REVIEW ESSAY

Another “Useful Fiction”?[1]

A review essay on Backhouse & Bateman, *The Cambridge Companion to Keynes*[2]

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Abstract

In the *Companion,* various authors address issues of great importance concerning the interpretation of Keynes’s economics. From a theoretical perspective, IS-LM and sticky-wage interpretations are rejected. From a practical perspective, the authors argue that the profession has neglected Keynes’s monetary policies. So far so good. In this article, however, I am concerned with how the *Companion* appears to raise these issues merely in order to then set them aside, as unimportant, or as resolved by today’s policy consensus (as was). Through a

1 The title mimics a Samuelson observation, cited on p. 53 of the book under review. His “useful fiction” was that Keynes’s explanation of unemployment equilibrium relied on the assumption of rigid wages (Worswick and Trevithick 1983, 216); Howitt (1986) notes that it was “useful” because IS-LM was a “fruitful” apparatus only if fixed wages were imposed.

2 Roger E. Backhouse and Bradley W. Bateman (eds.), *The Cambridge Companion to Keynes*. Cambridge: Cambridge Univ. Press, 2006, pp. xiv + 327. Subsequent references to this work shall be indicated by page number only, in parentheses or square brackets. All references to Keynes's work are to his *Collected Writings* (Keynes 1973-1982) and shall be indicated by *CW* and the volume number.

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detailed examination, I aim to show that the manner of argument in the book does not conform to reasonable standards of scholarship. The issues raised are valid and potentially critical to society, but debate is not well served by the *Companion*.

Introduction

The *Cambridge Companion to Keynes* is a fascinating and disturbing contribution to the ongoing—but rarely acknowledged—controversy concerning the meaning of Keynes's economics. As is well known, after Keynes's death his work was interpreted for the textbook and lecture theatre using variants of the IS-LM device, generally associated with Hicks (1937), and policy conclusions were confined to fiscal policy. The dominance of this approach is unquestionable, yet there have always been a number of individual scholars—initially those most closely associated with Keynes when he was alive—who challenged its validity as an interpretation of Keynes's work. Richard Kahn and Joan Robinson began the tradition that continues today as post-Keynesian economics, a tradition to which the present author considers that he belongs. By and large this tradition has been ignored by the majority of the economics profession. The *Companion* is notable and merits attention because its (fairly) mainstream authors are recognizing, tackling, and even conceding some of the hitherto most forbidden arguments about Keynes.

While the work offers a broad approach by examining Keynes's attitude to probability, philosophy, ethics, art, and even postmodernism, there are a number of common themes that underlie much of the discussion and that, for me, constitute the basic or core argument of the book. It should, however, be emphasized that the editors, Roger Backhouse and Bradley Bateman, make no attempt to draw out any central themes or contentious arguments. In their introduction to the work, they state: "it takes up a number of themes from this literature, taking stock in certain areas, and it introduces some new ones" (17), but they do not tell the reader what these themes are. Ultimately, the introduction concludes feebly:

> Without pretending to offer a definitive biographical treatment, even to have the last word on which Keynes was the real Keynes, our point is that it is possible to see, in the complexity of his life, the forces that shaped a man and his moral commitments, which in turn motivated his economics. [17]

Yet the construction of a single coherent argument may be the purpose of the book. In many chapters, a number of controversial issues are tackled that, at a very fundamental level, concern the rightness of existing interpretations of Keynes. Despite the acknowledged contentious nature of the material, chapter authors manage to come up with a non-standard interpretation of Keynes that is remarkably consistent from author to author.

The central theoretical theme is that the conventional presentation of Keynes, centered on IS-LM, is incorrect; instead, the correct interpretation of Keynes's theory should be a discursive analysis based on "uncertainty." From a policy perspective, the authors argue that Keynes's approach to fiscal policy was more subtle than the simplistic accounts found in the literature, and, moreover, that Keynes was more concerned with monetary than with fiscal policy.

A deeper and more subtle undercurrent in the *Companion* is the suggestion that this was no accident: the economics profession interpreted Keynes's policy and theoretical thinking in its own terms, in a manner that was not true to Keynes. "Keynesian policy" and what Keynes referred to as a "neo-classical" variant of macroeconomic theory already commanded support before the *General Theory*. The *Companion* labels this approach "proto-Keynesian" (284), a useful term that I shall adopt. Ultimately IS-LM and also econometric theory were the results of the economics profession's compromise towards Keynes's economics on the one hand and the inadequacies of the classical approach that had been so starkly revealed by the Great Depression on the other.

The reader would be right to ask—how on earth can this have been allowed to happen? How can it have been left un-remarked for so long? Are there matters of substance in Keynes that have been lost?

