The Keynesian Episode
A Reassessment

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Preface

The present work began with an attempt to prepare a second edition of my 1963 book, *Keynesianism—Retrospect and Prospect.* I set out to retain, as far as could be consistent with my revisions, omissions, and additions, the original arrangement of that book and the same order of chapters. But I was soon led to write three additional chapters, to omit four, and drastically to curtail two others. This and other changes in the text I thought necessary eventually made it clear that I was writing a new book.

Even so, I have allowed some parts of the text of my original book to stand unrevised; but I have generally tried to improve exposition. I have retained the chapter titles in many cases. I have omitted a chapter I called "The Say Law"[1] because I have recently published *A Rehabilitation of Say's Law,* which deals so much better (I hope) with the same vital issue. I have omitted the chapter entitled "The Acceleration Fallacy" and substituted a much shorter version, partly because the phenomenon plays so unimportant a role in Keynes' own theoretical system. And finally, I have omitted the chapters "Depression and Boom," "Capital Saturation," and "Anticipated Inflation." This is because these phenomena are incidentally but adequately (in my present judgment) dealt with in passages which I have revised or added at different places in the text. In some cases, however, I have referred the reader to passages in the 1963 book, which I shall henceforth call *Keynesianism.*

I decided to omit the chapter "Anticipated Inflation" with some

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[1] I cannot explain why I used that term for "Say's law." I think my old teacher Edwin Cannan must have used those words in his teaching. He never mentioned the law in writing, although he often referred to J. B. Say.

sadness because I thought that it was one of the least unsatisfactory parts of my contribution. When I wrote it, first in the late 1950s, the points I was making seemed still highly controversial. Today they seem to me to be almost universally accepted. I have, however, thought it wise throughout to continue to distinguish sharply between unanticipated inflation, which can have coordinative effects in a discoordinated economy, and anticipated inflation, which cannot.

I have thought it appropriate to include a prologue, in which I deal among other things with the psychology of opinion and the genesis of intellectual fashions. In this prologue, I explain how I was persuaded (by myself, not others) to write both *Keynesianism* and the present book. In this book I have also incorporated an adaptation of an article which was first published in 1971, in a symposium entitled *Toward Liberty* published by the Institute of Humane Studies, in honor of the 90th birthday of Ludwig von Mises. Its title was "Reflections on the Keynesian Episode." I have used these words, "The Keynesian Episode," with the permission of the institute, in the title of the present work.

The article commented among other things on the remarkable personality of Keynes, whose work, and the development of whose work, revolutionized subsequent economic theory, an effect which he himself confidently predicted.[2] I call it "On Keynes." It makes up the greater part of Chapter 1. In Chapter 2, which is also new but incorporates some passages from the same article, I explain my position on the intellectual harm to the useful development of economics by the extraordinary attempt by the great majority of professional economists to accept Keynes' *The General Theory of Employment, Interest, and Money* as though it were the new *Wealth of Nations* and remodel their teachings on it. Chapter 3 also is a wholly new contribution. It treats certain vices as well as the forgotten virtues of much pre-Keynesian economics.

I now believe that there are big advantages in supplementing what were Chapters 1 and 2 in my *Keynesianism* by explaining rather more fully, in advance, some of my objections to such Keynesian notions as survive in so many of today's textbooks. The reader will find many references to articles and books of mine which record developments in my thinking since 1928, when I entered academic life. The subject of coordination of the economic system via the pricing system, which

[2] In a letter to George Bernard Shaw shortly before publication of *The General Theory*.

is the true issue with which *The General Theory* was concerned, dominated nearly all my studies subsequent to 1930.

Keynes himself described those he criticized as "classical economists." The usage is far from ideal. Between Adam Smith and his disciples on the one hand, and the bulk of the economists in the early 1930s on the other hand, there had been formidable developments in understanding; moreover, there were really big differences on some things among the "Cambridge School" (Alfred Marshall), the "Austrian School" (Mises and Hayek), and the "London School" (Cannan and Robbins) in those days. And different members of these groups by no means agreed with one another on all issues! Nevertheless, there were some important notions which, I feel, nearly all pre-Keynesians would have accepted, say, before 1936. Accordingly, I shall from now on refer simply to "pre-Keynesian" economics when I am discussing this consensus among teachers of economics prior to the publication of *The General Theory.*

From the beginning I have found it necessary to refer to the "release" or the "withholding" of *productive capacity,* terminology which I had used in my *Theory of Idle Resources* (1939).[3] I should explain, however, at this stage, that by "release" of capacity I shall mean the reduction of a price of any input or output which is initially in excess of its market-clearing value; and by "withholding" of capacity, I shall mean the raising of a price to above, or further above, its market-clearing level, or its maintenance at such a level.[4]

By "services" I mean throughout *productive* services of men or assets. They are "productive" if they have value, and that means if they can command something else of value in exchange (in a money economy, through the medium of the purchase-sale process); or if the men or assets are offering in prospect, passively or in co-operation with complementary assets or other persons, a contribution to an income stream.

