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1

Motivation: Approaching the *General Theory* Historically

I. A “history” of a book

This is a book about a book. It takes as its task the exploration of the development of the economic ideas that came to fruition in John Maynard Keynes’s *General Theory of Employment, Interest and Money*, published in 1936. My purpose is to suggest some novel ways in which that book can be seen as a development of Keynes’s intellectual history and context. I take as a starting point, the object of my analysis, the text of the *General Theory* along with the original supporting documents assembled by the editors of Keynes’s *Collected Works*. Of particular importance in the *Collected Works* are the supporting documents that surround the *General Theory* – drafts, correspondences and related publications from Keynes’s papers. They are organized into three volumes. The first two (CW 13 and 14) correspond to Keynes’s pre-publication “Preparation,” and his post-publication (but pre-World War II) “Defense and Development,” of the *General Theory*. The last (CW 29), the contents of the now famous laundry basket later found in Keynes’s country home, supplement the earlier volumes with private papers from both periods. The form and novelty of the theoretical interpretation of the *General Theory* that emerges from my study is the result of historical research into the origins and development of the ideas found in these materials.

Thus this is a reading of the *General Theory* that looks exclusively *backwards* from 1936 for its inspiration. It also only *selectively* uses the pre-1936 literature by limiting discussion to those sources that appear to me to have been most influential in pushing Keynes’s own thinking forward. The emphasis is on the dynamic development of Keynes’ ideas and on those of his close intellectual influences concerning the *General Theory’s* main themes of employment, interest and money. My research is mainly based on material drawn from the *Collected Works*, the Keynes Archive at King’s College, Cambridge, and the surrounding economics literature that these sources point to as influential on Keynes. My major concern was to find what Keynes’s teachers, intellectual influences, business activities and public policy involvements,

along with his own previous writings, had to say on the cognate topics of employment, interest and money. Yet, though the research was largely conducted by reading back from 1936, the study that follows was then written mostly forward, starting from points in Victorian-era economics that this research suggests as the earliest origins or background to Keynes's thinking. From these beginning points, I have constructed a series of intertwined historical narratives, each following a thread of Keynes's developing ideas from his formative influences, through his own earlier writings and related activities, up to an endpoint in an aspect of the *General Theory*.

Part I treats the development of views on the operation of labor markets from Marshall to the *General Theory*, with an emphasis on English (and especially, Cambridge) economics. Part II then returns to the Victorian age and follows the evolution of Keynes's understanding of money, asset markets and speculation, again culminating in the *General Theory*. Finally, Part III examines the antecedents of Keynes's most developed commentary on the essential properties of interest and money, particularly in the context of interwar business cycle theory. In so doing, the last section also offers an alternative framework for capturing a whole picture of the theoretical development that ended in the *General Theory*: a general analysis of how employment and output interact with money, interest and speculation. By "alternative," I mean an alternative to the more conventional method of expressing Keynes's message in the *General Theory* that was adopted by the mainstream of the economics profession in the postwar era: the IS/LM model.

Thus, as is inevitable in discussing Keynes, even this largely historical exercise also contains a theoretical viewpoint on macroeconomics. I make no claim to be instructing modern economic theorists on Keynesian fundamentalism. Instead I hope to offer some interesting, and little noticed, aspects of macroeconomics that were unearthed by seriously following Keynes's trials and tribulations in formulating the *General Theory*. I can hope that they might be useful to macroeconomists as well as to Keynes scholars and historians of economics. Yet, as a truth in advertising clause for a contentious age of economics, when labels often seem more important than they ought to be, let me state plainly, at the most general level, the theoretical view of the *General Theory* that will emerge and will be emphasized in different ways in what follows.

II. Keynes's question

The central theoretical question addressed in the *General Theory* concerns the nature of the self-adjusting properties of a monetary economy. What was new or revolutionary in Keynes's argument of 1936 was his claim that modern competitive systems, naturally and without policy interference, need not – note I do not say could not or will not – equilibrate efficiently at full employment. I do not believe that Keynes's subtle and multifaceted

forays into this question are captured by a particular “model,” so much as by a theoretical attitude which takes this question seriously by, for instance, not starting with the presumption that such an adjustment must take place. It is obvious by this criterion that such a theory may give rise to whole classes of models in the spirit of the *General Theory*, each exhibiting different facets of the question. It is clear to me now, after much study of Keynes, that the *General Theory* itself suggests a *variety* of suggestions of such models. Indeed, this is not surprising given Keynes’s own view of economics. Consider, for instance, the following comment he wrote to Roy Harrod in 1938 (*CW* 14, pp. 296–7):

Economics is a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world. It is compelled to be this, because, unlike the typical natural science, the material to which it is applied is, in too many respects, not homogeneous through time. The object of a model is to segregate the semi-permanent or relatively constant factors from those which are transitory or fluctuating so as to develop a logical way of thinking about the latter, and of understanding the time sequences to which they give rise in particular cases.

