JOHN MAYNARD KEYNES: A CENTENARY ESTIMATE*

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John Maynard Keynes was born at 6 Harvey Road, Cambridge on 5 June 1983, the son of John Neville Keynes, Fellow of Pembroke College and for many years the Registrary of the University of Cambridge, and Florence Ada, daughter of Dr. John Bedford and an early student at Newnham. John Neville Keynes and Florance Ada Brown had married in 1882 - a popular year for marriages in Cambridge, for it was the year which saw the repeal of the University Statute requiring Fellows to resign their fellowship upon marriage. It will be recalled that it was the operation of this Statute that took Alfred Marshall, Keynes's teacher and mentor, away from Cambridge in 1877 when he had married Mary Paley, another early member of Newnham.

Had Maynard Keynes never turned his mind and energies to matters of political economy, the name of Keynes would yet have been assured a place in the history of the discipline by virtue of the work of his father John Neville Keynes. For not only did John Neville Keynes play a prominent part in the struggle to establish the Economics Tripos at Cambridge (being, as well, from 1908 to 1919 the Chairman of the Special Board for Economics and Politics which governed the teaching and examining for the Tripos), but he also published in 1890 The Scope and Method of Political Economy - a book evidencing that command of the subtle intracies of methodology which is today so conspicuous by its absence. But not only were the contributions of Maynard Keynes to eclipse the not inconsiderable reputation of his father and outshine those of other economists of his generation, but they were also to propel him to a position of pre-eminence in the history of twentieth century economic thought to which few other names (save, perhaps, that of his friend and colleague Piero Sraffa of Trinity College) could conceivably be added.

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Indeed, so vast and diverse are the contributions of Maynard Keynes, it is scarcely possible to do justice to these in the short time that is available to me this afternoon. And although I propose to devote the bulk of my talk to the really crucial question of the theoretical significance of Keynes' most influential book, the General Theory. I would like (however briefly and inadequately) to mention a few of his other contributions by way of introduction. For fuller, and richer accounts of these matters, I would refer you all to Professor Austin Robinson's tribute to Keynes in the Economic Journal for March 1947 and to the late Sir Roy Harrod's Life of Keynes. Other interesting glimpses of Keynes can be found in Michael Holroyd's excellent biography of Lytton Strachey.

The matters I wish to mention first are not, strictly speaking, concerned with economic analysis or policy. As you will all know, Maynard Keynes was Bursar of King's College, Cambridge from 1919 until his death in 1946. Between 1919 and 1924 he served as Second Bursar; but thereafter, as First Bursar, he was in complete command. It should be understood that the office of Bursar in a Cambridge College is an immensely powerful one. For not only does it put the incumbent in charge of the day-to-day financial operations of the College (dealing with such items as student fees and scholarships, Fellow's stipends, college staff wages, kitchen accounts and maintenance and repairs); but it also renders the incumbent effective control over the investment policy of the College. The sums to be dealt with in this area are often considerable and it is the responsibility of the Bursar to ensure that their development is effected in such a way as to promote and secure the financial well-being of the College in the future. As Bursar of King's, Keynes was to be primarily concerned with that long run in which (as he once said) we are all dead.

Of course, the difficulty of the job for Keynes must be kept in perspective - between 1915 and 1919 (during his time at the Treasury) he had been deeply involved with the external position of the country as a whole and in the 1920s he had begun to play a major role in the investment policies of the National Mutual and Provincial Insurance

Companies. Indeed, he managed to increase the value of his own personal assets from near bankruptcy in 1919 (when his speculative activities cost him the whole of his accumulated savings of £6000) to £500,000 in 1937 - and this notwithstanding the slump of 1929-31 and the effects it had upon the value of his investments. His successes at King's were not less spectacular, and at his death he left the College with financial assets to match those of the other, previously more wealthy, colleges.