A notion which I have introduced in this book and have found useful in clarifying the issues which arise in the study of "consumption-saving" decisions is that of a classification of assets according to their life expectancies (which end in consumption). The process of production, which is "the creation of value," occurs through the

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[3] The second edition of this book appeared in 1977, published by Liberty Fund, Inc. (Indianapolis).

[4] Further clarification of the notion of the withholding or the releasing of capacity is given on pp. 148n, 178–80, 218–23; in my *Theory of Idle Resources,* 2d ed., chap. 10; and my *A Rehabilitation of Say's Law,* chap. 5.

embodiment of the services of men and of assets into an aggregate assets stock, or the embodiment of assets of relatively short life expectancies into assets of longer life expectancies. The stock of assets is in process of current accumulation and consumption, the latter through the extermination of value and replacement (partially, fully or more than fully, by the same embodiment process). Services directly consumed are products of zero life expectancy, a concept to be explained.

I use the term "consumption" in Say's sense, namely, "the extermination of value," whether that of services or of assets. "Production" to replace or more than replace the value of consumption can be regarded as a stimulus. Consumption, although the ultimate end or purpose of all production, ought, I shall argue, always to be regarded as a depressant.

Several small changes (unimportant but not inappropriate) have been made from the terminology of *Keynesianism,* such as "labor unions" for "trade unions" and the omission of the word "recent" for books published more than twenty years earlier. Also, I have eliminated a number of "asides"—interpolations which, although relevant, I now judge to cause an undue interruption in a chain of argument. And I have resorted to a greater extent to the expositional device of brief repetitions of points made earlier. This is to eliminate serious misunderstandings such as I illustrate in the prologue and which occurred in interpretations of *Keynesianism* by economists of stature.

In my references to well-known economists, I have omitted their initials except where this might otherwise lead to confusion. Finally, I have omitted titles. British economists have been widely honored in this way—thus, Lord Robbins, Sir Roy Harrod and so forth. But most of my references to them are to their contributions made long before they acquired titles.

In the preface of my *Keynesianism,* I expressed my indebtedness to many well-known economists. Since the publication of that book, I have gained greatly from the criticisms and appreciations of so many economists (through personal contacts and published contributions) that it would require more space than would be appropriate even to list their names.

I cannot refrain from mentioning my appreciation and gratitude to my secretary, Mrs. Joan LeBel, for her role in dealing with the many rearrangements and revisions of the text I now present.

Prologue

The reasons for the extraordinary seductiveness of the notions which Keynes' disciples gradually systematized into "Keynesianism" and later rehabilitated into "neo-Keynesianism," concern the psychology of opinion—the genesis of intellectual fashions, creeds, and ideologies. The broad topic is one which began to interest me as a young man, very soon after I had entered academic life in 1928. In 1936 I recorded the results of my early endeavors to clarify my thoughts on the subject in my *Economists and the Public.*[1] While that book was in the press, *The General Theory of Employment, Interest, and Money,* was published.[2] I read quickly through such parts of Keynes' book as I could then follow, and I managed to insert an additional, last-minute passage in my own book, which recorded my rapidly acquired impressions. Already in 1936, although I had been bewildered by it, I had seen clearly and predicted that *The General Theory* would have a quite unparalleled influence *by reason of what I judged to be its demerits as a contribution to thought.* Its policy implications appeared to have been chosen for their political attractiveness. Its misrepresentations of the "classical" economists seemed certain to have a powerful appeal (because the teachings of the "dismal science" had at all times been accepted reluctantly by many who were unable to refute them). Moreover, the obscurities of the *General Theory* (which I have *since* come to recognize as due, in every case, to defective thinking), expressed as they were in the *language* of

[1] W. H. Hutt, *Economists and the Public: A Study in Competition and Opinion* (London: Jonathan Cape, 1936), pp. 245–47.

