

# Contents

<i>List of Figures</i>	x
<i>List of Tables</i>	xi
<i>Preface</i>	xiii
<b>Chapter 1 An Introduction to Keynes and His Revolutionary Views</b>	<b>1</b>
I. Keynes's early intellectual surroundings	3
II. Keynes's intellectual development	5
<b>Chapter 2 How the Great War and Its Aftermath Affected Keynes's Thinking</b>	<b>7</b>
<b>Chapter 3 Keynes's Middle Way Liberalism is Truly a New Way</b>	<b>13</b>
<b>Chapter 4 The Before and After of Keynes's General Theory</b>	<b>18</b>
I. Keynes's revolutionary theory versus mainstream classical theory	18
II. Axioms and theory building	26
III. The neutral money axiom	27
IV. The gross substitution axiom	30
V. Uncertainty and the ergodic axiom	31
VI. Aborting Keynes's revolutionary analysis	35
<b>Chapter 5 The Conceptual Difference between Keynes's General Theory and Classical Theory – Savings and Liquidity</b>	<b>38</b>
I. What is a classic book?	38
II. Say's Law	40
III. The aggregate supply function	44
IV. The aggregate demand function	44
V. A note on Friedman's alternative definition of saving	55
<b>Chapter 6 Further Differentiating Keynes's Aggregate Demand Function</b>	<b>58</b>
I. Two aggregate demand components	58
II. Investment spending	60

	III. What about other components of $D_2$ ?	64
	IV. Government taxes and spending	65
	Appendix to chapter 6: deriving the aggregate supply and aggregate demand functions	68
<b>Chapter 7</b>	<b>The Importance of Money, Contracts, and Liquid Financial Markets</b>	<b>75</b>
	I. The reality of money contracts	75
	II. Contracts, markets, and the security blanket of liquidity	78
	III. Liquidity and contracts	87
	IV. The role of financial markets	90
	V. Financial markets and Keynes's liquidity theory	96
	VI. The need for market orderliness	97
	VII. Booms and busts	98
	VIII. Is reality predetermined, immutable, and ergodically knowable or nonergodic, unknowable, and transmutable?	100
	IX. Crucial decisions and Schumpeterian entrepreneurship	112
	X. Designing policy	114
<b>Chapter 8</b>	<b>World War II and the Postwar Open Economies System</b>	<b>116</b>
	I. Planning for the postwar open economy system	117
<b>Chapter 9</b>	<b>Classical Trade Theory versus Keynes's General Theory of International Trade and International Payments</b>	<b>126</b>
	I. The benefits associated with the classical theory of international trade	126
	II. International trade and liberalized markets: the facts	127
	III. Trade, the wealth of nations, and the law of comparative advantage	128
	IV. Can a reduction (devaluation) in the exchange rate always cure an unfavorable trade balance?	138
<b>Chapter 10</b>	<b>Reforming the World's Money</b>	<b>145</b>
	I. A lesson from the early post-World War II history	145
	II. The Bretton Woods experience and the Marshall Plan	146

III.	Keynes, free trade, and an international payments system that promotes full employment	148
IV.	Changing the international payments system	152
<b>Chapter 11</b>	<b>Inflation</b>	<b>160</b>
I.	Contracts, prices, and inflation	161
II.	The inflation process in a Keynes world	162
III.	Incomes inflation	163
IV.	Incomes policy	164
<b>Chapter 12</b>	<b>Keynes's Revolution: The Evidence Showing Who Killed Cock Robin</b>	<b>169</b>
I.	Fixed wages and the problem of unemployment	174
II.	Who actually aborted Keynes's revolution?	176
III.	Samuelson's Neoclassical Synthesis Keynesianism	176
IV.	The coming of Keynesianism to America	179
V.	How did Samuelson learn Keynes's theory?	180
VI.	The axiomatic differences between Samuelson's Neoclassical Keynesianism and Keynes/post-Keynesian theory	183
VII.	What about Hicks's IS-LM model?	185
VIII.	Conclusion	187
	<i>Notes</i>	190
	<i>Bibliography</i>	200
	<i>Index</i>	206

# 1

## An Introduction to Keynes and His Revolutionary Views

Dear reader, may I ask you who you believe was the greatest Englishman of the 20th century – a man whose efforts enabled the possibilities for democracy and a civilized society to flourish on our planet? Some may answer Winston Churchill, but it is the purpose of this volume to convince you that the Englishman was John Maynard Keynes, an economist who never held elected political office.

Keynes was not an ivory tower academic economist. Besides his teaching position at Cambridge University, as Bursar of Kings College in Cambridge, Keynes made important investment decisions involving the College's portfolio. Keynes also served on the boards of several insurance and investment companies and in so doing obtained firsthand knowledge of the behavior of participants in financial markets. Moreover, his experience as a civil servant in the India Office between 1906 and 1908, as well as his service in the Treasury during the two world wars, enabled Keynes to recognize the need to convert theoretical prescriptions into politically acceptable, workable plans. Keynes was truly an economist of the real world.

Churchill fought to preserve the British Empire and in so doing created a bulkhead that produced sufficient time for the United States to join the conflict against Hitler. Churchill's economic policies, however, were based on a 19th-century classical economic theory that has a propensity to produce an economic system with two outstanding faults: (1) a failure to provide persistent full employment for all who want and are qualified to work at the going wage and (2) an arbitrary and inequitable distribution of income and wealth that often creates living conditions for the poor and lower middle class that are unnecessarily uncivilized (cf. Keynes, 1936a, p. 372). To Keynes, the existence of human distress resulting from the inability of the economic system to

persistently generate a fully employed economy, and the gross inequalities of income and wealth under the existing economic system, should not go unheeded. If at all possible, institutions and policies should be developed to abolish these faults of the economic system in which we live (see Harrod, 1951, p. 192).

Through his economic teachings, writings, and advising to governments, Keynes developed and championed a revolutionary economic theory to overthrow the 19th-century classical economic theory that had dominated economic thought for more than 130 years. Even though his revolutionary theory was misunderstood by most professional economists, Keynes's policy prescriptions were followed by post-World War II governments to develop prosperous economic conditions. The result was an era of historically unprecedented real economic growth that lasted for a quarter of a century – from the end of World War II until the early 1970s.

Development economist Irma Adelman has called this quarter century the “golden age of economic development” for all nations that organized its economic system on capitalist principles. During this “golden age”, these nations experienced no significant unemployment problems. Moreover, the income and wealth of these nations grew more rapidly than they ever had in the history of mankind. Existing inequalities were reduced, and almost all residents of these countries experienced substantial improvements in their living standards. This record of economic performance promoted the possibility that a globalized civilized society could be achieved – perhaps as early as the end of the 20th century.

Unfortunately, as we will see, Keynes's revolutionary theory was never completely understood by the post-World War II political leaders, their economic advisors, mainstream academic economists, and economics textbook writers during the last half of the 20th century. Consequently, by the 1970s, a counterrevolution occurred in both economic theory and policy. The result was that by the mid-1970s the last vestiges of Keynes's policy proposals were being rejected by most mainstream professional economists and economic advisors to governments. Keynes's policy recommendations were superseded by more orthodox classical prescriptions that were supported by a hi-tech version of the old 19th-century classical economic theory resurrected by economic theorists under the claim that their approach made economics a “hard science”. Keynes's policies were rejected on principle, although sometimes followed in practice, especially in the form of “military Keynesianism” by conservative United States presidents (e.g., Ronald Reagan and George W. Bush) who, by encouraging massive increases in military and defense expenditures, produced

huge budget deficits that provided strong short-term growth stimulus for the United States economy.