Another area in which Keynes made significant contributions was in his promotion and sponsorship of the Arts. In 1917 he persuaded the Chancellor of the Exchequer to make availailable £20,000 to the National Gallery for the purchase of items from Degas' private collection which was auctioned in Paris that year. The purchases made at that auction form the backbone of the National Gallery's fine collection of modern French painting even today. Taking advice from Duncan Grant, Roger Fry and Vanessa Bell, Keynes ensured that the National Gallery acquired works by Corot, Delacroix, Forain, Gauguin, Ingres, Manet, Rousseau and Ricard. For his own collection, Keynes secured a Cezanne and an Ingres - this private collection was later to include works by Picasso, Seurat, Roger Fry and Duncan Grant. Nearly twenty-five years later, in 1941, Keynes was invited to join the Board of Trustees of the National Gallery.

But this was not all. Keynes was chiefly responsible for the setting-up of the London Artists' Association which was intended to provide a regular income for promising young painters who had not yet received sufficient attention to free them from financial hardships. Furthermore, through his friendship with Samuel Courtauld, Keynes was instrumental in encouraging the building up of the collection of paintings now housed in the Courtauld Gallery, just off Oxford Street, in London.

Then there was the Ballet. In 1930 the Comargo Ballet Society was founded. In 1931 it experienced a financial crisis and Keynes took over as Treasurer. For four more years the Society continued to mount productions (some featuring Keynes's wife, Lydia Lopokova, whom he had married in 1925) at which time it handed its assets and profits over to the Vic-Wells Ballet, which itself is the heir of what we now enjoy as the RoyalBallet.

Then there is the Arts Theatre in Cambridge, opened in March 1936 just one month after the publication of the General Theory, and which, as anyone who has ever stayed in Cambridge will testify, forms an invaluable part of the cultural and artistic life of that city. This theatre is entirely Keynes' achievement. He conceived it, financed its construction and managed its day-to-day affairs - right down to the printing of the programmes.

Lastly, though certainly by no means the least important of his contribution, is Keynes' role as Chairman of the Committee for the Encouragement of Music and the Arts - now known as the Arts Council. It is sufficient to say of this body that without it the cultural landscape of London (and Britain as a whole) would resemble a wasteland. Its grants support the National Theatre, the LSO, the RPO, Covent Garden and the Royal Opera and Ballet, Sadler's Wells and the ENO, the WNO, the RSC as well as numerous regional opera houses, theatres and galleries. It mounts art exhibitions on both large and small scale and it makes grants to small theatrical companies, to painters, to the film makers and to writers. In a BBC radio broadcast of 1945, Keynes spoke of the Arts Council in what for that time were optimistic terms. Yet read today, given our knowledge of its achievements, it is clear that the Arts Council has outstripped even Keynes' expectations. It is perhaps only his failure in that radio broadcast to anticipate the advent of Mrs. Thatcher and of pre-Keynesian economic policies, which would make us today more guarded in our optimism than Keynes was in 1945 that funds from the Exchequer to support the Arts Council would not begin to be whittled away.

That one man should have had so much influence on the way of life in Britain (and, indeed, the world) today is remarkable enough: that he should also have been an economist belies the widespread conviction outside the discipline (and sometimes, even within it) that economists are bereft of imagination and creativity, that they are chiefly responsible for all economic and social malaise. Thus, it is to Keynes' contribution to economics that I now wish to turn.

Here, his achievements are numerous. He was involved in debate over the Versailles Treaty, the Reparations question, Britain's return to the gold standard in 1925, policies to promote full employment, the IMF, world financial relations, and wartime finance. He published two books on monetary theory which carried the quantity-theory to the limits of its capacities. He wrote biographical accounts of the lives of economists which are classics in their field. But most important of all, he is the author of the General Theory of Employment Interest and Money. It is to the significance of this one contribution that I wish to devote the remainder of my talk.

A. THE CONTEMPORARY POSTITION OF 'KEYNESIAN' ECONOMICS

If one considers the dominant contemporary interpretation of the General Theory two important sub-divisions may be isolated. There is one school that regards the constructive contribution of that book to consist exclusively of an examination of the short period behaviour of the economic system. That is, the General Theory is seen to provide a detailed analysis of what Ricardo and Marshall would have referred to as the temporary effects of particular changes. Accordingly, the significance of the General Theory as a critique of received opinion is, at most, that it draws our attention to the fact that the underlying forces working towards the establishment of long-period equilibrium, while always present, are only weakly felt. The basic idea is that the economic system may become 'stuck' so to speak, in a short-period position where certain frictions or rigidities prevent the systematic forces outlined by orthodox marginalist theory from producing those permanent effects that they ultimately have a tendency to produce.