[2] John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, and Company, 1936).

science, appeared likely to enhance its reputation (for all too many people in all spheres—the academic sphere not excluded—are apt to accept obscurity for profundity).

During the decade preceding the publication of my *Keynesianism,* Keynesian doctrine seemed to command more confident and uncritical respect than ever in *governmental* circles, despite a clear retreat in *academic* circles. Depression or recession could be met, it was believed, either by encouraging consumption or by taking steps to ensure a more rapid rate of spending. It was the stereotypes which had been formed in this background that I endeavored, in 1963, to challenge. Such ideas were bringing about, I believed, grievous harm in the Western world; and I felt, rather naively perhaps, that my contribution could do something at least to stem the tide.

My main thesis was that the intellectual developments for which Keynes' *General Theory* appeared to be responsible had caused a setback to scientific thinking about human economic relations at a crucial epoch. In enunciating this charge, I referred (in the final chapter) to a growing but already clear tendency to abandon crucial theoretical tenets in Keynes' system. Nevertheless, I emphasized that concepts, analytical apparatus, and policy implications which had been erected on apparently then discarded tenets, were surviving in the form of a neo-Keynesian orthodoxy. Meanwhile, the retreat has continued, although, apart from Axel Leijonhufvud's impressive and scholarly critique of ten years ago,[3] I am aware of no further direct attack on the Keynesian system. But many economists do show that they have abandoned it. T. W. Hutchison's *Keynes Versus the Keynesians*[4] does not directly criticize *The General Theory.* It deals, very convincingly I think, with the wide discrepancies between Keynes' own post-*General Theory* arguments and the teachings of his most eminent British disciples. Although I do not wholly agree with Hutchison's opinions on Keynes' ideas, I am deeply grateful for his important contribution. Otherwise, the most important contributions on the topic since Leijonhufvud's fine book have been by Don Patinkin,[5] John R. Hicks,[6] Donald E. Moggridge, and Hyman P.

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[3] Axel Leijonhufvud, *On Keynesian Economics and the Economics of Keynes* (New York: Oxford University Press, 1968).

[4] T. W. Hutchison, *Keynes Versus the Keynesians* (London: Institute of Economic Affairs, 1977).

[5] Don Patinkin, *Keynes' Monetary Thought: A Study of Its Development* (Durham, N.C.: Duke University Press, 1976).

[6] John R. Hicks, *The Crisis in Keynesian Economics* (New York: Basic Books, 1974).

Minsky. In spite of their many merits, they have not caused me to abandon any of the positions I took in 1963 (although I was quite prepared to). Indeed, my own subsequent thinking has been influenced less by new theoretical contributions and the new material now available concerning Keynes' speculations during the pre–*General Theory* period and subsequent to it, than by the abject failure everywhere of Keynesian policy. But nearly all my own publications over the last fifteen years have recorded developments in my understanding of the issues. I shall, on occasion, refer to these contributions. They all treat among other things the causes which created originally, and have since been perpetuating, the hold that Keynesianism and neo-Keynesianism have acquired in the universities.[7]

I can now claim, I think, that my insights were superior to those of economists who initially rejected my thesis. It is relevant to quote the former prime minister of Britain, James Callaghan, who openly confessed in 1977:

> We used to think that you could spend your way out of recession. . . . I tell you, in all candor, that that option no longer exists, and that insofar as it ever did exist, it only worked by injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the past twenty years.

And that, roughly, *is* the case I put forward in 1963. Yet, British inflation has now continued apace. I argued then, and do so today with even greater confidence, that the whole problem concerns pricing, not demand. At the policy level, instead of trying to "stimulate" the economy through spending, government responsibility should be confined, ideally, to attempts at improving the working of the pricing system. And governments should be trying also to remove obstacles imposed by private coercion—boycotts, strike threats, physical intimidation, and the like—on the guidance of men and assets to where their prospective yields are greatest, while themselves refraining from imposing such obstacles for private or sectional advantage.

In the preface to my *Keynesianism,* I explained that my aim was that of devising a method of exposition which was "so simple that errors of premises or logic (could) be pinpointed." Well, no critic has yet ventured to pinpoint any error, either in my premises or my reasoning. A review in the *Economic Journal* of June 1964 referred

[7] The political causes are discussed in my *Politically Impossible . . . ?* (London: Institute of Economic Affairs, 1971).

to my "invincible *ignorance" of,* not my alleged *misunderstanding* of, Keynes' views on any specific topic. I am convinced that the reviewer in this case had not read but merely scanned my book. He may well have been shocked and angered by some of my conclusions, and especially at my rejection of "the notion that insufficient spending (as distinct from defective pricing) creates unemployment."