Nevertheless, the reintroduction of the classical theory's *laissez-faire* approach as an overriding principle for the government relationship toward market behavior reversed the progress that had been made in reducing the two major faults of the capitalist economic system. Since 1973, real economic growth for many developed and less developed nations has slowed significantly. Persistent unemployment problems and increasing inequalities of income and wealth again haunted the global economies of the late 20th century and early 21st century.

This book will attempt to explain how Keynes was able to free his mind from the bonds of traditional classical economic theory with its Panglossian philosophy. As Keynes (1936a, pp. 33–4) put it:

The celebrated *optimism* of traditional economic theory, which has led to economists being looked upon as *Candides*, who, having left this world for the cultivation of their gardens, teach that all is for the best in the best of all possible worlds provided we will let well enough alone. ... For there would obviously be a natural tendency towards the optimum employment of resources in a Society which was functioning after the manner of the classical postulates. It may well be that the classical theory represents the way in which we should like our Economy to behave. But to assume that it actually does so is to assume our difficulties away.

Keynes was not one to assume our difficulties away.

In 1945, at a dinner given in his honor by the Royal Economic Society, Keynes offered a toast to “economics and economists who are the trustees, not of civilisation, but the possibilities of civilisation” (Harrod, 1951, pp. 191–2). The great thinker that he was, Keynes freed his mind from the binds of the classical analysis that was the conventional wisdom of economists of his (and our) time. He was able to reorient economic analysis in his mind toward a realistic analysis of the economic world in which we actually live. By so doing, Keynes was the best trustee for a stable, peaceful, and civilized global economy available for all mankind.

## I. Keynes's early intellectual surroundings

John Maynard Keynes was born on June 5, 1883, the first of the three children of John Neville Keynes, a Cambridge University don, and

Florence Ada Keynes. The Keynes family, residing at 6 Harvey Road in Cambridge, England, represented a Victorian family “living in moderate circumstances, but solid comfort, the house well staffed with domestic servants, the passing days full of [intellectual] activity and the future secure” (Harrod, 1951, p. 1). As a young boy, Maynard Keynes was brought up with what Harrod has called the “presuppositions of Harvey Road” (Harrod, 1951, pp. 183, 192–3), which embodied the stable values of a Victorian civilization that “assumed peace, prosperity, and progress to be the natural order of things” (Skidelsky, 1996, p. 2).

In Cambridge, at the end of the 19th century, the belief in religion as the predetermination of one’s life and one’s society was being replaced by the notion that by studying the principles of the “moral sciences” one could recognize the source of social order and wisdom (Greer, 2000, p. 20). At that time, Cambridge’s Moral Sciences Tripos examination was composed of studies in moral philosophy, political philosophy, logic, psychology, and economics.

While Maynard Keynes was growing up, visitors at the Keynes family’s Cambridge residence included some of the most famous economists and philosophers of the day. Intellectual discussions in the moral sciences were daily exercises at 6 Harvey Road. The learned discussions that must have occurred there during Keynes’s childhood and adolescent days surely had an impact on the developing mind of the young Maynard Keynes.

One of the suppositions of Harvey Road was that the search for knowledge by a small but influential intellectual group of moral scientists provided the guidelines for government to follow to achieve peace, prosperity, and progress under the principles of a *laissez-faire* system where governments would not interfere in markets, since it was assumed that unfettered markets permitted individuals to pursue their self-interest and in doing so promote the social good.

Unfortunately, World War I and its economic aftermath would dispel these rosy Harvey Road expectations. Consequently, as a young man in his twenties, Keynes recognized there was a problem with this Panglossian *laissez-faire* philosophy in economics. Nevertheless, Keynes never lost faith in the view that an intellectual group of moral scientists would light the pathway to continuous progress and improvement of the human condition. It is therefore not surprising that through his writings and teachings, Keynes would urge the creation of economic institutions and policies that, with the exercise of intelligence by *pro bono* managers, would establish a civilized, peaceful society that created conditions of prosperity and progress for all its inhabitants without destroying the market economy system.

## II. Keynes's intellectual development

In 1897, at the age of 14, Keynes won a scholarship to Eton, one of Britain's most prestigious public schools. At Eton, Keynes was an outstanding student who excelled at mathematics, classics, and history (Skidelsky, 1996, p. 18). In 1902, Keynes was enrolled as an undergraduate student at King's College, Cambridge. There Keynes came under the influence of the philosopher G. E. Moore, whose *Principia Ethica* (1903) became a "manifesto of modernism" to Maynard Keynes and his generation of intellectuals. In an essay written in 1938 entitled "My Early Beliefs", Keynes noted that the effect of Moore's book "dominated, and perhaps still dominates, everything else" in establishing his views of the world (Keynes, 1949, p. 81).

Keynes wrote that "under the influence of Moore's method ... you could hope to make essentially vague notions clear by using precise language about them and asking exact questions" (Keynes, 1949, p. 88). It was this drive for a precise taxonomy and exposition that permitted Keynes to break away from the grip of orthodox classical economics that he had been exposed to at Cambridge as a student of the leading economist of the day, Alfred Marshall. The influence of Moore's method led Keynes to his revolutionary way of thinking about economics that could only be brought about by Keynes's ability to create a new taxonomy regarding the vague notion of savings held by classical economic theorists.

As Keynes's first biographer, Roy Harrod (1951, p. 463–4), noted:

It is true to say that the Keynesian scheme consisted in essence in a set of new definitions and a re-classification. He asked us to look upon the multifarious phenomena of business life, and order them in our mind in a different way. ... Classification in economics, as in biology, is crucial to the scientific structure. It is not by the intrinsic importance of the considerations which gave him [Keynes] his points of departure that he must be judged, but by what he achieved when he made the departure [from 19th century economic theory]. The older school [*sic*] were concerned to argue that new considerations could perfectly well be accommodated within the old conceptual framework ... a new conceptual framework was not called for. Such an inference was fallacious.

Harrod (1951, p. 463) observed: "The real defect with the classical system was that it deflected attention from what most needed attention. It was Keynes' extraordinarily powerful intuitive sense of what was important that convinced him the old classification was inadequate. It was his highly

developed logical capacity that enabled him to construct a new classification of his own. It took him ten years to do so”.

In the end, Keynes provided a scientific taxonomic structure for economic analysis which, at least for a while, allowed economists and advisors to government to transform their thinking about the causes of unemployment and economic growth.

How many of today's eminent economists would be willing to work for a decade on developing a new taxonomy (following Moore's dictum regarding precise language and developing exacting questions) to understand the shortcomings of the well-established classical theory that is taken to be the absolute truth by the leaders of the economics profession? Yet for Keynes, the pursuit of knowledge “meant philosophy and economics and more the first than the second” (Skidelsky, 1996, p.17). Consequently, Keynes, the philosopher-economist, was a “great thinker” willing to devote his time to develop a precise classification system and language to explain the causes of the two great faults of the economic system we live in – unemployment and the arbitrary and inequitable distribution of income and wealth (Keynes, 1936a, p. 372). Writing in the midst of a period of mass unemployment, it was obvious to Keynes that any significant movement toward full employment would not only increase the aggregate income of the community, but would also significantly increase the income of the majority of the poorer members of society – the unemployed workers. Thus, adoption of Keynes's analysis and full employment policies were likely to reduce income inequality. Keynes, however, did not believe in a complete equality of incomes. He wrote:

For my own part, I believe that there is social and psychological justification for significant inequalities of income and wealth, *but not for such large disparities as exist today*. There are valuable human activities which require the motivation of money-making and the environment of private wealth ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money making . . . , which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannise over his bank balance than over his fellow-citizens. . . . But it is not necessary . . . that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them. The task of transmuting human nature must not be confused with the task of managing it.