I hope to show in this book that those models that emphasize the uncertainty that Keynes found so pervasive and influential an aspect of investing and asset holding, and so of capital and money markets, will be those most in the spirit of Keynes’s own ideas. But other attempts to model macroeconomic self-adjustment from other standpoints could just as legitimately be seen as in the tradition of Keynes’s work in 1936, if they were to honestly confront Keynes’s question. By the same criteria, if one is interested in investigating Keynes’s question – even if just to refute it as potted textbook treatments so often do – there is no theoretical (as opposed to polemical) sense in purporting to do so by adopting frameworks, so fashionable of late, which assume such efficient equilibration to be the natural outcome of the unfettered operation of the system.

Thus if I have to be labeled here, for the tastes of modern theoretical debates, I would have to say that my reading of Keynes manifestly does find him to be a variety of what I suppose is now called “Post Keynesian.” Accepting that label, I would hasten to add that the real story in what follows might be described as “How Keynes Came to Be a Post Keynesian.” It is in this spirit that I offer at the end of the book a simple version of his argument based on the *General Theory*’s Chapter 17 analysis of what Keynes saw as the essential properties of interest and money.¹ In this sense the last section will serve as an endpoint at which the previous historical narratives will coalesce. I am not claiming that this is the only or best model of Keynes. It does not rule out, nor does it necessarily conflict with models that follow

more faithfully the interdependent-market-multiplier interpretations that are more common in textbook depictions of Keynes. In this book, it will serve the useful purpose of illustrating how the previous chapters' narrative threads can be tied together. It is also – happily for the historians – in keeping with what I see as the trend of thought suggested by the historical context in which my reading finds the *General Theory* to be embedded.

One more truth in advertising clause should be put forward here. This reading of the development of the economics of Keynes is not an encyclopedic treatment of the historical origins of each chapter of the *General Theory*, or even all of its major themes. I am conscious of many more such topics that could be treated similarly, for instance, Keynes's views on the army of heretics, or his last chapter on social philosophy, to name just two topics I leave unexplored. Nor do I treat the work of Hawtrey and Robertson in as much detail as they merit.² More glaringly, for some readers, I have not treated the history of the consumption function and multiplier or the mechanical form of the marginal efficiency of capital in any detail. Thus this book is only a partial study in the development of Keynes's economics through the *General Theory*. It is not meant to be the last word on the *General Theory*, just a different and, I hope, interesting perspective.

Partly, this selective coverage is due to my own interests, talents and time constraints. Partly it is driven by my intent to offer a history of what many commentators have suggested are the most theoretically radical themes that Keynes put forward in 1936, those elements of the *General Theory* that could not easily fit into the standard IS/LM interpretation. For me these are the themes of how the interaction of investment under uncertainty combined with modern financial markets might sometimes drive employment changes independently of what we economists have come to call "the supply and demand for labor." But this intent itself is reinforced by the fact that these elements of the *General Theory* are, on my reading, essential elements of what is new and interesting there.

While I do not deny that the general outline of the IS/LM approach is indeed present in the *General Theory*, nor do I claim that as a first approximation to macroeconomics for undergraduates the IS/LM model would be inappropriate, one clear fact that should be apparent in Keynes scholarship by now is that the standard "Keynesian" view it enshrines is insufficient to capture the complexity of Keynes's thinking. Crucially important though the message was in 1936 (and today), there is just so much more to the *General Theory* than a model in which aggregate demand determines output via a consumption function and multiplier combined with investment decisions made simultaneously with money market equilibrium. Also, much of the history of these standard Keynesian themes has already been covered well, for instance in Shackle (1967) and Patinkin (1976 and 1982). The premise that there is more than this to Keynes's message in 1936 serves as the justification for another book on the subject.