Yet having unearthed this travesty, the purpose of the *Companion* appears to be to offer a comfortable resolution to such questions. At first sight, the *Companion* is terribly challenging, but on closer inspection the questions are answered in a manner that implies that the economics profession has made *seemingly understandable* and *ultimately unimportant* mis-judgments. IS-LM reflected an emerging, and not objectionable, preference for mathematical reasoning and, almost inadvertently, ended up being taken in directions not compatible with Keynes. Keynesian fiscal policies were too extreme, but a correct reading of Keynes leads to policies not greatly dissimilar from the "golden" and "sustainable" investment rules of today. Keynes's main pre-occupation may have been monetary policy, the nature and

details of which have escaped almost the entire profession, but fortunately it requires only a few sentences to demonstrate that these policies were in fact wrong.

This is the most disturbing feature of the book: it is almost as if controversies are raised so that, having been acknowledged, they can then be safely dismissed. My own research has led to similar conclusions about mainstream interpretations of Keynes's theory and policy (Tily 2007). In particular, I have suggested that IS-LM and its associated fiscal policy conclusions may have gained prominence because of an unwillingness to accept Keynes's main policy conclusions concerning *monetary policy*. I have argued that these conclusions were very far reaching. In most general terms, they consisted of a shift of control of the financial system from private to public authority, and a change from the gold standard to a system which permitted money to be managed at permanently low rates of interest. So, in my view, the controversy *is* real and is of the greatest importance to both the nature of economics as a discipline as well as to prosperity and social justice. My own work sadly came out too late for the authors to have seen it,[4] but their attitude to other post-Keynesian economists is hardly admirable. Even though their central theoretical argument is based on a (narrow and selective) interpretation of post-Keynesian economics, chapter authors scarcely acknowledge the existence of this work.

The purpose of this paper is to show how the *Companion* is not a just account of the injustice that it purports to be tackling. It is organised by "issue," with all chapter authors' views on each issue drawn together, beginning, in Section 2, with their interpretation of Keynes's theory and their attitude to IS-LM. Section 3 brings together their reinterpretations of Keynes's fiscal policy; Section 4, their examinations of how Keynes's theory overlapped with other theoretical and policy initiatives; Section 5, their interpretations of Keynes's monetary policies; and Section 6 considers Bateman's attempted resolution of matters. My aim is more to illustrate the nature and manner of argument in the *Companion* rather than to resolve the detailed theoretical issues that may not be familiar to all readers of *COPE,* though inevitably the discussion is drawn into some technical issues. My alternative resolution of the controversies is offered only in brief in the paper's Conclusion.

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[4] Professor Peden and I did, however, share a platform at the 2004 conference of the European Society for the History of Economic Thought.

New Accounts of Keynes's Theory and the Rejection of IS-LM

Overview

Several chapter authors offer accounts of Keynes's theory and comment on the adequacy/validity of previous interpretations, in particular of IS-LM and its successors. There is a lot of common ground underlying the theoretical interpretations. The accounts are discursive rather than algebraic or diagrammatic, and all authors emphasize the importance of "uncertainty." A key point is the "saving–investment nexus" and a claimed inability of the rate of interest to coordinate these two macroeconomic aggregates.

Those authors who reject IS-LM do so not necessarily because it was an incorrect interpretation of Keynes's theory in its own right, but because its algebraic form permitted a series of developments that were not in the spirit of Keynes. The development of most concern is the sticky-wage interpretation, which is (rightly) regarded as a travesty of Keynes's economics. But the authors seem blissfully unaware that their own accounts boil down to a *sticky-interest* interpretation (a phrase coined by Paul Davidson). The various discursive techniques employed merely offer explanations for why the rate of interest does not clear the market for savings and investment. They do not move far from the original IS-LM story, apart from a vague introduction of uncertainty, and they do no more than scratch the surface of the *General Theory* itself. In Keynes saving and investment are two sides of the same coin: they cannot differ (see Chick—e.g. Chick 1997—or Tily 2007, Chap. 6). The rate of interest, set in the market for liquidity, defines a certain level of investment, given the extent of "animal spirits." Through the multiplier and the conditions of supply, the level of investment then determines the level of employment. For Keynes, the rate of interest was the key determinant of unemployment; no matter what previous interpretations may have claimed, saving does not come into the story at all.

Backhouse

Backhouse's opening chapter is more equivocal than later chapters and is based on a comparison of two accounts of Keynes's theory—in

effect, the mainstream and the post-Keynesian. He begins with a disclaimer:

> The aim of this essay is not to ask what the Keynesian revolution "really" was, for that would be to add but one more turn to a debate that has continued for seven decades, but to explore how and why economists' understanding of the Keynesian revolution has changed in the seventy years since the publication of the *General Theory*. [19]

He then offers a three-page history of orthodox interpretations of Keynes. The early interpretations (from IS-LM/Hicks (1937) to Hansen (1953)) are characterized as pre-occupied with how Keynes differed from the classics. Modigliani (1944) is explained as following a "revival of interest in general equilibrium theory" (23) (presumably fostered by Hicks's (1939) *Value and Capital*). Backhouse regards Patinkin (1948) as "an important step" (23), "with the introduction of the so-called real balance effect."[5] It was in this version that "unemployment became a disequilibrium phenomenon" (24). While "this interpretation … may seem a long way from Keynes," Backhouse finds that it "fits in well with the second of Keynes's statements about the relationship between his theory and that of the classicals" (24).