(Keynes, 1936a, p. 374, emphasis added)

# Index

- Abel, A. B., 140–141  
Adelman, Irma, 2, 95–96  
*ad valorem* tax, financial market transactions, 99  
*Affluent Society, The*, 66, 192n.2  
Africa, debt burden in, 127–128, 197n.8  
*Against the Gods*, 93  
aggregate demand function  
  classical economics and, 43–55, 191n.2  
  derivation of, 68–74  
  expenditure categories in, 58–59  
  government taxes and spending and, 65–68  
  investment spending and, 60–64  
  Keynes's taxonomy for, 58–59  
  liquid assets and borrowing capacity for, 89–90  
  marginal product of labor and, 183, 198n.1  
aggregate supply function  
  derivation of, 68–74  
  investment spending and, 61–64  
  Keynes's discussion of, 43–44, 191n.2  
“animal spirits” of entrepreneurs  
  investment spending and, 60–64  
  sunspot hypothesis and, 111–112  
anti-communism, failure of  
  Keynesian economics and, 173, 179–180, 187–189. *See also* McCarthyism  
applied economics,  
  ownership/control separation and, 192n.6  
*a priori* knowledge, reality economic theories and, 106–107, 193n.14  
Armistice of November 1918, 9–10  
Arrow, K. J., 20, 31, 75, 172, 191n.5, 192n.4  
art, Keynes's interest in, 11, 190n.2  
Austrian economic theory, 101, 105, 108, 112, 180  
axioms  
  in economic theory, 26–27  
  ergodic axiom, 30–35, 61, 102–103, 110–112, 181–186  
  gross substitution axiom, 30–31, 181–185  
  neutral money axiom, 27–30, 35–37, 75–78, 89–90, 112, 160–161  
  Say's Law and role of, 41–44  
Baker, James, 141  
balanced budgets, Keynes's preference for, 192n.3  
balance of payments  
  in international clearing system, 153, 196n.4  
  international markets and, 127–128, 142–144  
  postwar open economy and, 124–125  
  surplus nations' responsibility for, 156–159  
balance of trade  
  exchange rate devaluation and, 138–144  
  Keynes's postwar open system, 120–125  
Bancors, 123  
bandwagon effect, in financial markets, 100  
*Banking Policy and the Price Level*, 17  
banking principle, 124  
barter transactions  
  in classical economics, 76  
  Keynes's denial of, 76–78  
Bayesian probability analysis,  
  immutable reality theories and, 104–105  
Bayes-LaPlace theorem, 112, 194n.23

- behavioral theory, economics and, 187–189, 199n.5
- Bell, Vanessa, 11
- Bernanke, Ben, 140–141
- Bernstein, Peter L., 93–96
- Blanchard, Oliver, 27–29, 75
- bookkeeping practices, international payments systems and, 153–159
- bounded rationality, immutable reality theories and, 105–107
- Bourbaki school of mathematics, 170–173, 176, 187
- Bretton Woods Agreement  
 economic development and, 152–159  
 international payments system and free trade and, 149–152  
 international trade policy based on, 146–148  
 Keynes's attendance at, 9  
 market liberalization and, 127–128  
 monetary reform and, 145–146  
 postwar open economy and, 125  
 “scarce currency” clause in, 150, 196n.1
- Brock, W.A., 199n.5
- Bryce, Robert, 180–183
- bubble model of financial markets, 91–96
- Buckley, William F., 179  
 “buffer stocks,” inflation and, 162–164
- Bush, George W., 2–3
- business cycle  
 financial markets and, 98–100  
 monetary theory and, 17
- “Cambridge Circus,” 190n.2
- Cambridge University, Keynes's lectureship at, 7–8
- capital  
 international clearing system and controls on, 154–159  
 international trade and flow of, 126–127  
 law of comparative advantage and mobility of, 135–137  
 capital account balances,  
 international money clearing unit and, 155–159, 197n.8  
 capital controls, 95, 100, 121, 147, 154, 159  
 cartels, law of comparative advantage and, 133–137  
 central banks  
 in early postwar monetary reform, 145–146  
 incomes policy and, 165–168  
 inflation and, 160–161  
 international clearing system and, 153–154, 196n.6  
 international money clearing unit and, 157–159  
 Chancellor of the Exchequer, Keynes as envoy of, 117–125  
 chaos economic theory, 107, 194n.15  
 Chartalism, 78, 87  
 China  
 economic growth of, 94–96, 193n.9  
 international trade and, 195n.1  
 Churchill, Winston, 1  
 Gold Standard and, 15–17  
 civilization, economics and, 11–12  
 civil law of contracts, money contracts and, 77–78  
 classical economic theory  
 axioms in, 26–27  
 Classical Efficient Market Theory and, 90–96  
 conservative adoption of, 2–3  
 entrepreneurial systems and, 192n.4  
 ergodic axiom and, 32–35  
 exchange rate devaluation and, 138–144  
 immutable reality theories and, 105–107  
 incomes policy and, 165–168  
 influence on Keynes of, 12–14  
 international competition and, 120–125  
 international trade and, 126–144  
 investment spending and, 61–64  
 Keynes's contributions to, 1–3, 169–189  
 Keynes's general theory vs., 18–37  
 liquidity in, 79–87

- classical economic theory—*continued*  
 money contracts absent in, 192n.4  
 neutral money axiom, 27–30, 190n.5  
 political support for, 36–37  
 postwar resurrection of, 173–189  
 reality in, 100–112  
 Say's Law and, 40–44  
 spot markets in, 80–87  
 World War I and decline of, 11–12
- Classical Efficient Market Theory (CEMT), 90–96
- closed economy, postwar international payments and, 117–125
- Colander, David, 106, 179–183, 199n.5
- Coming of Keynesianism to America*, 179–180
- “Commod Control” international agency, Keynes's proposal for, 162, 198n.4
- commodities  
 barter transactions for, 76  
 money as, 79–87
- commodity inflation, Keynes's discussion of, 161–164
- communication costs, law of comparative advantage and, 131–137
- Communism  
 failure of Keynesian economics and, 173  
 Marshall Plan as deterrent to, 150–152
- comparative advantage, trade and law of, 128–137
- competition  
 aggregate supply and demand derivation and, 68–74  
 domestic industrial growth and, 120–125
- conscientious objectors in World War I, Keynes's attitude concerning, 9, 190n.1
- consumption  
 aggregate demand function and, 46–55  
 employee output as, 192n.2  
 goods, Keynes's definition of, 192n.2
- government taxes and expenditures, impact on, 66–68
- gross substitution axiom and, 184–185, 199n.2
- output vs., 192n.2
- permanent income theory of, 55–57, 192n.6
- tax reduction and, 85–87
- contracts. *See also* money contracts  
 inflation and, 161–162  
 international money clearing unit, 155–159  
 liquidity and, 87–90
- Cowles Commission for economic research, 171
- creditor nations. *See also* surplus nations  
 international clearing system and, 153–159, 197nn.8–10  
 international trade and, 148–152
- crucial choice  
 costs of, 113–114, 194n.24  
 probabilistic risk characterization, 194n.18  
 Schumpeterian entrepreneurship and, 112–114, 194n.22
- currency fluctuations  
 Bretton Woods Agreement and Marshall Plan impact on, 146–148  
 dollar exchange rate and, 140–141  
 East Asian currency contagion, 154, 197n.7  
 international money clearing unit and, 157–159  
 international payments systems and, 150–159  
 money contracts and, 83–87, 8387  
 postwar open economy, 118–125  
 smuggling operations and, 154, 196n.6
- current accounts, defined, 196n.9
- current aggregate income, expenditures and, 59
- Darwinian process  
 post-Walrasian economics and, 199n.5  
 reality-based economic theory, 108, 194n.16