I was eager for reasoned objections to my rigorously stated case. In 1963 I anticipated harsh criticism, even devastating, ruthless refutation. Reasoned objections never came. Nor did a subsequent article of mine,[8] which further documented a retreat by major proponents of the Keynesian gospel, evoke any reply.[9] I was not, however, expecting mere vituperation and slander in the official journal of the Royal Economic Society. I took the probably unprecedented step of requesting an editorial apology for *the tone* of the review published. My request was refused.

While the review referred to my "invincible ignorance," it included no comprehensible challenges. However wrong my argument may have been on some crucial issues, it was the outcome of more than a quarter century of patient thought and study. It deserved courteous treatment. In the *Economic Journal,* it received wholly unexplicit disparagement. But if *I* was "invincibly ignorant" about what Keynes had said, so were others. Indeed, in the hope of avoiding such charges, I quoted from Keynes' disciples, although seldom from his "circus,"[10] on several occasions to illustrate what I could not accept. For instance, I quoted Kenneth Boulding as saying (1) that Keynes' great contribution showed that "under certain circumstances there may be a deficiency of purchasing power or of consuming power, in the sense that the public is not willing to buy at existing prices the total volume of goods that are offered for sale"; and (2) that the Keynesian Revolution . . . consists in the explicit recognition of . . .

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[8] "Keynesian Revisions," *South African Journal of Economics,* June 1965, pp. 101–13.

[9] I do not, of course, accept mere disparagement and misrepresentation (of which there has been plenty) as reply or criticism. Subsequent to the publication of my 1963 book, J. H. Botha published a courteous criticism of an earlier contribution of mine, "The Significance of Price Flexibility," which appeared in Henry Hazlitt, ed., *The Critics of Keynesian Economics* (Princeton, N.J.: D. Van Nostrand Company, 1960), pp. 386–403. This created the first opportunity I had of hearing and answering explicit Keynesian objections to my argument. See J. H. Botha, "The Critics of Keynesian Economics," *South African Journal of Economics,* June 1963, pp. 81–101, and W. H. Hutt, "The Critics of Classical Economics," *South African Journal of Economics,* June 1964, pp. 81–94.

[10] Keynes' "circus" was the nickname which became attached to a group of young advisers, mainly in Cambridge.

the simple truth that "every *transfer* of money is at the same time income to the person who receives it and expenditure to the person who gives it. . . ." No Keynesian, as far as I know, has objected to these assertions in Boulding's deservedly influential book; and these words do state succinctly two main theses of *The General Theory* which, I argue now, as I did in 1963, were wholly untenable.

For the same reasons, at an important stage of my 1963 argument I used the text of Michael Polyani's successful popularization *to illustrate* a fundamental defect in popular Keynesian thinking. Polyani was famous as a physicist, physical chemist, and social philosopher; and he was erudite in many fields. But I do not regard him as I would a professional economist. It is a tribute to his genius that he perceived the enormous importance of *The General Theory*. I used his exposition solely because, in my opinion, he explained more clearly than other popularizers (for example, Dudley Dillard, Alvin H. Hansen, Kenneth Boulding, and Abba P. Lerner) the crucial nature of Keynes' originalities; and, approving them, he presented them with remarkable elegance. I regard Polyani's book as the most brilliant, simple, self-consistent, and persuasive exposition of unperceived, subtle error that I have ever read.

The belittlement of my contentions in the *Economic Journal* should, I suggest, be judged in relation to "the refusal of debate"—a striking phenomenon of the present age. My book was reviewed in hardly any of the English-language economic journals. I have been informed that several well-known economists refused to review it. Why?

In September 1975, I received a splendid letter from D. A. Wilhelmson, who was then a complete stranger, commenting on the "refusal of debate" on the subject I am treating. I quote (with permission) from it.