These accounts are set against a more "radical" and "fundamentalist" interpretation of Keynes based on his famous 1937 *Quarterly Journal of Economics* paper (*CW* XIV, 109–23), originally pursued by Hugh Townshend, George Shackle, and Joan Robinson (Richard Kahn is not mentioned). Backhouse's explanation of these interpretations is vague; all the reader is offered is that they emphasized "uncertainty," "logical time," and "breaking with equilibrium." Modern post-Keynesians are acknowledged merely as follows: "This view has since been developed by Paul Davidson (1972) and some other post-Keynesian economists (cf. King 2002)" (26).

Despite his disclaimer, Backhouse compares the two approaches. "There are certainly passages written by Keynes that point towards a fundamentalist interpretation" (26); he offers three single-sentence arguments (26–27):

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5 Backhouse notes that Patinkin's (1956, 1965) interpretation in *Money, Interest and Prices* "became the leading graduate textbook on macroeconomics in the 1960s and early 1970s" (24). He does not pass judgment on this important and terrible development.

1. "the *General Theory* contains a chapter, puzzling to most economists, on 'The essential properties of interest and money', which can easily be read as providing support for this view."
2. "It fits well with much of Keynes's earlier work, such as his *Treatise on Probability* (1921) and *The End of Laissez-Faire* (1926)."
3. "The *General Theory* could be construed as providing a theoretical justification for his earlier claim that 'many of the greatest evils of our time [including the unemployment of labour] are the fruits of risk, uncertainty and ignorance', and that it was necessary for the state to control money and credit, and to decide on the appropriate scale of saving and where those savings should be directed" (*CW* IX, 291–92).

But, "[o]n the other hand, the textual evidence against this interpretation is also very strong." Here we have another three-sentence argument:

1. "The IS-LM model is built from elements that are all found in the *General Theory*: evidence for this is found in the number of economists who, when faced with the *General Theory*, independently came up with essentially the same set of equations."
2. "When Hicks showed Keynes his article on IS-LM, Keynes responded that he had next to nothing to say by way of criticism."
3. "Keynes's clear statement that the classical theory comes into its own once full employment is achieved is clearly incompatible with a fundamentalist interpretation." [27]

Backhouse does not point the reader to any fuller sources for the discussion that he originally stated was so well worn. The above comparison is hardly substantial and comes to no conclusion. It also ignores uncertainty, which he finally gets to at the end of the chapter, when he appears to become more sympathetic to the "fundamentalist" cause. "Keynes emphasized the revolutionary nature of his theory, and when pushed to sum up what was revolutionary about it, he talked about his theory being relevant for a world in which there is true uncertainty" (35). Uncertainty provides a critical distinction: "it

is arguable that these aspects of his theory were taken up by only a few economists" and, while the orthodox "mathematical relationships" "could be interpreted using the verbal reasoning that Keynes offered, [they] did have not to be interpreted in that way" (35). Post-Keynesians may not be right, but their views are found justifiable: "Post-Keynesians were, therefore, able to claim that the Keynesian revolution had been aborted, or that there had been a counter-revolution" (35).

Laidler

Laidler's chapter offers the most detailed account of what was referred to above (p. 5) as the sticky-interest interpretation of the *General Theory*, featuring a role for uncertainty. However, the discussion is characterized by Laidler's preoccupation with seeing most of Keynes's economics as unoriginal, which follows his wider assessment of Keynes's theory as only one of a number of macroeconomic theories being developed in the 1930s.

Laidler sets out the classical theory of interest as background to the theory, with saving and investment decisions typically made by different agents and the rate of interest providing the "equilibrating price" (44). He then emphasizes the development, which he attributes to Wicksell, of the distinction between a "market rate" of interest for bank credit and the "natural rate" of the classical theory (45). While, for Wicksell, the system was self-correcting because of price adjustments, "Wicksell's successors" (unnamed) used the same theory to arrive at a theory of unemployment equilibrium.[6]

Laidler argues that Keynes's interpretation in the *Treatise* followed from Wicksell, but that Keynes was particularly concerned with cyclical fluctuations stemming from swings in investment driven by changes in investors' perceptions of the profitability of investment. Again he dwells on the role of uncertainty: "[e]ven in the *Treatise*, Keynes's discussions of the investors' perceptions stressed that they

