

COMMUNICATIONS

ON INTERPRETING KEYNES: REPLY TO LEIJONHUFVUD

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Professor Leijonhufvud's writings have taught me much over the years, which helps explain why we now find ourselves largely in agreement. True, we still need to discuss some issues. In what macroeconomic ways were the circumstances of coin shortages and of the Irish bank strike similar or different, and what implications follow? Does Austrian business-cycle theory really perceive overinvestment (as opposed to malinvestment) in the boom? How well warranted is emphasis on real cycles? (I infer that Leijonhufvud does not intend to deemphasize money as much as the term "real" might suggest.) In a world plausibly called "monetarist" (even if different from our actual world), would people indeed promptly know, after a disturbance, the new prices necessary for equilibrium?

Here, however, I shall consider only Leijonhufvud's (1986) defense of his and Robert Clower's interpretation of "what Keynes really meant in the *General Theory*"—a rather vague (and, as he says, belated) defense against questions raised by Herschel Grossman (1972) and me (1973). Subsequently discovered material, Leijonhufvud says, "leaves absolutely no doubt whatsoever" that the Clower-Leijonhufvud interpretation of Keynes is correct; "we now do know precisely what he meant." (Here Leijonhufvud mentions Clower's interpretation of the consumption function in particular. Is he now narrowing the scope of the challenged interpretation?)

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Leijonhufvud's style of argument might well be named "proof by emphatic reassertion." As evidence of what we now know "precisely" and with "absolutely no doubt whatsoever," he offers nothing more than a sweeping reference to "outlines and drafts of introductory chapters (pp. 63–102) [62–102, actually] that Keynes eventually discarded in favor of his brief and cryptic Chapter 2" of the *General Theory*. This material appeared only in 1979 in volume 29 of Keynes's *Collected Writings*.

In an article of 1983 (p. 198, footnote), Leijonhufvud did say a bit more about this material (found in the "Tilton laundry hamper"). Keynes, he notes, contrasts a Co-operative Economy, in which "labor is bartered for goods, so that the supply of labor is always an effective demand for goods," with an Entrepreneur Economy, in which exchanges take place only through the intermediary of money, making effecting demand failures and involuntary unemployment possible. "That," Leijonhufvud thinks, "should settle the matter."

What else do we find in the cited pages of volume 29? Keynes worries about the possibility, even likelihood, that effective demand exercised out of factor incomes will not suffice to buy, at cost-covering prices, all the output produced by the income-earning factors. Following Marx, he notes that business firms are not engaged in exchanging goods and services for money in order to obtain other goods and services. Rather, they are parting with money for goods and services in order to end up with more money than they started with. Keynes makes another good point (page 98): "... an individual producer is not interested in the smallest degree in the level of real wages. He does not, in his business capacity, even enquire what it is. He is solely concerned with the prospective selling price of his own product relatively to his variable costs."

Keynes makes various stabs at describing arrangements that *would* ensure adequate demand. The simplest would be to pay factors in shares of the actual output produced. Another possibility is paying factor incomes not in money but in dated counters that became worthless if not spent on current output of finished goods by the date stamped on them.

Our existing system is prone to deficient demand and unemployment, Keynes says. But the opposite bias, proneness to excessive demand and overemployment, is conceivable "if the means of remuneration would 'keep' less readily than the output." (P. 87. This remark seems to allude to the supposed stimulatory effects of money undergoing chronic inflation or to a tax on holdings such as Silvio Gesell proposed.)

In these discarded draft pages, as in so much of the *General Theory* itself, Keynes worries about a chronic, systemic tendency toward deficiency of demand. He does achieve glimpses, sometimes more and sometimes less cloudy, of the essentially monetary nature of the supposed difficulty. (Pages 85–86 contain remarks reminiscent of what did get published in chapter 17 of the GT.) In a disorganized way, he makes repeated stabs at trying to say what he means—or at trying to figure out for himself what he means. (I am not criticizing Keynes. Leijonhufvud has referred us to rough draft not intended for publication.) What Keynes does say here is not necessarily inconsistent with what he explicitly and repeatedly says in the GT about deficiency of demand being rooted in *real* factors. Parts of these draft pages might alternatively be interpreted as consistent with a monetary-disequilibrium theory of miscoordination and of piecemeal, long-drawn-out groping toward a new state of coordination after a macro disturbance.

But Keynes did not articulate any such theory; and if he had it “at the back of his mind,” he had it only in a fuzzy, rudimentary version. Certainly he did not come close to the theory of miscoordination that was stated clearly by many writers in the monetary-disequilibrium tradition. It remains true, then, that the Keynesian Revolution was a *diversion* from the path of progress in money/macro theory.

Even if—which I dispute—even if the laundry-hamper drafts did clearly support Clower’s and Leijonhufvud’s interpretation of Keynesianism, the fact would still remain that those authors had, when writing their exegeses of the GT, been “reading not so much between the lines as off the edge of the page” (Coddington [1976] 1983, p. 227). (There is such a thing as being right on a scientific or scholarly issue by mere accident.) Furthermore, what significance attaches to what Keynes said or supposedly said or supposedly meant in rough drafts that he *discarded*? The fact that he wrote certain ideas down, considered them, and then *discarded* them would suggest that they were *not* what he meant.

No one should blame Keynes for error. Excessive fear of error blocks ever accomplishing anything. But to serve the integrity of the history of economic thought and also the very substance of money/macro theory, is it not time at last to give up the delusion that Keynes really had this theory right all along?

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