This view may be associated, in particular, with the interpretations advanced by Hicks in his famous 'Mr. Keynes and the Classics' paper of 1937, and by Modigliani in his equally celebrated paper 'Liquidity preference and the theory of interest and money' of 1944. Interestingly, it was also the position adopted by Pigou in his self-styled recapitulation of the question of the significance of the General Theory in 1949, where it was argued that Keynes' purpose was to deal with "fluctuations over short periods" as distinct from questions about the "ultimate equilibrium" of the system. Subscribing to the same school of thought, Schumpeter in his History of Economic Analysis was led to the conclusion that it would have been better had Keynes not objected to the tendency towards full employment "just as we do not object to the law of gravitation on the ground that the earth does not fall into the sun"; rather Keynes really meant "that ... though it states a tendency correctly, [its operation] is impeded by certain facts". Though it will be necessary to define these terms more precisely (for the notion of equilibrium itself has changed in recent years), the general tenor of these interpretations is captured in the idea that Keynes' contribution was to 'disequilibrium' rather than to 'equilibrium' analysis.

So complete has been the triumph of this theme in the practice of Keynes' interpretation, that its presence is apparent everywhere in much more recent re-interpretations - despite the fact that one significant alteration (to the notion of equilibrium), which will be mentioned in a moment, has been introduced. Thus, for example, in the well-known contribution of Leijonhufvud the essential impediment of the old view is still to be found. "Of course", Leijonhuvfud writes, "Keynes used the term 'unemployment equilibrium', [But] ... it is not an 'equilibrium' in the strict sense at all. It is preferable to use some more neutral term which does not carry the connotation that no equilibrating forces at all are at work. The real question is why ... the forces tending to bring the system back to full employment are so weak." Similarly, in his study of the development of Keynes' monetary thought, Patinkin concluded that Keynes' theory is not "strictly speaking" one of "unemployment equilibrium". And James Tobin in a recent exposé of the shortcomings of modern monetarist doctrines, although at one point recognising that Keynes "denies the existence of self-correcting market mechanisms

... [even] in a competitive economy", refrains from drawing the radical conclusions that would follow from this assessment and falls back instead on the idea that Keynes showed (only) that "disequilibrium can be protracted and stubborn". Indeed, a list of the names of those writers in whose work this familiar theme is present would be enough to dominate, if not fill, the membership of an Economics Hall of Fame.

However, the popularity of this view does not render it correct. There exists an interpretation of Keynes' contribution that breaks away entirely from this line of argument. This interpretation has its origins in the work of a number of Cambridge economists which, over the last decade has begun to open up an altogether new line of inquiry. Its starting point is to take seriously Keynes' claim, universally and disingenuously rejected as being not quite accurate by orthodox interpretation, that the dominant and systematic forces at work in market economies do not tend to produce the full employment of labour. Instead of arguing that Keynes shared with orthodox economics the same abstract characterisation of the mechanisms through which market economies operate and differed by claiming that these mechanisms were not always as beneficent in the actual world as they were in theory, it will be my central contention that Keynes in fact rejected the orthodox characterisation of the operation of the market mechanism. In short, in the General Theory Keynes provides us with a theory of employment different in character and content from anything that is to be discerned in the writings of his orthodox predecessors (where the argument that there exists an underlying tendency towards the full employment of labour is present), departing radically even from those of his forebears who were suspicious of the likelihood of the swift operation of this tendency in practice.

