enterprise.

But regardless of whether such activity has appeal, if I leave you with no thoughts other than the following, I shall be content:

(i) Keynes had the courage and intellectual ability to challenge weaknesses in the prevailing orthodoxy *and* to construct a more general theory of the operation of market economies.

(ii) Keynes's economics is different from, far richer, and more sophisticated than, what passes for Keynesianism in the textbooks and the media.

(iii) Keynes *ennobled* economics by placing it at the service of values and ideals higher than those of self-interest and greed.

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* School of Economic and Financial Studies, Macquarie University, North Ryde, NSW 2109.

Notes

1 A public lecture given at the University of Sydney on 23 April 1996, jointly organised by the Economic Society of Australia (NSW Branch) and the Centre for the Study of the History of Economic Thought at Sydney University, and chaired by Professor P. D. Groenewegen.
References to the Royal Economic Society's edition of *The Collected Writings of John Maynard Keynes* (Keynes 1971-89) take the form of *CW* and the volume number in italics, followed by the relevant page number(s).

2 See *CW X*, 445-6.

3 Keynes's contributions to philosophy will not be discussed here; on this topic, see, for example, O'Donnell (1989, 1991).

4 The distinction began to surface in the 1940s and was further underlined by Leijonhufvud (1968).

5 As a consequence, he also provided a new conceptual framework for the discipline of economics; see the opening remarks of chapter 21 of the *General Theory*.

6 It is interesting to note that Keynes briefly refers to the idea, exploited by the supply-side economics of the 1970s, that taxation can affect incentives; see the *General Theory* (*CW VII* 372). But in Keynes's hands it is only one factor in the situation, not such a dominant factor that it could underpin a new theory.

7 Elsewhere I have called this the theory of *weak rationality* as distinct from that of strong rationality; see O'Donnell (1989, 1991).

8 In a more complete treatment I would add a third current, his views on politics and its effects on practical possibilities.

9 See *CW XX* 489-92.

10 Butlin (1946) p.12.

11 See *CW XXI* 385.

12 See *CW XXI* 390.

13 See *CW XXI* 241.

14 *CW VII* 269-70. See Aspromourgos (1996) for an explanation of Keynes's conclusion that such an economy is potentially violently unstable.

15 For further discussion of Keynes's influence on Australian economists during 1930-45, see, for example, Whitwell (1986) ch.3, Coombs (1981), Markwell (1985) and Cain (1985, 1988). In Australian politics, Keynes also influenced E.G. Theodore, Treasurer in the Scullin government, J.B. Chifley, Labor Treasurer and Prime Minister, and other prominent Labor Party figures. On a biographical note, some of Keynes's relatives settled in South Australia on a sheep property outside Adelaide.

16 Gerald Firth later became Professor of Economics at the University of Tasmania, while Giblin had been Professor of Economics at the University of Melbourne since 1929. For further discussion of Giblin's contributions, see Groenewegen and McFarlane (1990) and Cain (1983).

17 Giblin (1945 p.63) emphasis added. This can be taken, not as a reason for abandoning high employment policies in principle, but as an important contingency influencing what we adopt as feasible unemployment targets at any time. If the change in culture is insufficient, our ambitions will need to fall below Beveridge-type targets to the less pleasant reality of higher sustainable minimum unemployment rates.

18 The published papers also contain a commentary on Wilson's paper by E.P. Haslam but not, unfortunately, the extempore address to the symposium by Leslie Melville.

19 For quotations, see Butlin (1946) pp.16, 17, 13 respectively. Butlin's paper also provides an overview of Keynes's life, one point in which needs correction (p.5); he has Keynes resident in India for two years around 1913-14, whereas in fact Keynes never travelled to that country. Also, in common with received accounts of the time, he was unaware of Keynes's interest in and contributions to philosophy, the *Treatise on Probability* being passed off as a mathematical work (p.6).

20 For quotations, see Wilson (1946) pp.36, 23, 26 respectively.

21 This work was based on his 1947 Chicago doctoral thesis. For a summary of his view of Keynes, see the second edition of 1965 (pp.336-43, 349, 643-4).

22 Mankiw (1994 p.491), a leading New Keynesian, defines it as: 'The school of thought according to which economic fluctuations can be explained only by admitting a role for some microeconomic imperfection, such as sticky wages or prices'.

23 See O'Donnell (1995).

24 For further discussion of Keynes and ISLM, see, for example, Nevile (1996).

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