- Debreu, Gerald, 37, 170–172, 187.  
*See also* Walras-Arrow-Debreu equilibrium model
- debt cancellation, Keynes's discussion of, 10
- debtor nations  
   capital flow to, 126–127  
   “excessive” credit balances and, 156–157, 198n.10  
   international payments system and free trade and, 148–152  
   trigger avoidance by surplus nations and, 155–156, 197n.8
- debt service burdens, 155–159, 197n.8, 198n.13
- decision making process  
   expected utility theory and, 108–109, 194n.17  
   probabilistic risk characterization, 110–111  
   Schumpeterian entrepreneurship and, 112–114
- deficit economics  
   exchange rate devaluation and, 138–144  
   international money clearing unit and, 155–159  
   short-term economic growth and, 2–3  
   in United States, 146
- demand-driven expansion, law of comparative advantage and, 134–137
- demand function  
   aggregate demand function, 45–55  
   global demand and oversaving, 156–159  
   government taxes and expenditures and, 66–68  
   inflation of prices and, 162–164
- demand-outlay curve, derivation of, 72–74
- demand-supply shocks, 111–112, 194n.20
- Desert Storm war, 163
- deterministic economic model  
   chaos theory, 107–108, 194n.15  
   ergodic axiom and, 32–35
- development economic theory  
   incomes policy and, 166–168  
   international markets and, 95–96, 126–128  
   Keynes's contributions to, 2–3
- diminishing returns, law of comparative advantage and, 134–137
- distress  
   government role in alleviation of, 16  
   Keynes's discussion of, 14
- dollar exchange rate  
   devaluation of, 140–144  
   international payments system and, 151–152
- Dunlop, J., 39, 182
- durable goods  
   aggregate demand function and, 49–55  
   money contracts and, 83–87
- dynamic stochastic general equilibrium (DSGE), 170
- East Asian currency contagion crisis, 154, 197n.7
- Economic Consequences of the Peace, The*, 9–10, 12–14
- economic growth  
   Bretton Woods Agreement and Marshall Plan impact on, 147–148  
   China-U.S. comparisons, 86–87  
   in early postwar period, 146  
   exports and, 120–125  
   international markets and, 94–96, 193n.9  
   savings and, 85–87  
   Smith's discussion of, 129–137
- Economic Journal, The*, 8
- Economics: An Introductory Analysis*, 179–180
- effective demand  
   government taxes and expenditures and, 66–68  
   principle of, 191n.2
- efficiency wages, international money clearing unit and, 156–159, 198n.11
- efficient market hypothesis, liquidity preference theory and, 91–96

- Eichengreen, Tobin, and Wyplosz theory, 99
- Einstein, Albert, 29
- elasticity of production  
 liquid assets and, 51, 191n.4  
 money and, 87
- elemental contract, defined, 80
- employment. *See also* full employment; unemployment  
 aggregate supply and demand derivation and, 68–74  
 aggregate supply function and, 44  
 foreign trade in, 118–125  
 government fiscal policy and, 65–68  
 liquidity and, 79–87, 193n.7  
 in market economy, 29–30  
 output as welfare vs. consumption goods, 192n.2  
 postwar open system and, 121–125  
 production costs and, 81
- “employment function” (Keynes), labor curve and, 183, 198n.1
- entrepreneurial economy  
 classical economics and, 192n.4  
 crucial decision-making and, 112–114  
 investment spending in, 60–64  
 money contracts in, 77–78, 82–83  
 produce to spot market in, 80  
 savings preferences and, 52–55, 86–87
- equilibrium theorems, money contracts and, 90
- ergodic axiom  
 external reality in economics and, 193n.11  
 IS-LM economic model and, 186  
 Keynes’s rejection of, 30–35  
 probabilistic risk characterization, 110–111  
 reality theories and, 102–103, 110–112  
 Samuelson’s discussion of, 61, 181–185  
 Say’s Law and role of, 41–44
- ergodic probability models, crucial decisions and, 112–114
- error-learning models, crucial decisions and, 112, 194n.23
- European Central Bank model, 37
- European Union (EU), 37
- “excessive” credit balances,  
 international money clearing unit and, 155–159, 198n.10
- exchange rates  
 Bretton Woods Agreement and Marshall Plan impact on, 146–148  
 devaluation of, trade balance and, 138–144  
 in early postwar period, 145–146  
 international money clearing unit and, 155–159  
 international payments system and, 148–159, 196n.4  
 international trade, 126, 195nn.1–2
- exogenous investment variable,  
 aggregate supply and demand derivation and, 71–74
- expected utility theory (EUT), 108–109, 194n.17
- exports  
 “excessive” credit balances and, 156–159  
 exchange rate devaluation and, 138–144  
 international payments system and, 151–152  
 international trade and, 119–125, 195n.1
- external reality  
 economic theory and, 100–101  
 probabilistic risk characterization, 110–111
- fast exit strategy, in financial markets, 97
- fear, incomes policy of, 166–168
- Federal Reserve System (U.S.), gold reserves of, 151
- financial markets  
 booms and busts in, 98–100  
 Keynesian liquidity theory and, 96–97  
 Keynes’s discussion of, 8–9  
 policy role of, 90–96  
 savings and, 86–87