III. The Keynes literature

There is a huge literature devoted to the interpretation of Keynes's intellectual life and his *General Theory*. How is this book then different and worth the reader's attention? In answering that question let me start by suggesting a view of the state of scholarship on Keynes at the turn of the new millennium.

Since the publication of Keynes's *Collected Writings* (finished in 1989) and the opening of the complete unpublished archive of his papers at King's College, Cambridge University (in 1989), it has become clear that the standard reading of his work in the postwar era was seriously misleading. Earlier interpretations of Keynes, with some notable exceptions such as Timlin (1942), Klein (1947), Dillard (1948), Harrod (1951), Shackle (1967), Leijonhufvud (1968) and Chick (1983), were written by economists with little or no interest in the historical record.³ In fact, until very recently, economists have been content to interpret Keynes's work almost exclusively from the standpoint of contemporary macroeconomic theory and policy, thus neglecting not only the tremendous variety of his other work (including even his other work in economics besides the *General Theory*), but also the extent to which the concerns of his intellectual setting were not those of modern economics.⁴ To date, this narrow view has been enlarged by pioneering work in the analysis of Keynes's philosophical writings (O'Donnell, 1989; Davis, 1994; Coates, 1996) and Keynes's work as a policy advisor (Clarke, 1988; Bateman, 1996), as well as the appearance of large-scale biographies (Hession, 1981; Skidelsky, 1983; 1992, 2000; Moggridge, 1992).⁵ In terms of his economic theory proper, much journal ink has been expended in the last 20 years in pursuit of the historical Keynes, too much to be recorded here. Again, most often, this had been written within the context of contemporary theoretical debates, but its historical richness has grown with time.

Looking back, the most influential pioneers in unearthing the historical Keynes-qua-economic-theorist were Axel Leijonhufvud and G. L. S. Shackle. Leijonhufvud's (1968) call to differentiate Keynesian economics from the historical writings of Keynes himself, what he called the "Economics of Keynes," caused a stir by suggesting that there was more to Keynes than postwar macroeconomists had acknowledged. Working at the time when the vast materials of the Keynes archive were yet to be available, Leijonhufvud's major contribution was to recognize the value of reading both the text of the *General Theory* and Keynes's previous books, especially *A Treatise on Money* (1930). It is fair to say, however, that his work was as much creative new theorizing about macroeconomics⁶ as it was a historical account. Professor Leijonhufvud's other outstanding contribution was to attempt (particularly in Leijonhufvud, 1981) to situate Keynes of both the *Treatise* and the *General Theory* in the context of interwar business cycle theory. It will appear in this book, especially in Part III, how great a debt I owe to Leijonhufvud's pioneering work in this area, and at the same time how much I disagree with his interpretation.

G. L. S. Shackle was also an early exponent of the value of Keynes scholarship for understanding Keynes' economics. In fact, it is hard to disentangle much of what Shackle wrote on economic theory from what he wrote on the history of economics; the two activities being a unique and fascinating joint product in his hands. He did not ever really attempt a deep search of more than the published record of economic debate and thus missed much of the richness of material now available on Keynes. Nevertheless, along the way, he produced some intriguing historical accounts, particularly of the critical ferment in economic theory that took place in the years between the great wars.

Shackle's view of Keynes is dominated by his own concerns with radical uncertainty and the consequent role that liquidity plays in investors' decisions. I happen to share Shackle's interest in this aspect of Keynes, as will be seen in Parts II and III, and was profoundly impressed with his work very early in my education on Keynes. In some ways what is offered in this book is an alternative historical narrative of many of the same themes in Keynes's work that Shackle wrestled with in his career.

Where I have come to depart from Shackle concerns two interrelated matters. First, I think he very much overrated the connection between Keynes and the Stockholm School of Macroeconomics, particularly in his preoccupation with the notion that the *General Theory* is only logically saved by adoption of the *ex ante-ex post* distinction (Shackle, 1967, Chapters 9–15).⁷ Second, I disagree with Shackle's view that Keynes's emphasis on the precariousness of expectations ultimately must lead to an almost nihilistic attitude toward constructing useful macroeconomics models.