The emphasis on short-period interpretations of the General Theory has been parallelled by developments in the orthodox theory of value and distribution which have culminated in the abandonment of the traditional notion of equilibirum itself and its replacement by the notion of equilibrium in a sequence over time of short-period positions. These developments have created an environment favouring the interpretation of the General Theory using this 'new' notion of equilibrium. This is the other main grouping into which contemporary interpretations of Keynes' ideas fall. This view, based on the notion of intertemporal equilibirum and the related concept of temporary equilibrium, finds its earliest champion in Hicks, in Value and Capital of 1939. It will be appreciated that the necessity of distinguishing this category of interpretation from its predecessors arises not because Keynes is no longer to be read as a 'disequilibrium' theorist - both groups adhere to this view. Rather, the distinction is required in order to highlight the fact that this 'new' approach to Keynesian economics entails as well the claim that the equilibrium (and consequently, disequilibrium) concepts adopted by its proponents were also those of Keynes himself.

The single, most notable feature of both of these types of interpretation is that they facilitate, albeit in different ways, the re-assertion of the orthodox theoretical system of the marginalist school which holds that the full equilibrium configuration of relative prices and quantities is determined simultaneously by the mutual interaction of the forces of demand and supply. In no way do they challenge the orthodox characterisation of the operation of the market mechanism whereby, in the absence of frictions or rigidities, relative price variations (of a commodity or a 'factor of production' like labour) call forth a predictable, inverse response on the part of quantity demanded. This is not surprising, for it is from this very conception of the workings of a capitalist economy that orthodox economics derives the conclusion that there is a tendency towards full employment - a statement of tendency which, as has been indicated already, is nowhere questioned in main-stream interpretations of the General Theory. These paradoxically harmonious interpretations of the General Theory, a book that Keynes himself saw as being essentially revolutionary in character, raise an important series of questions as to the relationship between the theory of value and the theory of output and, as we shall see, are indicative of the difficulties that these relationships present for the interpretation of the General Theory.

B. THE THEORY OF VALUE AND THE THEORY OF OUTPUT

The key issues in any consideration of the relationship between the theory of output and the theory of value and distribution can be revealed by the answers to two questions.

1. Does the determination of relative prices in a market economy also involve the determination of the size and composition of output and, in particular, is the level of output such that labour is fully employed (in the sense that at the going wage all workers willing to offer labour would be able to find employment)?

2. Are variations in relative prices associated with variations in output such that the economy tends towards a level of output compatible with the full-employment of labour?

Each of these questions can be supplemented with a further question: if not, why not?

The significance of these questions can be illustrated in terms of the most elementary piece of orthodox neoclassical analysis. This involves theargument that the price of a commodity is determined by the relationship between demand and supply. According to this account, 'equilibrium', determined at the point of intersection of a function relating price to quantity demanded and another relating price to quantity supplied, is defined as market clearing. When this view of price determination is extended to the economic system as a whole, the equilibrium position of the economy is characterised by a set of market-clearing prices, with associated quantities (levels of commodity output and levels of 'factor' utilisation), such that the markets for all commodities and all 'factors of production' clear. In particular, the labour market clears at the equilibrium level of the wage (relative to the associated set of equilibrium prices).

In terms of this familiar approach to the analysis of price formation the answer to the first question is obvious. Equilibrium prices and equilibrium quantities are determined simultaneously. The theory of value, based on demand and supply, is one and the same as the theory of output. If there exists an equilibrium set of prices then there exists an equilibrium set of outputs - equilibrium in the sense of market clearing including the full employment of labour, as defined above. Furthermore, this theory of the simultaneous determination of prices and quantities is typically presented in such a way - by juxtaposing demand and supply functions - that the idea that prices adjust automatically so as to clear markets, thus tending to push the economic system towards a full-employment level of output, seems to follow as a self-evident corollary of the theory. (It does not in fact follow as readily as might appear at first sight, since the stability of an equilibrium is less easily demonstrated than its existence, but we will leave these difficulties to one side for the moment.)

Here, then, one has the demand-and-supply (neoclassical) analysis of prices and quantities in a nutshell; the equilibrium set of outputs (and levels of 'factor' utilisation) is determined simultaneously with the equilibrium set of prices (of commodities and 'factors of production'); variations in relative prices, sparked off by an imbalance between demand and supply , will be associated with variations in quantities in a direction which ensures that both prices and quantities tend towards their equilibrium levels. Neoclassical analysis, therefore, answers the first two questions posed above in the affirmative.