- “finished” goods, Keynes’s definition  
of, 81, 192n.2
- Fisher, Irving, 20–21
- fixed money forward contracts,  
production costs and, 82, 192n.4
- fixed wages, unemployment and,  
174–176
- flight capital, international trade and,  
126–128 196n.3
- foreign direct investment projects,  
international money clearing  
unit and, 155–159
- foreign trade, postwar open economy  
and, 118–125
- forward contracts  
elemental form of, 80  
production costs and, 81–82, 192n.4
- forward markets, 192n.1  
production contracts and, 82
- forward prices, inflation and,  
161–164, 198n.2
- Foundations of Economic Analysis*,  
176–178, 180, 183–185
- free trade  
flexible exchange rates, 126, 195n.1  
incomes policy and, 164–168  
international payments system  
and, 148–152  
law of comparative advantage and,  
129–137, 134–137  
wealth of nations and, 128–137
- Friedman, Milton, 55–57, 192n.6
- immutable reality theories and,  
104–105
- inflation discussed by, 160–161
- Neoclassical Synthesis  
Keynesianism and, 177–178  
reality theories and work of, 102  
on savings preferences, 61–64
- full employment  
in deficit nations, 158–159, 198n.12  
economic theory and, 1–2  
incomes policy and, 165–168  
law of comparative advantage and,  
135–137  
neoclassical synthesis  
Keynesianism and, 184–185  
tax cuts and, 135, 196n.5
- fully liquid assets, defined, 84
- “functional finance” fiscal policy,  
government taxes and  
expenditures and, 66–68
- fundamentalist Christianity,  
evolution vs., 30, 190n.5
- Funk, Walter, 122
- Funk Plan, Keynes’s discussion of,  
122–125
- future market demand, investment  
spending and, 60–64
- future uncertainties  
investment spending and, 60–64  
liquidity as security for, 78–87  
money transactions and, 77–78
- Galbraith, James K., 29–30
- Galbraith, John K., 66, 192n.2  
on changes in industrial society, 164
- general equilibrium theory  
mathematical elements of, 170–172  
monetary theory of production  
and, 29–30  
reality and, 102–103, 193n.14
- General Theory of Employment Interest  
and Money*, 17
- academic reputation of, 38–39
- axioms and theory building in,  
26–27
- classical economic theory vs.,  
19–37
- historical legacy of, 169–189
- inflation discussed in, 160–161
- micro-demand and supply  
concepts in, 43–44
- non-Euclidean principles in, 35–37
- postwar open economy and,  
118–125
- Say’s Law discussed in, 41–44
- unemployment discussed in,  
39–40
- Glickman, M., 92
- global economy  
incomes policy and, 166–168  
international payments system  
and, 152–159
- Keynes’s *General Theory* and,  
188–189
- Keynes’s postwar open system,  
119–125

- God and Man at Yale*, 179
- Gold Standard, Keynes's discussion of, 15–17
- government fiscal policies  
 buffer stocks and, 162–164  
 incomes policy, 164–168  
 international payments systems and, 153–159  
 law of comparative advantage and, 133–137  
 liquid financial markets and, 94–96  
 policy designand, 114–115  
 in postwar open economy, 119–125  
 Say's Law and role of, 42–44  
 taxes and spending, 65–68, 192n.3
- Grant, Duncan, 11
- Great Depression  
 financial market trends and, 94–96  
 incomes policy following, 164  
 neoclassical synthesis  
 Keynesianism and, 20–22
- Great War. *See* World War I
- Greenspan, Alan, 91–92
- Greer, W., 8
- gross domestic product (GDP),  
 international payments system and, 151
- gross national product (GNP), 20, 72, 147, 151, 198n.11  
 international payments system and, 196n.2  
 neoclassical synthesis  
 Keynesianism and, 20–21
- gross substitution axiom  
 Keynes's rejection of, 30–31  
 Neoclassical Synthesis  
 Keynesianism and, 183–185, 199n.2  
 Samuelson's discussion of, 181–183  
 Say's Law and role of, 41–44
- Hahn, F. H., 31, 52–53, 75, 87, 90, 172, 191n.5, 194n.4
- Harrod, Roy, 5–8
- Hawtrey, Ralph, 24
- Hayek, Frederick, 24, 180–183
- Hicks, John, 33, 36–37, 46, 190n.6  
 IS-LM model of, 185–186
- Neoclassical Keynesianism and, 176, 199n.5  
 ordering axiom of, 109
- Hitler, Adolf, 122
- Hoover, Herbert, economic policies of, 21
- How Economics Became a Mathematical Science*, 170–171
- How To Pay For The War*, 117
- Hume, David, 160
- ignoratio elenchi*  
 Keynes's critique of classical economics as, 26  
 Samuelson's Keynesianism and 182–183, 198n.1
- illegal trade, international clearing system and, 196n.5
- illiquid assets, defined, 50–51, 84–85
- immutable reality theory,  
 characteristics of, 101–107
- imports  
 exchange rate devaluation and, 138–144  
 global demand and oversaving, 156–159  
 international payments system and free trade and, 149–152  
 international trade and, 119–125, 195n.1
- income  
 aggregate demand function and, 45–55  
 exchange rate devaluation and, 139–144  
 government fiscal policy influences on, 65–68  
 inflation and, 164–168  
 liquid asset savings and, 193n.7  
 multipliers, aggregate supply and demand derivation and, 70–74  
 permanent income theory of consumption, 55–57  
 in postwar open economy, 118–125  
 Say's Law and role of, 40–44  
 trade balances and, 143–144
- incomes inflation, Keynes's discussion of, 161–164

- incomes policy, 164–186
- incompatibility thesis, Bretton Woods Agreement and Marshall Plan and, 147–148
- indebtedness  
 international payments system and free trade and, 149–152  
 money creation through, 89–90
- India Office, Keynes's employment in, 1, 7–8
- inflation  
 classical economic theory and, 160  
 contracts and prices and, 161–162  
 international money clearing unit and, 157–159  
 Keynes's general theory and, 160–164
- inputs to production, cost controls, 81
- insurance costs, reality economic theory and, 107
- Interest Equalization Tax (IET), 154–159, 193n.8
- interest rates, postwar open system and, 119–125
- International Clearing Agency, 196n.6
- International Clearing Bank (ICB), 123–125
- international clearing system, provisions in, 153–159
- International Monetary Fund (IMF)  
 international payments system and, 149–152  
 loan programs of, 154–159  
 postwar open economy and, 124–125
- international monetary reform, postwar open economy and, 125
- International Money Clearing Unit (IMCU), 153–159, 196n.6
- international payments system  
 free trade and, 148–152  
 modern changes to, 152–159
- international trade  
 classical economic theory and, 126–127  
 Classical Efficient Market Theory and, 94–96  
 Keynes's postwar open system, 119–125, 195n.1
- law of comparative advantage and, 132–137  
 market liberalization, 127–128
- investment spending  
 Keynes's uncertainty principle and, 60–64  
 in postwar open economy, 118–125  
 savings equal to, 55–57, 59–60, 192n.1  
 unemployed resources for, 89–90
- "invisible hand", 13, 22, 36. *See also* free trade
- incomes policy and, 165–168  
 Keynes's new economic theory and, 13, 23–24
- "ISLM: An Explanation," 186
- IS-LM economic model, 185–186
- "J-curve," exchange rate depreciation and, 140–144
- Johnson, Harry (Professor), 195n.2
- just in time inventory, cost efficiencies of, 82
- Kahn, Richard, 190n.2
- Keynes, John Maynard  
 classical economic theory critiqued by, 3, 23–26, 28–31, 38–40  
 death of, 124  
 early life of, 3–4  
 health problems of, 116–117  
 intellectual development of, 5–6  
 legacy of, 1–3, 169–189  
 rejection of theories of, 2–3
- Keynesian Revolution, historical legacy of, 169–189
- Kirman, Alan, 188
- Knight, Frank, 106–107
- labor. *See also* working conditions,  
 law of comparative advantage and aggregate supply and demand derivation and, 68–74  
 costs of, 164  
 incomes policy and, 164–168  
 law of comparative advantage and, 133–137, 196n.4  
 production costs and, 81