Lurking in the background of both of these aspects of his Keynes's scholarship is Shackle's extreme distaste for *equilibrium* notions, which he thought violated the world that economic theory was trying to describe so much as to make such concepts useless. He clearly realized that Keynes did not feel the same way⁸ and this fact is at the heart of the difference between what follows and a more Shackleian interpretation of Keynes. Particularly in Parts II and III, I will argue that Keynes, as any good Marshallian would, was trying, even in his most extended forays into the role of uncertainty and expectations, to formulate an equilibrium account of the operation of these forces – which in Part III, following Keynes, I call a system of “shifting equilibria.”

Other efforts to study the historical background to the *General Theory* that have been most influential in the literature were those of Patinkin (1976, 1982), Meltzer (1988), and most recently, Laidler (1991, 1999). To differentiate these books it is perhaps best to try to summarize their purposes. Allan Meltzer's *Keynes: A Different Interpretation* (1988), sets out to defend a particular model – his “Different Interpretation” of the macroeconomics of the *General Theory* set forth in an earlier journal article (Meltzer, 1981). By recourse to a study of a selected number of Keynes's earlier works in economics, Meltzer

explores ways in which the postwar interpretation was seriously out of line with Keynes's own writings. He stresses that Keynes was interested in the depiction of a system by which equilibrium levels of involuntary unemployment can be studied adequately. Further, Meltzer notes Keynes's emphasis on the role of uncertainty about long-term investment decisions as the major source of persistently less than optimum output and employment. In short, Meltzer's basic view of the theoretical message of the *General Theory* is very close to my own.

However, I would not want to endorse Meltzer's view of Keynes as an advocate of fixed monetary rules nor attempt to describe him as mainly being concerned with the divergence between private and social cost of the optimum capital. I judge these stances on Meltzer's part as ahistorical anachronisms, stemming from his self-conscious attempt to stuff Keynes into a modern theoretical framework. Overall, though our views of Keynes's theoretical question form a common ground, there is not much overlap between this work and Meltzer's. Primarily this is because Meltzer's use of Keynes's texts is so unrelentingly motivated by the desire to show how they validate his own particular "model" of the *General Theory*. No disparagement is intended in noting that Meltzer's book is best viewed not as a historical exercise at all, so much as an example of a theoretical modeler rummaging in the Keynesian attic for spare parts out of which to build an engine of appropriately modern vintage. My purpose is, instead, to explore the historically rich vein of the intellectual context for Keynes's developing economic ideas over his lifetime. One example of the distinction is evident in the very truncated pre-history to the *General Theory* that Meltzer utilized. His interest extends only back to the twenties, and only to Keynes's major works in that period. One of Meltzer's primary points is that Keynes had already adopted a policy stance in line with the *General Theory* in the twenties: skepticism of a purely monetary response to serious downturns and advocacy of state directed policies to increase investment directly, and indirectly, by reducing long-term uncertainty over prospective financial returns. The *General Theory* was thus something of a closing of the intellectual circle by which a theoretical framework for these policies was provided. I agree in broad outline with this view but want to look back to the origins of both these policy stances and his theoretical forays to explore the associated economic theory. This will take us far earlier into Keynes's intellectual development and will involve us far more broadly in his intellectual context than the few sources that Meltzer relies upon from the twenties.

Don Patinkin was, like Meltzer, an economic theorist of note. His early work (1948, 1956) on monetary theory stressed the role of the real-balance effect, by which changes in prices are supposed, after some initial disturbing demand shock, to reestablish macroeconomic equilibrium at full employment. In the most commonly discussed scenario (originally due to Pigou, 1943, 1947), a recession will set off a deflation, which would tend to raise

the real value of household money balances and so spur enough spending out of this increasing wealth to push output and employment back toward their original, full employment values. Though theoretically contentious and empirically little supported, I would contend that the outlook of this variant of Keynesianism – particularly its emphasis on the strictly *disequilibrium* nature of unemployment and its grafting of a Keynesian aggregate demand onto an otherwise classically determined supply side – is also at the root of much of Patinkin's historical scholarship on Keynes. It should immediately be added, however, that Patinkin spent much more of his intellectual energy than Meltzer on tracing historical precedents for his interpretation of Keynes's work. Even his early theoretical work (1948, 1956), for example, was replete with rather voluminous historical appendices. Nevertheless there is some commonality in the style of work of both of these esteemed theorists on the pre-history of the *General Theory*.⁹ Thus when Patinkin later set out to describe Keynes's development as a monetary theorist (1976) and to look for "anticipations of the *General Theory*" (1982), it is not surprising that he concentrated on the development and anticipations of those distinctly postwar Keynesian themes to which his own theoretical work made such a contribution.