[6] The Wicksell precedent is a familiar feature of the literature, yet in the *General Theory* Keynes is quite clear that he sees the origins of his work more in John Hobson and Albert Mummery (1889). Both pre-dated Wicksell; indeed it could be argued that Wicksell effectively provided a classical neutralization of their theories. Keynes (1971–1989, Vol. XIV, 202–03 n2) himself observed "I might … [adopt] Wicksell as my great-grandparent if I had known his works in more detail at an earlier stage in my own thought and also if I did not have the feeling that Wicksell was *trying* to be 'classical.'"

were influenced as much by psychology as by rational calculation, but he pushed this theme further in the *General Theory*" (46).[7]

Laidler then turns to the theory of interest. In line with the sticky-interest interpretation, he has liquidity preference as "closely related to his [Keynes's] scepticism about the capacity of financial markets to co-ordinate saving and investment in a world characterized by uncertainty" (47).[8] Laidler sees a two-stage process: first, an increase in liquidity preference withdraws resources from real activity. Agents hold money as "a protection against the uncertainties to which their participation in financial markets expose them" (47) and money can therefore be removed from "*industrial*" to "*financial*" circulation (the italics are Laidler's). The second, "crucial," stage has these movements distorting the market rate of interest so that it does not perform its traditional role of damping swings in investment arising from animal spirits.

Hence, the very presence of money in the economic system puts a positive floor under the rate of interest, so that when investors' "animal spirits" were depressed, it could not fall low enough to generate the volume of investment needed to absorb the economy's full-employment level of saving (48).

As usual, the multiplier comes to the rescue. With the rate of interest stuck at too high a level for full employment, the multiplier is found to provide the mechanism through which investment and saving are "coordinated" (50). For Laidler this is the "central theoretical revelation of the *General Theory*" (50). Lastly, the multiplier is the mechanism through which government expenditure policies are justified. Such spending can fill the gap between full-employment investment and that which "'animal spirits' alone would induce" (50).[9]

IS-LM is problematic for Laidler because it permitted the sticky-wage approach. He sees it as only partially encompassing the ideas of the *General Theory*, but becoming the "workhorse of the textbooks"

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7 Keynes is given little credit for the recognition or interpretation of uncertainty; Laidler claims that Keynes downplayed uncertainty prior to the *Treatise* and credits Pigou with a significant role. Yet uncertainty is not discernable in Pigou's main contributions, which are based on dense analysis of macroeconomic simultaneous equations.

8 Again Laidler has others anticipating Keynes—in this case, Marshall and Lavington.

9 Laidler credits Kahn and Jens Warming with the multiplier analysis (matters are not that straightforward; see, e.g., Kent (2007)), and notes there was "nothing new about recommending increased public expenditures in 1936" (50).

(52) because of a claimed preference in the academic economics profession for algebraic and geometric techniques and exposition. While the basic IS-LM model might be in line with Laidler's own interpretation of Keynes's practical conclusions, he argues that the model could also be used to draw classical conclusions. "But the reasons why the equations of the system took the forms needed to produce such results could not be developed within it, and other forms seemed just as admissible" (53). He cites Haberler (1937), Pigou (1943), and Patinkin (1948) as examples of these forms. These models eventually arrived at the classical conclusion that "Keynes's explanation of unemployment relied on the assumption of money wage stickiness" (53). Laidler has sharp words for those who perpetuate this state of affairs, singling out Michael Woodford (2003) in particular.

Leijonhufvud

Leijonhufvud's chapter is hard going, especially the manner in which he claims that saving and investment can differ. He introduces a notion of "effective demand failures": in Keynes's view, "not all planned or desired demands were always effective and … consequently, it was possible to have effective excess supplies in some parts of the economy that were *not* matched by effective excess demands elsewhere" (66). The "saving–investment nexus" is one of two such failures. Leijonhufvud focuses on the saving rather than the investment aspect, through the familiar argument that reduced consumption today does not necessarily lead to higher consumption in the future. Under such conditions saving might exceed investment at full employment, so "real income, output and employment will fall" (67). He invokes a "consumption multiplier," so that the "contraction will proceed until the decline in incomes reduces saving to equality with investment" (67). He obscures what simply amounts to the restoration of the saving–investment equilibrium: "[a]t this point, the flow supply of loanable funds (demand for securities) by the household sector no longer exceeds the demand for loanable funds (new issues) by the business sector. The excess demand for 'bonds' is zero. This removes the pressure on the out-of-line interest rate" (67).