- labor.—*continued*  
 wage rigidity and demand for, 183, 198n.1
- laissez-faire* economic theory  
 changes to international payments system and, 152–159  
 employment trends in, 174  
 incomes policy and, 165–168  
 international trade and payments system, 149–152  
 investment spending and, 61–64  
 law of comparative advantage and, 132–137  
 liquidity as security in face of, 79–87  
 market role in, 13–14  
 “moral sciences” and, 4  
 Neoclassical Synthesis  
   Keynesianism and, 177–178  
   post-war adoption of, 2–3  
   postwar open system and, 121–125  
   rationales for, 22  
   World War I and decline of, 11–12
- Landreth, H., 179–183
- Latin America, debt burden and, 127–128, 197n.8
- Lerner, A.P., 66, 139–141, 143, 147
- less developed countries (LDCs)  
 capital flow to, 126–127, 196n.3  
 international markets and, 95–96  
 international payments system and growth of, 152–159  
 Neoclassical Synthesis  
   Keynesianism and, 177–178
- liberalization of markets, 94–96, 175–176  
 international trade and, 127–128
- Liberal Party, Keynes’s economic theories supported by, 14
- life-cycle theory  
 gross substitution axiom and, 184–185, 199n.2  
 utility maximization and, 45–55, 191n.3
- liquid assets  
 contractual settlements and, 88–90  
 defined, 50–55, 84  
 market makers and, 84, 192n.5  
 money as, 82, 85–87  
 production elasticity and, 51–55, 191n.4  
 security of, 78–87  
 substitution elasticity and, 51–55, 191n.5
- liquidity issues  
 aggregate demand function and, 49–55, 191n.1  
 in classical theory, 192n.6  
 contracts and, 87–90  
 ergodic axiom and, 34–35  
 incomes policy and, 165–168  
 input costs and, 81  
 international clearing system, 153–159  
 Keynes’s theory regarding, 173–189  
 money transactions and, 76–78  
 savings and, 85–87
- Liquidity Preference Theory (LPT), 90–96  
 financial markets and, 96–97
- liquidity time machines, money contracts as, 78
- “liquidity trap,” 40, 191n.1  
 fixed wages and unemployment and, 174–176
- liquid reserves, oversaving of, 156, 198n.9
- Lloyd George, David, 8–10, 14
- logic  
 Keynes’s general theory and role of, 25–27  
 role in economics of, 8
- long-run equilibrium, immutable reality theories and, 103–105
- long-term liquidity  
 Keynes’s concept of, 109  
 ordering axiom and, 109
- long-term purchasing power, international money clearing unit and, 156–159
- Lucas, Robert, 34–35, 102, 112–114, 191nn.8–9, 193n.11
- macroeconomics  
 IS-LM economic model of, 185–186, 199n.3  
 Keynes’s general theory and, 20, 36–37

- Neoclassical Synthesis  
 Keynesianism and, 177–178  
 neutral money axiom and, 27–30, 75–76  
 in United States, 179–180  
 “magician” metaphor of economic theory, 26–27, 190n.4  
 aggregate demand function and, 45
- Mankiw, N. Greg, 38  
 immutable reality theories and, 104  
 on Keynesian economics, 175–176, 184–185  
 law of comparative advantage and, 134–137
- marginal production costs, aggregate supply and demand derivation and, 68–74
- marginal product of labor, 183, 198n.1  
 aggregate supply and demand derivation and, 68–74
- market economy systems  
 employment and output in, 29–30  
 liquidity as security in, 78–87  
 neutral money axiom and, 28–30  
 Say’s Law and role of, 42–44  
 self-correction in, 24
- market maker, price management and, 84, 192n.5
- market price asset valuation, Keynes’s discussion of, 8–9
- Marshall, Alfred, 5, 8, 43, 161, 198n.1
- Marshallian demand curve, propensity to consume derivation from, 72–74
- Marshallian supply curve, aggregate supply and demand derivation and, 68–74
- Marshall-Lerner condition, 139–144, 147
- Marshall Plan  
 international payments system and, 150–152  
 international trade and, 146–148  
 monetary reform and, 145–146
- Marx, Karl, 165
- mathematics  
 economic theory and role of, 25–26, 36–37, 169–173, 187–189  
 macroeconomics and, 179–180
- McCarthyism, failure of Keynesian economics and, 173, 179–180, 187–189
- McKenna, Reginald, 8
- Meade, James, 36–37, 190n.2
- measured current income theory of consumption, 55–57
- Mellon, Andrew, 21–23
- micro-equilibrium theory  
 IS-LM economic model of, 185–186  
 supply and demand and, 43–44  
 wage rigidity and, 181–183
- Middle Way liberalism, Keynes’s discussion of, 14–17
- military expenditures, tax reduction and, 85–87
- military service, Keynes’s participation in, 9
- Mill, James, 40
- monetarist incomes policy  
 development of, 167–168  
 Neoclassical Synthesis  
 Keynesianism and, 177–178
- monetary reforms  
 early post-World War II history of, 145–146  
 inflation and, 160–161  
 international clearing system and controls on, 153–159  
 Keynes’s discussion of, 15–17
- monetary theory of production, Keynes’s development of, 28–30, 35–37
- money, creation of, 89–90
- money contracts  
 fixed money forward contracts, 82, 192n.4  
 liquidity as security in, 78–87, 173–189  
 production and exchange agreements, 88–90  
 reality of, 75–78
- money values, aggregate supply and demand derivation and, 68–74
- money-wage contract, incomes inflation and, 164
- monopoly, degree of, aggregate supply and demand derivation and, 68–74

- Moore, G. E., 5–6, 42  
 “moral sciences,” Keynes’s exposure to, 4
- Morgenthau, Henry, 123–125
- multinational corporations, law of comparative advantage and, 131–137
- multiplier effect, aggregate supply and demand derivation and, 70–74
- “My Early Beliefs” (essay), 4
- Nation, The*, Keynes’s articles in, 16
- national banking controls, international payments systems and, 153–159
- Neoclassical Synthesis Keynesianism  
 Keynes/Post Keynesian theory and, 183–185  
 Samuelson’s discussion of, 19–20, 176–178, 187–189, 190n.1  
 in United States, 179–180
- net investment income, defined, 196n.9
- neutral money axiom  
 classical economic theory and, 27–30, 35–37, 190n.5  
 inflation and, 160–161  
 Keynesian rejection of, 89–90  
 money contracts and, 75–78  
 Samuelson and the, 181–183  
 Say’s Law and role of, 41–44  
 sunspot economic theory and, 112, 194n.21
- New Classical Economics  
 ergodic axiom and, 33–35  
 immutable reality theories and, 103–104  
 money contracts and, 90
- Neoclassical Synthesis  
 Keynesianism and, 178
- New Economic Order of Hitler, 122
- New Keynesian theory, 38–40  
 financial markets booms and busts, 98–100  
 immutable reality theories and, 103–104  
 neutral money axiom and, 28, 190n.5
- Newly Industrialized Countries (NICs), exports and, 121–125, 195n.3
- Newton, Isaac, 29
- New Way economics, Keynes’s discussion of, 14–17
- Niebuhr, Reinhold, 115
- Nixon, Richard M., 169
- nonergodic uncertainty  
 crucial choice and, 113–114  
 East Asian currency contagion crisis, 154, 197n.7  
 entrepreneurial economics and, 193n.10  
 in financial markets, 96–97, 99–100  
 investment spending and, 61–64  
 liquidity and contracts and, 87–90  
 speculative bubble theory and, 93–96
- non-Euclidean geometry  
 investment spending and, 60–64  
 Keynes’s general economic theory and, 27–30, 35–37
- non-income induced ( $D_2$ ) expenditures  
 characteristics of, 59  
 components of, 64–65  
 investment spending and, 60–64
- nonprobabilistic economic model, ergodic axiom and, 32–35
- nonproducible money, Keynes’s discussion of, 86–87
- non-retail enterprises, real-world money contracts in, 81
- objective probabilities, rational expectations hypothesis and, 194n.19
- oil price shocks  
 international payments system and, 152  
 petroleum reserves in wake of, 163–164
- old world/new world forces, economics and role of, 13–14
- one-way convertibility, international clearing system and, 154–159
- ordering axiom  
 expected utility theory, 108–109  
 probabilistic risk characterization, 110–111