It is not my purpose here to enter into an extended critique of Patinkin's monetary theory (which for that matter would involve a critique of a good part of neoclassical synthesis monetary theory; see Rogers, 1989, Chapters 3 and 4 and Appendix 4 for a good account of this) or his resulting interpretation of Keynes. To some extent this whole book implicitly serves that purpose. But for the sake of many readers whose background in macroeconomics and Keynes scholarship was shaped by Patinkin's substantial contributions, a few brief remarks will suffice to make my point that Patinkin and I have a different message to deliver with respect to the intellectual history of Keynes's economics.

Patinkin saw the essence of the *General Theory* in the 45° diagrams familiar to introductory macroeconomic texts (Patinkin, 1976, p. 88, 1982, p. 10). Harking back to his own real-balance effect monetary theory (1956 [1965], p. 323–4) he interprets the central theoretical issue Keynes raised to be the reconciliation of this diagram's emphasis on the role of aggregate demand-driven adjustment in the quantity of output with a Walrasian notion of general equilibrium (1976, Chapter 10). Patinkin creates such a reconciliation by interpreting Keynesian economics as the full general equilibrium system in a state of *dynamic disequilibrium*. He states, for instance, ". . . I have interpreted the *General Theory* not as a static theory of unemployment equilibrium, but as a dynamic theory of unemployment *disequilibrium* (Patinkin, 1976, p. 113, emphasis in original)." This disequilibrium state is set off by a fall in investment and consequent decline in output. What delays the recovery to full employment equilibrium is the presumed high interest elasticity of money demand and low interest elasticity of investment demand, standard

workhorses of IS/LM Keynesianism (see Patinkin, 1976, pp. 102–4, for example). Also characteristic of this view is the casting of Keynes's concept of involuntary unemployment as a disequilibrium in the labor market because of a (variously explained) rigid nominal wage. Correspondingly, Keynes's emphasis on the influence of expectations and their liability to sudden change, leading to shifts in the whole money demand and investment demand schedules (as opposed to elasticity along a given curve), is played down by Patinkin (1976, pp. 103–6, 141–2).

My general remarks above on the central theoretical problem addressed in the *General Theory* should already mark off my theoretical interests from those of Patinkin's. The parallel follows in terms of the historical issues raised in his *Keynes's Monetary Thought: A Study of its Development* (1976) and *Anticipations of the General Theory* (1982). There is much of lasting value in both books concerning aspects of the pre-history of the *General Theory*. But I hope to provide in what follows an alternative history that was left unexplored by Patinkin in his search for a "Keynesian" Keynes.

The first (Patinkin, 1976) is a purposeful listing of commonalities and differences in Keynes's "trilogy" of monetary theory, the *Tract*, the *Treatise* and the *General Theory*. I would call it the search for the development of Patinkin's preferred Keynesian model. He explicitly claims (p. 10) little novelty from the "traditional" view of these works in his interpretation of them, which I take to mean from the orthodoxy of postwar neoclassical synthesis monetary theory, as exemplified by Patinkin's own *Money, Interest and Prices* (1956). What follows is a modeling exercise, searching for the evolution of the Keynesian model, as Patinkin sees it, in those texts. Unlike Meltzer's case, however, his is scrupulously cast in the scant equations and diagrams that Keynes himself used in those texts. Overall the picture is Patinkin's dynamic disequilibria view I have just outlined, supplemented by extensive quotations from Keynes.

The second, less focused set of essays (Patinkin, 1982), variously details what I would call the pre-history of some of the component parts of the Keynesian model. What ties the essays together is an underlying unity of purpose, to investigate the possibility of antecedents or multiple discoveries in the literature for what Patinkin sees as Keynes's central message that aggregate demand determines output. In Part I of Patinkin's book, the Swedes and Kalecki are both vetted in detail and found wanting. Part II critiques Post Keynesian interpretations of Book I of the *General Theory*, particularly those of Weintraub (1958) and of Davidson and Smolensky (1964) that emphasize Keynes's Marshallian roots and the importance of his unique conception of aggregate demand and supply. Patinkin expresses no interest in the context or background of these parts of the *General Theory*. Instead, his goal is the reconstruction of these arguments in more modern dress, based on the proposition that Keynes himself was confused, and Wientraub, Davidson and Smolensky even more so. Part III is on the history of Keynesian monetary

theory and that of the pre-Keynes Cambridge school. It is motivated by the claims of monetarism to have discovered a wholly separate tradition of “Chicago School” monetary theory. Its main conclusions are that there was no separate school prior to the *General Theory* (both Irving Fisher’s American line and the Marshall–Pigou line were substantively similar); and that neither contained the conceptual framework of Keynes in the *General Theory*.