> I would be very much interested in your thoughts on another aspect of the dispute, which I have never seen discussed.
>
> Your point is certainly well taken that economists are too easily intimidated by the prevailing mythology, and should at least state the facts of life plainly, along with the discouragingly constrained alternatives they feel led to propose. But I can't escape the conclusion that the primary obstacle to the acceptance and implementation of classical liberal principles is a related, but more fundamental, defect in the liberals' whole approach to controversy. It seems to me that they have not even tried to devise a strategy which offers any realistic hope of changing the opinions of their adversaries.
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> A considerable volume of sound economic analysis and criticism

> is published, but its impact is pretty much limited to those who already share the views expressed. Few people read anything contrary to their own convictions, and when they do, can easily dismiss all disquieting facts and arguments with unchallenged rationalizations. It is simply asking too much of human nature and intellectual integrity to expect a person voluntarily to accept the logical implications of adverse evidence and argument. And with a half-dozen or so contradictory schools of thought in economics, and countless variations and shadings of these philosophies, even the most intelligent, well-educated and conscientious citizen or public servant will find it a staggering task to set aside his own biases and research the subject with an open mind, searching out rebuttals to each thesis, and evaluating the competing theories, evidence and arguments thoroughly enough to recognize the truth with any confidence. A radically different approach is needed; some kind of mechanism in our society for threshing out these disputes in a systematic fashion which will make it difficult for economists, politicians and the electorate to preserve their misconceptions.
>
> An intensive and extended debate type of format seems to be the only possible way of forcing partisans to examine their own convictions, and to face up to their delusions. The trouble with present-day debate is that it is never pursued far enough to change opinions appreciably. The confrontation is so superficial that participants and spectators alike are left perfectly free to indulge their original prejudices.
>
> It seems to me that the very survival of freedom, to say nothing of its extension, will depend on the initiation and dissemination of exhaustive and definitive debate on economic issues. Debate in format which is specifically designed to force a direct confrontation between the opposing viewpoints, to thresh out every argument that is raised, and to pursue each one doggedly to the point where a concession by one side became inescapable. This approach probably would not lend itself well to oral contests or one-shot publications, but would require longer-term projects, involving a continuing exchange of carefully prepared arguments between teams of qualified authorities, headed or sanctioned, as far as possible, by prominent and acknowledged spokesmen.

Accordingly, I am taking the unusual step of asking whether my readers might assist in the precipitation of debate. My book teems with assertions which, if the consensus of Keynesian teaching of economics has any justification, ought to be refuted in the most explicit manner. In this book I have tried even harder to facilitate challenge. This is because I must frankly admit to a failure in communication in my 1963 *Keynesianism*. My argument failed to get across, on some points, even to my friends.

For instance, the late David McCord Wright's review[11] was in part favorable, but in part unfairly caustic, I thought. He praised my "valuable chapters on the nature of money and the functioning of the pricing system," and he wrote that, in taking as my basic target Harrod's summarization of the kernel of Keynes' argument, I had "no difficulty in demolishing this thesis" (Harrod had stated the thesis as follows, that "if a certain level of interest is established, which is inconsistent with full activity, *no flexibility or immobility in other parts of the system will get the system to move to full activity*"). Yet Wright claimed that his own *The Keynesian System* does the job much better and shows why. On some issues, I readily agree. But his book appeared while mine was in the press; and I had little opportunity of revising my text. I could do no more than mention in the preface that my task would have been facilitated had his book appeared earlier.

Where I failed most seriously, however, was in leaving my critic with the impression that I am "a hard-shell, sound money, and price-flexibility man *who would never increase M or certainly not MV*" (my italics). Wright did perceive that some of my "qualifications" conflicted with any such judgment. But a large part of what I was trying to communicate was *exactly the opposite*—to show that, whereas in Keynes' equations *M* was a constant, I regarded it as a policy variable. I hope that the changes that I have made to parallel passages in the present text demonstrate this beyond all possible doubt.[12]

Wright's gravest criticism, however, was that I "frequently" misstated Keynes. Shortly after his review appeared, I happened to ride with him by train from Stresa to Rome, and I asked him to send me a list of any misquotations he had noticed. He seemed then not to remember having written the phrase challenged, but said that what he actually meant was that I had, at times, misrepresented Keynes' position. *I have carefully rechecked all my quotations, which still seem to be literally correct and not out of context.* But if any reader does find a mistake, I sincerely hope that he will inform me.

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[11] *American Economic Review*, June 1964, pp. 431–32. See appendix to chap. 18.

[12] I did and still do place stress on the great advantage to any free community of a measuring rod of money which has some defined value whereas, almost to the last, Keynes regarded any such money unit as a restraint on a nation's monetary autonomy.