He later moves to the rate of interest: "[t]he key **assumption** that Keynes made was to put the long-term rate of interest in the *ceteris paribus* pound: 'it may fluctuate for decades above a level which is chronically too high'. It cannot, therefore, be relied upon to

co-ordinate saving and investment" (70).[10, 11] First, he appears to suggest that the original Keynesian interpretations were not adequate:

> Since, in his theory, saving and investment determined income, he reasoned that they could not also determine the rate of interest. Instead, money supply and money demand (liquidity preference) must determine the interest rate. These propositions do not make sense if understood as verbal statements about a simultaneous equation model, whether a Walrasian general equilibrium one (e.g. Hicks, 1939: 160ff) or one of the so-called IS-LM models that became standard in 'Keynesian' textbooks (e.g. Hansen 1953: ch. 7). They do make sense as alternative hypotheses about the Marshallian 'law of motion' for the interest rate. [71]

Leijonhufvud then very briefly offers an alternative "adaptive dynamical system" within which to interpret Keynes's theory. In this context "Keynes's theory is not nonsensical." "But," he concludes immediately, "it is wrong" (71). His reasoning amounts to no more than stickiness being contradictory to market processes:

> The trouble with the liquidity preference hypothesis of interest determination is that it implies that the price mechanism can *never* work to co-ordinate saving and investment—that it is *impossible* that it would.
>
> This doctrine is not a good guide to the economy of our time. The capitalist economy is not perfectly self-regulating, but neither is it as totally incapable of 'automatism' as this theory suggests. And saving is not always and everywhere an anti-social act. [72]

So Leijonhufvud concedes that Keynes held a different interest-rate theory from IS-LM; he then offers a controversial—and hardly substantial—alternative interpretation; and two pages later he throws out his alternative.

Finally he addresses IS-LM:

> This IS-LM construction seemed to Keynes at first, and to countless others later, an adequate formal representation of his theory. But that it was not. As mentioned above, it was, for example, not possi-

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[10] Boldface added. It was not an assumption, but a conclusion, of Keynes's theory.

[11] The quotation from Keynes (1971–1989, Vol. VII, 204) is used out of context. In the *General Theory,* the sentence concludes: "… for full employment," not "… for coordinating saving and investment."

> ble to use IS-LM to distinguish clearly between the liquidity preference and loanable funds hypotheses. (This however was just as well for Keynes!) [73]

He returns to the now familiar terrain that

> IS-LM led inexorably to the fatuous conclusion that Keynes had explained unemployment by assuming money wages to be too high and too rigid. Thus the saving–investment problem disappeared from the later Keynesian economics, which became identified with little else than the insistence that wages were inflexible.
>
> Despite these critical deficiencies, IS-LM survived and prospered as the core not only of 'Keynesian' economics but also for some period of monetarism. [73][12]

With Laidler, from his dubious moral high ground, he laments: "Macroeconomic theory has come a long way. One wonders sometimes whether it has been in the right direction" (76).

Moggridge

Buried in Moggridge's chapter on "Keynes's Correspondence" is a rather important discussion of the validity of IS-LM as an interpretation of the *General Theory*. While most of the chapter authors dispute IS-LM, Moggridge is unwilling to permit Keynes such insights. The charge comes in a general discussion of Keynes's attitude to his intellectual property, which has as one theme "Keynes's efforts to manage his intellectual property after the publication of the *General Theory* ..." (146). Below I show a "track change" from the version published in his previous account of the matter in his biography of Keynes (Moggridge 1992).

> ~~Since Warren Young's *Interpreting Mr. Keynes: The IS-LM Enigma*, it has come into the literature that the~~ Some imply, with no supporting evidence, that Keynes's famous February 1937 *Quarterly Journal of Economics* paper, 'The general theory of employment', was written as ~~'was intended~~ 'a counterweight to the IS-LM approach as endorsed by [James] Meade, [Roy] Harrod and [John] Hicks'~~, as Peter Clarke (1988, 302) puts it, citing Young (1987, 9–10, 178).~~ There are, it seems to me, two problems with this line of ar-

[12] Hicks is redeemed for seeing flaws in his framework; but surely he is at fault for having permitted the propagation of his misinterpretation.

> gument. ~~One~~ The first is chronological. The *Quarterly Journal* paper appeared in February 1937. It was thus written before the end of 1936. Keynes did not 'catch up' on his reading and 'go through' Hicks's seminal paper, 'Mr. Keynes and the Classics', until late March 1937, although, of course, he may have ~~browsed in it~~ 'sniffed' it after Hicks sent it to him ~~the previous October~~ in October 1936 [*CW* XIV, 77, 79]. The second is the praise Keynes bestowed on the three papers, going so far with Harrod to suggest that 'I should like to read your paper instead' of his own in Stockholm in September 1936 [CW XIV, 84]. Given this praise, it would seem most unlikely, given his normal behaviour, that Keynes would, as Young suggests, turn and attack these views, especially without explicit attribution. [Moggridge 1992, 595][13]

It is of interest to examine Young's argument, rather than rely on Moggridge's interpretation:

> It is therefore highly probable that Keynes took the opportunity offered by the 1937 *QJE* paper to address not only his critics and the specific *QJE* reviews but the IS-LM approach as presented by Harrod, Hicks and Meade respectively.... [H]e is pointing out the main shortcoming of the IS-LM approach which does not, and cannot, take uncertainty into account .... [Young 1987, 19]

Young cites an interview with George Shackle as support for this position:

> When asked if the core of the *QJE* paper was the emphasis on uncertainty, Shackle replied 'I certainly think so'. Finally, when questioned as to whether he agreed with the contention that Keynes's basic and implicit response to IS-LM is the *QJE* article, he replied 'that is my view exactly'. [Young 1987, 19]

Young's point therefore concerns uncertainty, a key theme of the *Companion*, but not deemed worthy of mention by Moggridge. Moggridge also neglects to mention that it is not only Young who holds these views. Mention of Peter Clark has been removed from the *Companion* version of the argument. Not only does he omit the views of Shackle, he also does not mention that Skidelsky has put forward this argument:[14]

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13 Contrary to the "no supporting evidence" claim, evidence has been offered, but Moggridge simply provides no account of it.