- orderliness  
 in financial markets, 97–98  
 of liquidity preference theory, 93–96
- organization, economics and role of, 13–14
- Organization of Economic Development (OECD)  
 incomes policy and, 166–168  
 international markets and, 95–96  
 Neoclassical Synthesis  
 Keynesianism and, 177–178
- output measurements  
 aggregate supply and demand  
 derivation and, 69–74  
 liquidity and, 79–87
- “outsourcing” of labor, 166–167  
 law of comparative advantage and, 133–137
- overdraft system, international  
 money clearing unit, 155–159
- oversaving by surplus nations, 156, 197n.9
- ownership vs. management  
 dichotomy, applied economics  
 and, 192n.6, 8687
- Paish, George, 8
- perfect certainty model, economic  
 theory, 102–103
- permanent income theory of  
 consumption, 55–57
- petroleum reserves, oil price shocks  
 and, 163–164
- planned saving, liquid assets and, 85
- population, economics and role of,  
 13–14
- Post Keynesian theory, 16, 29–30, 53,  
 86, 89, 110, 178, 186, 195n.24  
 Neoclassical Synthesis  
 Keynesianism and, 183–185
- post-Walrasian economics,  
 emergence of, 187–189, 199n.5
- postwar open economy system  
 Keynes’s discussion of, 117–125  
 monetary reform and, 145–146
- pre-programmed external economic  
 reality, 101–103
- Prices and Production*, 24
- price stability  
 Bretton Woods Agreement and  
 Marshall Plan impact on,  
 147–148  
 classical economists’ view of,  
 22–24, 39  
 exchange rate devaluation and  
 elasticity, 139–144, 196n.7  
 fixed wages and unemployment  
 and, 174–176  
 incomes policy and, 165–168  
 inflation and, 160–162  
 Keynes’s discussion of, 15–17  
 Say’s Law and, 40–44  
*Principia Ethica*, 5, 42  
*Principles of Economics*, 43  
 private sector production  
 government policy design,  
 114–115  
 government spending on, 65–68,  
 192n.2
- probabilistic risk, economic  
 decision-making and,  
 109–111
- probability theory  
 ergodic axiom and, 31–35  
 financial markets and, 93–94  
 Keynes’s work on, 8  
 reality economic theory and, 107
- produce to contract behavior, non-  
 retail enterprises, 81
- produce to speculation behavior,  
 defined, 80
- produce to spot market, in classical  
 economics, 80
- production  
 costs of, inflation and, 163–164  
 costs of, law of comparative  
 advantage and, 131–137  
 elasticity of, 51–55, 191n.4  
 law of comparative advantage and,  
 130–137  
 in market economy, 29–30  
 monetary theory of, 28–30  
 Say’s Law and, 40–44  
 time period for, 81–87  
 utility maximization and, 45–55
- productivity, efficiency wages and,  
 157–159

- propensity to consume
  - aggregate demand expenditure and, 58–59
  - aggregate demand function and, 48–55
  - Marshallian micro-demand curve, 72–74
  - savings preferences and, 85–87
- purchasing power, money contracts and, 83–87
- quantity theory of money, price stability and, 15–17
- rational expectations hypothesis
  - crucial choice costs and, 113–114, 194n.24
  - ergodic axiom and, 33–35
  - IS-LM economic model and, 186
  - Neoclassical Synthesis
    - Keynesianism and, 178
  - post-Walrasian economics and, 199n.5
  - reality theories and, 102–112
  - sunspot theory and, 111–112, 194n.19
- Reagan, Ronald, 2–3
- reality theories of economics, 100–112
  - Austrian theory, 108
  - Bourbaki philosophy and, 171–172
  - chaos theory, 107
  - determinate theory, 107–108
  - expected utility theory, 108–109
  - probabilistic risk, 110–111
  - sunspot theorists, 111–112
  - type 1 immutable reality theory, 101–103
  - type 2 immutable reality theory, 104–107
- real-world contracts, elemental form of, 80
- recessions, exchange rate devaluation, 142–144
- regional currency union, formation of, 155–159
- regulatory legislation, Say's Law and role of, 42–44
- reservation demand, 162, 198n.3
- reserves, international clearing system and, 153–159
- retail markets
  - real-world money contracts in, 80–87
  - as spot and forward markets, 82
- Ricardo, David
  - influence on economics of, 19–20
  - law of comparative advantage and, 120–131
- Riemannian geometry, Keynes's general economic theory and, 29–30
- risk management
  - in financial markets, 99–100
  - financial markets and, 93–94
- Robertson, Dennis H., 16–17, 23–24, 44
- Robinson, Austin, 173, 190n.2
- Robinson, Joan, 190n.2
- "robot decision maker" entrepreneur, 113–114
- Samuelson, Paul, 19, 36–37, 170, 191n.8
  - classical economics and, 173–174
  - ergodic hypothesis, 111–112
  - on investment spending, 61–64
  - Keynesianism in America and, 179–183
  - Neoclassical Synthesis
    - Keynesianism of, 19–20, 176–178, 183–185, 187–189, 190n.1
  - perfect certainty model, 102, 193n.11
- Sargent, T., 112–114
- Savage, L., 108–109, 194n.17
  - savings preferences
    - aggregate demand function and, 46–55
    - decision-making process for, 48–55
    - ergodic axiom and, 34–35
    - Friedman's alternative definition of, 55–57, 192n.6
    - gross substitution axiom and, 184–185, 199n.2
    - investment spending and, 60–64
    - liquid assets and, 85–87
    - Say's Law and role of, 42–44