The latter point turns for Patinkin on the contention that the Cambridge school prior to Keynes did not have a theory of “the effects on the equilibrium rate of interest of a shift in the tastes of the individual with reference to the desired asset-composition of his portfolio” (1982, p. 179). Thus, again fitting into the traditional monetary theory of Patinkin’s day, it was the contribution of liquidity preference theory to have done so. Part IV, “Keynes and Econometrics,” is concerned with the role played by Clark and Kuznets’ revolution in national accounting in the thirties, in the effort by Keynes to work out the *General Theory*.

The reader looking for the most direct comparison of the present book with Patinkin’s work will find it in Patinkin’s downplaying of the influence of Marshall on Keynes’s economics and his attribution to the *General Theory* of a Walrasian style of analysis, associated with Patinkin’s persistent notion that unemployment must be a dynamic disequilibrium phenomenon.¹⁰ In my view, there is no influence on Keynes of Walrasianism. It is true that this style of theorizing was characteristic of “Keynesian” monetary theory in the postwar era, with its preoccupation with the proper accounting of simultaneous market clearing prices, its concern with correct numbers of equations for equilibrium and so on. This interpretation of Keynes is also built into the IS/LM tradition, and, when wedded to a classical supply side, quite naturally leads to the typical “Keynesian” emphasis on impediments to adjustment (such as rigid wages) that Keynes himself never relied upon to explain unemployment. Primarily, I believe this theoretical trajectory is preordained by the reliance on Walrasian styles of analysis that define the putative full equilibrium of the system as “market clearing.” Thus Marshall figures in this view almost negatively. He was insufficiently Walrasian himself and his monetary theory, Patinkin holds, did not contain a serious theory of portfolio choice in the face of changing interest rates.

In this book I will emphasize an alternative view of Marshall’s influence on Keynes. In Part I, I will investigate the Marshallian tradition of labor market analysis. I will show how distorted a view of Keynes’s labor market analysis results from such “Keynesian” (I will call them “Pigovian”) conceptions as that unemployment is solely and everywhere caused by rigid wages. We will see that Marshall himself was very suspicious of the traditional supply and demand depiction of the labor market. So too was much of interwar Cambridge economics, as increasingly was Keynes. I also believe that Patinkin’s restricted view of the Marshallian influence on Keynes’s monetary theory is (relatedly) flawed. In Part II, I emphasize that there *was*, contra

Patinkin, a rich tradition of Marshallian analysis of the demand for assets by an individual, with reference to costs and opportunities at the margin. I argue that this conception formed a sort of meta-theoretical framework for monetary work that dominates all of Keynes's monetary theory from the *Tract* to the *General Theory*. Moreover, there was also a rich tradition, ignored in Patinkin's view, but well known to Marshall and Keynes, of analysis of the more realistic features of asset market trading, particularly speculation.

I spend considerable time in Part II developing the history of these traditions, describing how it influenced Keynes and how he built upon it. What I conclude, again contrary to Patinkin, is that it was Keynes's achievement in monetary theory to combine these aspects of his Marshallian inheritance – a general portfolio choice theory of asset holding and a realistic theory of speculation in organized asset markets – always building upon both his unique philosophical outlook and his practical investment experience. Significantly, this leads me to reverse Patinkin's negative evaluation of the lack of influence on the *General Theory* from Keynes's views on the pervasive role of uncertainty in the operation asset markets. On the contrary, uncertainty is inseparable from Keynes's attempts to investigate the problem of monetary economies getting stuck in high unemployment equilibria.