14 Skidelsky does not attribute his argument to Young.

> Ostensibly his answer to criticisms by Taussig, Leontief, Viner and Robertson, [the *QJE* article] may also be seen as a warning to his mathematical interpreters—a warning completely ignored. It is significant that this restatement of the 'essence' of the *General Theory* is concerned particularly with the effects of uncertainty on investment demand and the rate of interest .... [Skidelsky 1992, 616]

> The relation of this argument to Hicks's 'little apparatus' might seem to be this. Keynes is saying that his own theory is what the classical theory would have had to be had it taken uncertainty seriously. Hicks's 'generalised' *General Theory* was, in other words, redundant, unless it was attached to 'Mr. Keynes's special theory' (Skidelsky 1992, 618).

In Tily (2007), I attempted to answer Moggridge's detailed points concerning the timing of, and Keynes's praise for, the "Keynesian" interpretations. First, the Oxford conference was in September 1936, and this is when Keynes received drafts of the papers (it is unclear if he saw Meade's); this timing is thus entirely consistent with the provocation for and writing of the *QJE* paper at the end of 1936 (and therefore he *is* likely to have "sniffed it"). Furthermore, while he waited until March 1937 to respond to Hicks, he actually responded to Harrod on August 30, 1936. Most important though, in the context of the broader post-Keynesian depiction of the *General Theory*, a critique from the perspective of uncertainty is *an exactly right critique of "Keynesian" economics.*

One can only speculate why Keynes did not tackle his "Keynesian" critics more vigorously. In the *QJE* article itself, Keynes emphasized his desire to avoid controversy. He was clearly stung by the charge that the *General Theory* was excessively critical of classical theory. Those who were developing the "Keynesian" theory appeared to be engaging in a dialogue with him and he might have been eager not to discourage these younger academics, given his total failure with his older colleagues. In the *QJE*, Keynes explained why his model is different without setting out explicitly the views and associated authors he was criticizing, and this seems exactly consistent with a less antagonistic stance. Perhaps too this approach was sensible given his poor health at the time. But then Keynes did go on to specifically address, in public, the—pernicious—interest rate implications of the "Keynesian" theory, which he also specifically attributed to Hicks (and Dennis Robertson as well as Bertil Ohlin) (see Tily 2007, Sect. 4.5). Ultimately the Keynesian theory disputed Keynes's theory of interest, the cen-

tral component of his scheme. In this way, Keynesianism is surely a different and rival theory.

Other Chapters

Brittan's discussion of "Keynes's Political Philosophy" includes only a brief statement of theory: "His [Keynes's] main heresy in the *General Theory* was the doctrine of oversaving. He explained how attempts to save more in some circumstances lead not to increased investment and faster growth but to a slump, with lower output and employment" (191).

Gillies's "Keynes and Probability" begins with Keynes's early work on probability and then moves to interpret the place of that theory in his economics. In doing so, he challenges the IS-LM interpretation:

> The claim that probability appears implicitly in Keynes's economics might, however, appear to some rather surprising, since many of the standard textbook presentations of Keynesian economics do not involve probability at all. The reason for this, however, is that such textbooks are not based on Keynes's original writings, but usually on what is known as the IS-LM diagram. The IS-LM diagram was introduced, not by Keynes, but by John Hicks. It is not to be found in the classic writings in which Keynes developed his mature theory. [202–03]

Lastly, in his chapter on "Keynes between Modernism and Post-Modernism," Matthias Klaes concedes what Moggridge avoids:

> There is, of course, broad agreement that what came to be known as the IS-LM model of the emerging post-Second World War 'Keynesian' macroeconomic orthodoxy reflected the *General Theory* only in part. Keynes [*CW* XIV, 109–23] himself was quick to realize that it was in particular the emphasis in the *General Theory* on condition of fundamental uncertainty and the handicap it posed to economic decision-making that failed to leave its mark on this orthodoxy. [261]

New Accounts of Keynes's Approach to Fiscal Policy

Most chapter authors (e.g. Marcuzzo) challenge the notion of Keynes "as the father of the welfare state and deficit spending (Buchanan and

Wagner 1977)" (131).[15] Not only was Keynes also concerned with monetary policy (p. 20 ff below), his approach to fiscal policy differed from that commonly portrayed. The *Companion* offers a revised view of Keynes's fiscal policy with two common themes: first, Keynes attached a great importance to the distinction between capital and current spending, and second, Keynes supported private–public partnerships.