An analysis of unemployment may then be derived directly form these relationships between prices and quantities. Any inhibition to the tendency of prices and quantities to find their equilibrium (market-clearing)levels will leave the economic system in disequilibrium with, perhaps, either an excess demand for labour or an excess supply of labour (i.e. unemployment). An enormous variety of analysis of unemployment are constructed in this way.

The general tenor of the neoclassical analysis of the causes of unemployment is that while the economy <u>would</u> be self-regulating in the best of all possible worlds (i.e. the implicit tendency towards the full employment of labour would be realised) - the market is <u>inhibited</u> from fulfilling this task by the presence of certain 'frictions' or rigidities'. In the literature on the <u>problem</u> or unemployment, examples of such inhibitions are legion. They include:

- 'sticky' prices (particularly 'sticky' or even rigidly fixed wages and/or 'sticky' interest rates);

- institutional barriers to the efficacy of the price mechanism, such as monopoly pricing (by firms or individual groups of workers);

- inefficiencies introduced into the working of the 'real' economy by the operations of the monetary system;

- the failure of individual agents to respond appropriately to price signals because of disbelief in those signals. The disbelief being derived from uncertainty about the current or future state of the market or from incorrect expectations concerning future movements in relative prices, or from false 'conjecture' about the actual state of the market.

Indeed examples of 'frictions' and 'rigidities' can be multiplied at will - any factor which causes the market to work <u>imperfectly</u> will do. It will be convenient, therefore, to group all the authors of the myriad of arguments of this kind together under the general heading of 'imperfectionists'.

From what has already been said, the usefulness of such a classification should be obvious. For although this kind of argument comes in many varieties, each is no more than a particular species of the larger genus. Underlying them is a fundamental similarity: that if the particular aspect (or aspects) of the economic system which gives rise to the breakdown of the market mechanism were to be absent, then the system would tend towards the full employment of labour (and other 'factors of production'). Thus in all cases, the analysis of unemployment is viewed as no more than an aspect of the neoclassical theory of value and distribution.According to this approach, whether a relatively 'optimistic' or 'pessimistic' stance is taken with respect to the efficacy of the market mechanism in promoting full employment, the analysis of output and employment is part and parcel of the theory of relative price determination. This is so even in the case of those imperfectionists who feel that the essential workings of the theory are distorted gravely in the real world.

In marked contrast to the analyses outlined above are those theories of employment which propose no particular functional relationship between prices and quantities. The central proposition of neoclassical analysis that the theory of value and distribution is also the theory of output is rejected together with the connected notion that appropriate variations in relative prices will promote variations in quantities, so moving the economic system in the direction of a market-clearing equilibirum.

Unfortunately, this rejection of the neoclassical theory of value and distribution - of the entire apparatus of demand-and-supply analysis - has not always been backed up by rigorous analytical argument, so much so that it has sometimes been confused with an imperfectionist position.A striking example of this is the rejection by a number of writers of the neoclassical theory of value, and their advocacy of the idea that relative prices, from being determined by demand and supply, are determined by a mark-up over normal prime cost where this mark-up is insensitive to variations in the conditions of demand. Quite apart from the obvious shortcomings of 'mark-up' analysis as a theory of price formation - it is in essence a proposition about the stability of the ratio betwen prices and costs rather than a theory about the determination of either of those magnitudes, or even of the size of the ratio - this attempt to separate the study of relative price determiantion from the analysis of output may readily be confused with an imperfectionist argument based on 'sticky' prices arising from the presence of monopolistic or oligopolistic influences on commodity markets. Moreover, the bald assertion that prices and quantities do not bear the well-defined functional relationship to one another that is postulated in neoclassical theory does not provide a satisfactory analytical basis upon which to build up a critique of the neoclassical position.