My critic was in fact smouldering under the same feeling of injustice at the hands of the Keynesians that I myself had experienced. My main criticism of *his* fine work is that when David (that is, David McCord Wright) faces Goliath he ought, above all, not to be timid. I hinted that he and other named critics tended to be unduly lenient when it came to refuting so powerful an adversary. Keynes had great power. He knew it; and he himself had been ruthless. (See pp. 27, 34.)

A very recent criticism of some of my ideas in general has appeared in *The Economic Record,* June 1977, by C. S. Soper, who argues that Keynes really accepted Say's law. A much more dogmatic Keynesian than Soper, Paul M. Sweezy, once declared that all the arguments of *The General Theory* "fall to the ground if the validity of Say's law is assumed." Is that not evidence of grave confusion somewhere? *The Economic Record* has refused to publish my reply, on the grounds that it cannot accept replies to reviews. The economic journals of the world abound with replies to reviews and, in the light of the importance of the topic, I cannot help feeling that we have here a clear instance of the *"refusal of debate"* to which D. A. Wilhelmson refers. I do not of course blame Soper.

I intended the term "Keynesianism" in the title of that book to refer to the doctrines which emerged, somewhat changed, out of the teachings of *The General Theory.* I recognized that there had been, before 1963, an undeniable retreat on the part of Keynesians as a whole; and I emphasized evidences of a retreat by Keynes himself during the decade between the publication of his *magnum opus* and his death. I had felt that where it had been open to his closest disciples (especially members of "the circus"), to expose errors in their master's work and no such exposure had been ventured, I was justified in assuming that their broad acceptance of *The General Theory* teachings could be safely assumed. Some important articles by Keynes appeared in the London *Times* in December 1937. These articles suggest, superficially at least, a quite remarkable change of viewpoint. I quoted from one in *Keynesianism,* but became aware of their true importance only when T. W. Hutchison's *Keynes Versus the Keynesians* was published. Moreover, in the light of the recent publication of Keynes' papers, the subsequent comments they have inspired, and especially Hutchison's and Moggridge's scholarly contributions, I have thought it necessary here to try to interpret some of the different forms which post-Keynesian Keynesianism has now taken. In 1968, however, the very title of Leijonhufvud's *Keynesian Economics and the Economics of Keynes* had brought home to me the fact that the words in my title, *Retrospect and Prospect,* did not sufficiently differentiate between Keynes and his successors.

Hutchison now argues cogently, however (in the words of the editor's preface of his book), that "Keynes would not have supported" the policy views Keynesians have subsequently proclaimed on his authority. "Keynes' name and repute have been used to support policies not justified by his writings."[13] I do not at the moment accept that this is true of his *General Theory;* though it is true, as Hutchison himself puts it, that there are "wide divergencies between the policy objectives which Keynes formulated *in the last decades of his life* and those propagated in his name in the decades after his death"[14] (my italics).

In the opening paragraph of Hicks' elegant work, *The Crisis in Keynesian Economics,*[15] Hicks expresses his belief, justified in my opinion, that it was after Keynes' death that he had "his greatest impact upon the world." But it was not his later writings which had an impact on policy. It was his *General Theory*. And it was to be expected. The impact has been disastrous. It was the conceptual confusions of that book which, I shall argue, befuddled not only economists but lay opinion makers and decision makers. The truth is that Keynes' retreat, which began immediately after publication of *The General Theory*, and continued until his death, had lacked adequate explicitness to undo the harm. His disciples were hardly likely, for example, to explain to the world with sufficient candor that his several respectful references to "the classical medicine" in 1946 actually implied an almost incredible retraction.[16] Viner tells us that the suppression of his last, posthumous article, which appeared to emphasize his change of attitude, was seriously considered.[17] It was the fanatical fervor with which his most eminent British disciples had become attached to Keynes' 1936 thinking that, in my own judgment, has been largely to blame for bringing Britain to her present plight.

My own interpretation of Keynes' recommendations on policy matters subsequent to *The General Theory* differs, however, from that of Hutchison. Certainly I accept the latter's view that Keynes' later pronouncements clashed with "the conventional unwisdom of

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[13] Hutchison, *Keynes Versus the Keynesians,* p. x.

[14] Ibid., p. 4.

[15] Hicks, op. cit.