Laidler is content only to note that Keynes was by no means alone in promoting public expenditure policies (50), but he does not challenge the conventional view of those policies. Peden catalogues a number of Keynes's fiscal policy interventions. He interprets the 1944 White Paper, *Employment Policy* (Cmd. 6527), as perhaps a compromise between Keynes's views and those of others in the Economic Section.[16] Attributing to others support for basic deficit spending to stimulate demand, Peden suggests that Keynes

> himself preferred balanced budgets for central government's current expenditure, with public investment programmes in a separate capital budget (Skidelsky 2000, 273-6; Wilson 1982). On the other hand, he was prepared to contemplate deficit finance for current expenditure, once investment fell to a much lower level than would occur for some years after the war (Booth 1983, 106, 114–16). [114]

Marcuzzo, again, sees Keynes as envisaging a less extreme role for fiscal policy: "[h]owever, the policy message of the *General Theory* is to sustain the level of investment—more 'stabilizing business confidence' (Bateman 1996, 148) than debt-financed public works" (132). Conventional wisdom is rejected outright: "Thus, the implication that Keynes was in favour of large and growing public expenditure such as we have experienced since the Second World War as a consequence of so-called Keynesian policies is untenable" (132).

Brittan's chapter on "Keynes's Political Philosophy" takes a rather different approach. He first addresses Keynes's views on the "middle way."[17] Comparing a "Thatcher–Reagan model of competitive free

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15 This view is generally attributed to these two specific authors, rather than to 70 years of textbooks. See also pp. 99, 272, and 277.

16 These were Cabinet Office economists, under the charge of Lionel Robbins.

17 He claims that Keynes "reacted favourably to a book of just that title by his friend and publisher, Harold Macmillan" (184-85). There is no source for this, and it should be set against Keynes's (1971–1989, Vol. XXI, 355) refusal to sign the manifesto of Macmillan's Next Five Years Group (1935).

enterprise" with "Rhenish corporate capitalism" (185), Keynes is seen as clearly on the corporatist side.[18] Moreover, Brittan argues "[h]e was, indeed, an early exponent of what have come to be called public–private partnerships; and their role in keeping public investment out of the budget arithmetic was seen by him as a positive advantage" (185), repeated later for good measure: "He was thus in a sense the spiritual father of today's public–private partnerships" (195).

Bateman's final chapter of the book is almost entirely dedicated to fiscal policy, beginning with a characterization of matters at the start of the postwar era. "Inevitably, this revolution in economic management ... bears the name of John Maynard Keynes" (271). He argues:

> Likewise, scholarship by economic historians in the 1980s has shown that the stylized history does little or no justice to Keynes's influence on British economic policy-making. Economic historians such as George Peden have used newly available documents from the Public Record Office to show that ... his influence ... was of a very different nature than had traditionally been supposed. ...
>
> ... [I]t has become clear that Keynes had been serious when he argued during the Second World War that 'the ordinary Budget should be balanced at all times' [*CW* XXVII, 225].
>
> So much, then, for the naïve profligate from Cambridge. Likewise, so much for the father of macroeconomics and corrupter of the modern state. Proceeding by half-truths, the stylized history gets almost everything wrong. [272-73]

Again he promotes the capital/current distinction. Concluding that Keynes did support "public-works projects"/"loan-financed expenditures," he argues, "Keynes did not see government budget deficits as necessary to carry out public works projects" (275) and "for Keynes, there should have been no need to put the ordinary budget in deficit simply by making capital expenditures" (276). He also charges Keynes with "argu[ing] that funds could be taken from the government's sinking fund, the pool of money that it collected to pay off ex-

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18 The main reference here is Skidelsky's (2000, 1992) work. His accounts are based on two specific instances. The first was the preparation in 1927 of a Liberal Party pamphlet, in which Keynes suggested that two-thirds of economic activity followed from direct or indirect control by, or influence of, the state. Skidelsky claims that Keynes "regarded this socialized investment as imparting much-needed stability to the investment market" (1992, 274). The second episode was the discussion of postwar fiscal policy in May 1943, when Keynes (e.g. Keynes 1971–1989, Vol. XXVII, 326, 352) appeared to be envisaging "the bulk of investment ... under public or semi-public control."

isting debt" (276). The sinking fund was simply the surplus on the government budget; to put it mildly, most now question the merits of being in surplus when an economy is in difficulty.