Yet the requisite critique does exist, and a prominent theme of the new line of inquiry into Keynes economics is that this critique is to be found in the outcome of the debate over the neoclassical theory of distribution and, in particular, over its treatment of 'capital' as a factor of production on a par, so as to speak, with land and labour. While this debate is seen by many as a rather esoteric controversy in the more abstract realms of economic theory, its implications are more far-reaching than has hitherto been appreciated. The central conclusion of the debate may be summed up, in broad terms, as follows: when applied to the analysis of a capitalistic economy (that is, an economic system where some of the means of production are reproducible), the neoclassical theory is logically incapable of determining the long-run equilibrium of the economy and the associated general rate of profit whenever capital consists of more than one reproducible commodity. Since, in equilibrium, relative prices may be expressed as functions of the general rate of profit, the neoclassical proposition that equilibrium prices are determined by demand and supply (or more generally , by the competitive resolution of individual utility maximisation subject to constraint) is also deprived of its logical foundation.

The relevance of this critique of the neoclassical theory of value and distribution to the problem of the missing critique of the neoclassical theory of output and employment should be apparent from what has already been said. Because the neoclassical analysis of the determination of prices and the determination of quantities is one and the same theory (that of the mutual interaction of demand and supply), the critique of the neoclassical theory of value is simultaneously a criticism of the neoclassical theory of output and employment. Therefore the first of the two questions that were posed at the very outset of this discussion must, on the grounds of the requirement of logical consistency alone, be answered in the negative. The second question, from which neoclassical theory derives the idea that under the operation of the market mechanism there is a long-run tendency towards a determinate full-employment equilibrium, is rendered superfluous.

But this is not all. If the general (or long-run) case of the neoclassical model has been shown to be logically deficient, then all imperfectionist arguments - which are derived by examining the implications of the introduction of particular (or short-run) modifications into the general case - are incapable of providing a satisfactory analysis of the problem of unemployment. This is not to say that many of the features of the economic system cited by the imperfectionists will have no role to play in a theory of employment based on quite different foundations to those adopted by the neoclassicals. After all, much of the credibility of imperfectionist arguments derives from their pragmatic objections to the direct applicability of the assumptions of the more abstract versions of demand-and-supply theory. But pragmatism is not enough. The implications of more realistic hypotheses must be explored in the context of the general theoretical framework within which they are applied. Since the account of a self-regulating market mechanism which operates according to the theory of demand and supply is unacceptable on the grounds that it is logically inconsistent, any analysis of unemployment which in turn derives its rationale from that very model is also unsatisfactory. The mechanisms of demand-and-supply theory are just not there.

The question that immediately arises is this: if the neoclassical theory of value, distribution, output and employment must be rejected, then what approach to the study of these questions are we to adopt? The gap may be filled by a return to the approach to the study of value and distribution developed by the old classical economists and Marx, and rehabilitated more recently by Piero Sraffa. According to this theory, the size and composition of output is taken as a datum in the determination of relative prices - hence no functional relationship between prices and quantities is involved. From the perspective of the classical characterisation of the workings of a market economy, the analysis of value and distribution is conducted separately from the analysis of output. Of course, in adopting this theoretical stance, neither the old classical economists and Marx nor their modern counterparts would deny that all aspects of the market system (prices, distribution and output) act and react upon one another. Their argument is rather that the analysis of the determination of relative prices is conducted assuming the size and composition of output to be given (i.e. without taking into account, at this stage, the implications of changes in output). Likewise, the analysis of output is conducted assuming prices and distribution as given. Once the explanation of the determination of these variables has been accomplished satisfactorily, their interactions may then be examined in a more complex narrative, but this additional investigation leaves the process of determination of the relevant variables unaltered. These <u>separable</u> explanations of the forces which determine relative prices, distribution and output, and the <u>subsequent</u> consideration of the interactions between them, is the hallmark of the classical approach to economic theory. It should not be confused with the necessary simultaneous determination of these magnitudes that neoclassical theory entails.

Thus we arrive at the basic conclusions concerning the relationship between theories of output and theories of value to which the attempt to answer our two initial questions has led. Alternative analyses of unemployment can be distinguished on the basis of whether the study of the factors determining output (and employment) is separable from the study of value and distribution or whether the analysis of output and employment is treated as an aspect of the theory of value and distribution. The discredited and neoclassical theory <u>and</u> its imperfectionist variants fall into the latter category; the classical theory of value falls into the former.