[16] "The classical medicine" was how he had surprisingly described the teachings he had originally, and only a decade earlier, disparaged.

[17] Hutchison, op. cit., p. 23 n.

the 1950s and 1960s" (Hutchison's words).[18] In my judgment, however, from 1936 to 1945, Keynes increasingly ignored the theories he had developed in his famed work. While occasionally quoting passages from his own gospel (in order to soften, I think, the blow to his disciples), he relied on common sense and a fine grasp of the facts. For, as I suggest in Chapter 1, Keynes was the complete pragmatist. His recommendations were, as I shall shortly suggest, characterized by impatience for influence[19] and by the cynical sophism, "In the long run we are all dead." He may well have been prepared to risk the possibility of a rapid governmental drift toward the left, which the centralization of monetary control recommended in *The General Theory* would obviously have facilitated. But he seems to have developed an inkling of the relative but consequential economic chaos and decay which were, following his death, actually to be experienced in Britain. If so, that would explain his apparent defection during his final years.

Nevertheless, if we can rightly accept as a guide Keynes' policy dicta from 1937 onward, Hutchison can rightly claim, I feel, that Keynes would probably, on many issues, have rejected the post–World War II advice of many of those who claimed to be his disciples.

On the other hand, if *The General Theory* is regarded as the Keynesians' Bible, his respectful references, in 1946, to "classical medicine" and to the wisdom of Adam Smith, and his praise of "the invisible hand," ought to have caused his faithful apostles to shout "heresy"! Import controls and exchange controls are, he then said, "expedients" which would be less necessary if the "classical medicine" were allowed to work. Had he lived, he might *perhaps* have gone even farther. "I was the only non-Keynesian there," he is said to have remarked after meeting with Washington economists in 1944. But, remarks Robert Skidelsky, although if Keynes had lived, "he would have remained more flexible than his disciples. . . . There was no more chance of him becoming 'pre-Keynesian' than there was of Copernicus once more becoming a flat-earther."[20] I am *inclined* to agree, but I sometimes wonder.

What *is* beyond question is that, although Keynes favored enlarg-

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18 Ibid., p. 19.

19 Donald E. Moggridge refers to Keynes' "almost desperate desire to influence policy." *John Maynard Keynes* (New York: Penguin Books, 1976), p. 31.

20 Robert Skidelsky, *Spectator,* August 7, 1976, p. 8.

ing the sphere of government, he would certainly never have approved of using inflation *deliberately* to wreck the institutions of a society in which a measure of economic freedom survived; and some of the neo-Keynesians made no bones about such an aim. I agree further when Hutchison charges: "Although pseudo-Keynesian economists did not, of course, *want* inflation, some of them—*quite unlike Keynes himself*—wanted very much indeed its usual fruits and consequences in the form of wage- and price-controls, regulation of profits, widespread subsidization, import controls, etc., for which inflation provides a pretext." The *older* Keynes certainly seemed to be warning against such expedients.

In January 1937, however, Keynes was actually advocating a policy which *superficially* resembled the Austrian advocacy of preventing slumps by curbing inflationary booms. This was in remarkable contrast to the then current general interpretations of his philosophy (or at least popular interpretations of it). *With unemployment of 12½ percent,* Keynes was arguing that any "general stimulus" would be wrong, and that new public works projects should be abandoned. Yet the British economy *was* apparently booming. On this occasion he was seemingly regarding booms more as "overactivity" or (although he did not use this term) "overprosperity."[21] In spite of exceptionally high unemployment, attempts to increase "aggregate demand" should, he thought, be abated.

But it was not overactivity, in the sense that the product of a large real income would eventually create an inevitable glut and subsequent slowdown. It was a situation which, for the maintenance of a politically expedient value for the money unit; or for the honoring of a convertibility obligation; or for the preservation of a money unit value at parity with one or more foreign currencies, required monetary contraction. *Ceteris paribus,* greater "activity"—greater use of men and assets—always validates credit expansion (in the light of a nondeflationary, noninflationary ideal). Keynes had, it seems, grown so used to unanticipated inflation being accompanied by the release of capacity, and the greater activity so secured that, at times, he (and many of his disciples) treated "inflation" as the same thing as "overactivity." Expressing the situation in terms of the Fisher identity of exchange, inflation occurs when MV increases in relation to T. But "overactivity," if it has any meaning at all, causes T to rise

21 I examine this notion and that of "overfull employment" on pp. 423–25.