- Say's Law  
 aggregate demand function and, 44–55  
 aggregate market demand under, 58–59  
 ergodic axiom and, 61–64  
 Keynes's discussion of, 40–44  
 law of comparative advantage and, 135–137  
 neutral money axiom and, 75–76  
 savings and liquidity in, 79–87  
 "scarce currency" clause in Bretton Woods Agreement, 150, 196n.1
- Schacht, Hjalmar, 122
- Schumpeterian entrepreneurship, crucial decision-making and, 112–114
- science  
 aggregate supply and demand derivation and, 71–74  
 civilization and role of, 11–12  
 economic theory and, 61–64, 170–173  
 external reality in economics and, 193n.11
- security, of liquidity, 78–87
- "self-fulfilling" forecasts, sunspot theory and, 111–112
- self-interest  
 economics and role of, 13  
 Say's Law and role of, 41–44
- self-liquidating capital flow, 127
- Shackle, G. L. S., 112–114, 194n.18
- Shaw, George Bernard, Keynes's correspondence with, 18–19, 169
- Shiller, R. J., 91
- "shocks," demand/supply, 111–112, 194n.20
- short-term credit operations, international trade and, 155–159
- Skidelsky, Robert  
 on evolution of Keynes's general theory, 19–24, 190n.2  
 on the Funk Plan, 122–123  
 on Keynes's early life, 4–12  
 on Keynes's health, 116  
 on Keynes's middle way, 14–17  
 on Keynesianism, 19, 22  
 on Keynes's reputation, 38–39, 174
- slavery, 81, 192n.3
- Smith, Adam, 13, 22–23  
 on role of market place, 128–137
- smuggling, international clearing system and, 154, 196n.6
- Snow, John, 195n.1
- Social Darwinism, classical economic theory and, 23, 30
- socialism, Keynes's rejection of, 14
- social psychology, economics and role of, 13–14
- social safety net, incomes policy and, 166–168
- social welfare  
 employee output as improvement of, 192n.2  
 incomes policy and, 166–168
- Solow, Robert, 110, 186
- space statistics, ergodic axiom and, 32–35
- spot contracts, elemental form of, 80
- spot markets, 192n.1  
 in classical economic theory, 80–87  
 money contracts and, 83–84  
 production costs and, 81–82  
 speculative bubble theory of, 92–96
- spot prices  
 inflation and, 161–164, 198n.1  
 reservation demand and, 162, 198n.3
- Sraffa, Piero, 190n.2
- statistical analysis, reality economic theories and, 106–107, 193n.14
- "statistical shadow" argument, ergodic axiom and, 31–35
- sticky interest rate, Keynes's discussion of, 40, 191n.1
- sticky wages, Keynesian theory and, 19–20, 174–176, 184–185
- Stiglitz, Joseph, 98–99
- stochastic process, ergodic axiom and, 31–35
- stock market crash of 1929, neoclassical synthesis Keynesianism and, 20
- stock prices, dividends and, 91–96
- Strachey, Lytton, 7, 11

- subjective probabilities, rational expectations hypothesis and, 194n.19
- substitution elasticity, liquid assets and, 51–55, 191n.5
- Summers, Lawrence, 91–96, 99
- sunspot theory, rational expectations and, 111–112
- super efficient financial markets concept, 99–100, 193n.10
- supply and demand principles. *See also* aggregate demand function; aggregate supply function
- inflation of prices and, 162–164
- law of comparative advantage and, 130–137
- Marshall's theory of, 43, 191n.2
- Say's law and, 42–44
- unemployment and, 40
- supply-price function, aggregate supply and demand derivation and, 68–74
- supply side imperfections, unemployment and, 174
- surplus nations
- international money clearing unit and, 155–159, 197n.8
- international trade, 150–152
- "sweatshop" labor, law of comparative advantage and, 132–137
- Tarshis, Lori, 39, 179, 182–183
- taxation
- ad valorem* tax, 99
- aggregate demand function and, 65–68
- Interest Equalization Tax (IET), 193n.8
- tax-avoidance, international clearing system and, 196n.5
- tax-based incomes policy (TIP), development of, 167–168
- tax cuts, full employment and, 135, 196n.5
- terrorist operations funding, international clearing system and, 196n.5
- Thatcher, Margaret, 165
- Theory of Value, The*, 171–172
- time machine vehicles
- in financial markets, 96–97
- money contracts and, 83–87
- savings preferences and, 48–55
- time preference decision
- aggregate demand function and, 48–55
- in classical theory, 192n.6
- time statistics, ergodic axiom and, 32–35
- Tinbergen's econometric methodology, Keynes's criticism of, 33, 110, 188, 190n.7
- Tobin, James, 36, 99–100
- Tract on Monetary Reform, A*, 15–17
- trade balance. *See* balance of trade
- flexible exchange rates and, 156–159
- transactions costs, crucial choice and, 113–114, 194n.24
- transactions tax, financial markets, 99–100
- transitory income, 55–57
- transportation costs, law of comparative advantage and, 132–137, 196n.4
- Treasury Division (U.K.), Keynes's employment in, 8–10, 117–125
- Treatise on Money, A*, 16–17, 24, 161, 190n.2
- Treatise on Probability*, 8
- trigger avoidance, international money clearing unit and, 155–157, 197n.8
- Uchitelle, L., 133–137
- uncertainty
- binding contracts as hedge against, 88–90
- ergodic axiom and, 31–35
- investment spending and, 60–64
- Keynes's discussion of, 8
- money transactions and, 77–78
- sunspot theory and, 111–112
- unemployment
- classical economists' view of, 22–24

- efficiency wages and changes in, 158–159
- fixed wages and, 174–176
- frictional model of, 37
- government role in alleviation of, 16–17
- incomes policy and, 164–168
- international rates of, 146
- Keynes's general theory and causes of, 20–22, 39–40
- Keynes's postwar open system and, 120–125
- as *laissez-faire* outcome, 88–90
- liquidity as security in face of, 79–87
- natural rate of, 166
- Neoclassical Synthesis
  - Keynesianism and, 177–178
  - neutral money axiom and, 76
  - during 1920s in Britain, 11–12, 14, 25
  - wage flexibility and, 26, 39, 181–183
- unilateral transfer payments
  - defined, 196n.9
  - international money clearing unit and, 155–159
- United States
  - economic growth in, 146
  - export surpluses in, 151–152
  - international loans by, 149–152
  - international payments balance in, 142–144, 146, 196n.9
  - international trade and, 195n.1
  - Keynesian economics in, 179–180
  - World War II policies in, 123–125
- utility maximization
  - aggregate demand function and, 45–55, 191n.3
  - aggregate supply function and, 44
- value, money as store of, 83–87
- Versailles Peace Treaty, Keynes's discussion of, 9–10, 13
- wage rates
  - aggregate supply and demand derivation and, 68–74
  - classical economics and flexibility in, 26, 39
  - efficiency wages, international money clearing unit and, 156–159, 198n.11
  - fixed wages and unemployment, 174–176
  - gross substitution axiom and, 30–31
  - incomes inflation and, 164
  - incomes policy and, 164–168
  - law of comparative advantage and, 131–137
  - postwar open economy, 118–125
  - rigidity in, Samuelson's discussion of, 181–183, 198n.1
  - Say's Law and, 40–44
- Walras-Arrow-Debreu equilibrium model
  - Bourbakian philosophy and, 171–173, 187, 199n.5
  - immutable reality theories and, 103–104
  - liquidity demands in, 82
  - neoclassical synthesis
    - Keynesianism and, 20, 40, 88, 90, 184–185
    - reality theories and, 102–103
    - recontracting without income penalty in, 88
    - Samuelson and, 181–183
  - "War and the Financial System, August 1914" (essay), 8
- war reparations
  - international payments system and free trade and, 149–152
  - Keynes's discussion of, 9–10, 12
- wealth of nations, trade and, 128–137
- Wealth of Nations*, 13, 22
- Weintraub, E. Roy, 170–172
- Weintraub, Sidney, 167
- welfare state
  - Keynes's discussion of, 14
  - unemployment and, 40
- White, Harry Dexter, 123–125, 149–152
- "white noise" variations, price and output volatility and, 91–96
- wine-cloth example, law of comparative advantage and, 131–137

- Woolf, Virginia, 11
- working conditions, law of
  - comparative advantage and, 132–137
- World Bank, 150
- World War I, impact on Keynes's economic theories, 7–12
- World War II, Keynes on costs of, 116–117
- zero elasticity of production
  - Keynes's discussion of, 51–55, 191nn.4–5
  - money and, 87