Finally, in Part III, I show that there is an aspect of the *General Theory* that provides a mechanism for expressing this confluence of themes from Keynes's intellectual development and that it was a common element of much of Marshallian monetary theory. This is the theoretical framework of simultaneous asset market equilibrium, famously used by Keynes to suggest that while all assets have a unique real "own" rate of interest, markets will drive them all to equilibrate in money terms. In this part of his thinking, where (as I will emphasize) he is also reacting to the business cycle theories of Marshall, Wicksell, Hawtrey, Robertson and Hayek, we see Keynes's most general conception of asset market equilibrium, put forth in Chapter 17 of the *General Theory*. This equilibrium conception, which I suggest in Part III as an alternative way of conceptualizing the central vision of the *General Theory*, was developed, after much intellectual effort by Keynes, from Marshallian roots, not Walrasian ones.

As a final comment on this book's relationship to the modern secondary literature, I must recognize that there is a degree of overlap in the history covered here, and what David Laidler covers in his two magnificent works of scholarship on the history of monetary theory, *The Golden Age of the Quantity Theory* (1991) and *Fabricating the Keynesian Revolution* (1999). Yet the questions I pose and, consequently, the story I tell is very different from Laidler's. The main difference is that my narrative is designed to follow the personal twists and turns of Keynes's own theoretical development toward the *General Theory*. Both of Laidler's books, on the other hand, are painted on a much more panoramic scale, and concern the evolution of the thinking of the whole economic profession about monetary and macroeconomic

matters. The most telling contrast is with Laidler's (1999) treatment of the discussion of monetary theory between the end of World War I and the beginning of World War II.

His concern is to debunk the historical accuracy of a standard potted textbook view of the origins and history of macroeconomics. According to this view macroeconomics was born of a clash between Keynes, the lone revolutionary, and the old and sclerotic classical camp that was unresponsive to the economic crisis of the 1930s. Laidler argues that the 1930s was rather a theoretically vibrant period of many contributions of which Keynes's was just one among many, and moreover the profession was already much in favor of most of the counter-cyclical policies later associated with Keynes. Similarly, it is in this eclectic period that the roots of the IS/LM's dominance were set.

For IS/LM, Laidler argues, was a properly synthetic mix, agreeable to most of the profession, of certain elements from Keynes's *General Theory* (though not its most radical and unique aspects) and those of other interwar contributors to the macroeconomic debates of the thirties. That model also provided a conveniently expressed and teachable way of framing the historically mythical Keynesian versus the classics dichotomy, in its ability to express both the purportedly "old" and the "new" views as variations on the assumed slopes of these two curves. Thus, the Keynesian Revolution was neither uniquely Keynesian nor particularly revolutionary.

Now there are many detailed points I could make about Laidler's argument. For instance, like Laidler, as already indicated, I also see much more value in the classical Marshallian tradition than the potted Keynesian history does. But I mine a few select veins of this historical context that appear from my reading to have been crucial in moving Keynes's thinking forward in his progression to the *General Theory*. I also, however, view Keynes's advances within this tradition as much more progressive than Laidler allows. Alternatively, I think it is a far stretch to argue, as Laidler does, that all of the most valuable of Keynes's insights (along with the rest of the best of interwar monetary theory) was distilled by the profession into the post-war IS/LM tradition. But my larger point here is that I could in principle agree with all of Laidler's thesis about the history of the IS/LM consensus, and still not view it as more than tangential to my theme. For Laidler is not concerned with the particulars of Keynes's own theoretical development. His treatment of Keynes and the *General Theory* is driven by, first, a search for commonalities between Keynes and other interwar monetary and business cycle theorists and, second, an accounting of the elements of the *General Theory* in terms of whether they will, or will not, eventually find a place in the IS/LM model, the endpoint of his story.

Another way of comparing our respective visions is by reference to the fact that Laidler also offers, almost as an aside, the view that the most radical elements of Keynes's *General Theory* were not taken up by the mainstream of

the profession in the IS/LM synthesis (which Laidler thinks is altogether proper). Our projects intersect at this point. Perpendicular to Laidler's project what most interests me are those very elements that, on his reading, were properly lost from view in the rush to incorporate Keynes's message in the conventional macroeconomic wisdom of the postwar era. I therefore do not spend much time on the development of the multiplier or the marginal efficiency of capital and have little interest in tracing those parts of the *General Theory* that make up the basis for the IS/LM framework. But I do have much to offer that is new, and not present in Laidler's more expansive survey, about how Keynes came to suggest his radical theoretical vision in 1936. I am unearthing a history that was made invisible by the establishment of the IS/LM consensus.

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