Moreover, since the study of value and distribution along classical lines leaves 'open' the question concerning the determination of the normal levels of output and employment the development of the classical alternative leads directly to the requirement of providing a satisfactory theory of output which is not essentially connected with the analysis of value. The interesting new idea that emerges is that Keynes' theory of effective demand provides just such an analysis of output and employment.

The proposition that the level of activity is determined by the level of expenditure, and that the volume of savings is maintained (in the long run) in equality with the amount of investment by variations in the aggregate level of output, does not rely for its general validity upon any theory concerning the joint determination of equilibrium relative prices and quantities such as that provided by the neoclassicals. Indeed, precisely the reverse is true: the theory of effective demand when applied to the long-period analysis of output and employment is incompatible with such joint determination of prices and quantities. Keynes' use of the propensity to consume as the link between investment, output and saving replaces the neoclassical mechanism of adjustment which is supposed to operate via variations in relative prices (and, in particular, the rate of interest). The theory of effective demand thus establishes that the normal level of output is not necessarily that which ensures the full employment of labour. The neoclassical presumption that there will always be forces at work (however 'weak' the imperfectionists may assert their influence to be) tending to push output towards the full-employment level has no place in Keynes' economics.

This, of course, refers only to Keynes' original contribution in the General Theory of a theory of output and employment based on the principle of effective demand. Unfortunately, however, Keynes detracted from the strength of his own argument by re-introducing elements of the neoclassical theory of value and distribution in his discussions of the determinants of the volume of investment. By proposing a functional link between distribution (the rate of interest) and the amount of investment in the form of the marginal efficiency of capital schedule, the possibility re-emerged that appropriate variations in the rate of interest will intiate changes in the level of investment that would tend to push the economic system towards full employment. To obviate this possibility, Keynes was led to defer to the liquidity-preference theory of the rate of interest, and so to the role of uncertainty and expectations, which ensure a 'stickiness' in the rate of interest - i.e. to an essentially imperfectionist argument. This is exactly the kind of argument that, for almost fifty years, mainstream writers, ignoring the radical implications that Keynes himself felt would follow from the application of the principle of effective demand to the determination of the normal levels of output and employment, and have asserted to be the only appropriate interpretation of Keynes. Thus, paradoxically, we have witnessed the spectacle of a supposedly 'Keynesian alternative' that rests upon just the sort of imperfectionist arguments that are everywhere apparent in the writings of Marshall and Pigou; Keynes' arch theoretical adversaries.

The presence of both radical and orthodox elements in the General Theory calls for two observations. The first concerns the problem of the interpretation of that book. A careful examination of Keynes' central arguments in the constructive parts of the General Theory reveals that an interpretation which emphasises the radical, as opposed to the orthodox strands of thought therein is more consistent with the substance of Keynes' positive arguments as well as being more in line with Keynes' own views on the significance of his contribution (see chapters 5 and 10). Moreover, on Keynes' own authority, the orthodox elements are not essential to his main thesis. The second observation relates to the theoretical consistency of those orthodox elements themselves, for it turns out that the critique of the neoclassical theory of value and distribution is also a critique of the idea that there exists an inverse relationship between the amount of investment and the rate of interest (i.e. Keynes' marginal efficiency of capital schedule). When taken together these two facts imply that the marginal-efficiency-of-capital theory investment must be dropped, and that only the principle of effective demand can be retained. But in the reconstruction of a more consistent approach to the study of value distribution and output, this is a positive step - for it is the principle of effective demand that provides the basis for an analysis of output which does not involve the simultaneous determination of prices and quantities and which is, at the same time, perfectly compatible with the classical theory of value and distribution.

Thus we arrive at the major theme that emerges from the new line of inquiry being discussed. The relationship between Keynes' theory of output and employment is addressed from the perspective of whether the analysis of output is one and the same thing as the analysis of value and distribution or whether it is separable (in the sense defined above from the analysis of value and distribution.