I do not want to dwell on the validity of these arguments: primarily my concern is the consistency of the views expressed, rather than a detailed study of their validity. Nonetheless one of Keynes's (*CW* XXVII, 353) statements, made in later stages of the discussions of postwar employment policy to which Bateman referred, might usefully be cited:

> Thus the capital budgeting is a method of maintaining equilibrium; the deficit budgeting is a means of attempting to cure disequilibrium if and when it arises.
>
> The proposals for deficit budgeting were, in my opinion, rather overstressed in the first version of the Economic Section's document, but they are not overstressed in the final version....
>
> About other forms of deficit financing I am inclined to lie low because I am sure that, if serious unemployment does develop, deficit financing is absolutely certain to happen, and I should like to keep free to object hereafter to the more objectionable forms of it.

Here Keynes's concern was with specific "forms" of deficit spending (i.e. on the current account), not with the notion of deficit spending itself.

The "Proto-Keynesians"

So how on earth did this short-sighted view of Keynes's fiscal policies, let alone his monetary policies (which are tackled in the next section), come about? The *Companion's* answer is, in large part, that Keynes's views have been confused with an alternative theoretical and policy movement of the 1930s. As seen in the previous section, these latter economists were prepared to take a far more cavalier approach to fiscal policy. They based this approach on their own macroeconomic analysis that used simultaneous-equation models. Moreover, the *Companion* argues that Keynes recognized and was not entirely comfortable with their approach. This discomfort is evidenced by Keynes's contributions to debates on the use of formal mathematical techniques, a line of argument that is in accord with the *Companion's* wider emphasis on uncertainty.

The main proponent of this view is, and has been, Laidler. As already seen, Laidler is concerned to see Keynes's work as a contribu-

tion to a macroeconomic theory that had long been emerging. Klaes puts matters most directly (in an endnote): "Keynes's orthodox reception constituted less of an attempt to canonize the essential insights of the *General Theory* than a consolidation of various strands of interwar economic theorizing, of which Keynes's work was but one aspect (see Laidler 1999)" (269 n6).

Bateman takes up the same theme (272). But it is Backhouse and Hoover who see an actual difference in opinion between Keynes and his "proto-Keynesian" predecessors. Backhouse sees the move to "formal mathematical models" as a characteristic of modern economics. He, as others before him, cannot bring himself to disassociate Keynes fully from these developments. So he adopts a halfway house.

> The main change was the use of formal mathematical models and the move to a style of reasoning where deriving the properties of such models was central to economic analysis. .... Keynes was very ambiguous in his attitude towards mathematical economics (cf. Patinkin 1976). On the one hand, he wrote about the importance of intuitive arguments that cannot be completely formalized ... and his criticism of the use of techniques based on the assumption that we know more about the future than we do was implicitly a criticism of mathematical modelling. He was also very critical of the mathematical models constructed by his contemporaries. On the other hand, he placed functional relationships and their properties, very much a mathematical-style argument, at the heart of his book. [36]

The latter point is not compelling; Keynes may have expressed some relations in algebraic form, but he did not manipulate them as simultaneous equations. Backhouse offers:

> [t]his change in the way economists used mathematics took place simultaneously with the Keynesian revolution, to such an extent that the two are difficult to separate. However, there are many reasons to argue that mathematics was coming into economics for reasons completely unconnected with Keynes. The Econometric Society, committed to applying to economics the formal methods that had proved so successful in natural science, had been founded in 1930, and different traditions of mathematical economics arose in Europe and the United States. [36]

Backhouse maintains that this "mathematical revolution" and the "Keynesian" are "almost inseparable." The rather obvious alternative

is that the projects are quite distinct and are only difficult to separate if one simply cannot admit the appalling extent of the misinterpretations of Keynes.

Hoover offers a more sophisticated analysis of the theoretical approaches. He sees Keynes's antipathy to the proto-Keynesians arising from his methodological approach. He rightly portrays Keynes as a follower of the "Marshallian methodology and causal isolation" which requires "that while some relationships may be simultaneous, not every variable can be endogenous in any practically useful practical analysis" (90). He then seemingly argues that uncertainty and expectation are at odds with a formal approach: "The economy is sufficiently complex, and precise conceptual analysis demonstrates that it is difficult—or impossible—to capture key causes in statistical data: expectations, for example, are intrinsically unobservable. Qualitative analysis is often the best that we can do" (91).[19]

Hoover then brings these methodological considerations to bear on the econometric modeling approach, which he attributes to Tinbergen.

> Keynes's [*CW* XIV, 306–18] attack on Tinbergen's econometric business-cycle model was based in large measure on the presumed requirement of Tinbergen's (1939) statistics to capture a complete set of causes and for the relationships among the variables to be qualitatively stable—in his view an utter impossibility. Clearly, Keynes would have shown the same scepticism towards Tinbergen's successors, the Cowles Commission's econometric programme ..., and the 'Keynesian' efforts to use macroeconomic models to 'fine-tune' the economy. [92][20, 21]

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19 Hoover tends to confuse formalism with mathematical reasoning. It may be possible to set out theoretical reasoning in logical and formal terms, without the use of mathematics. He perhaps overdoes a view of Keynes as *ad hoc*—"pragmatic, diagnostic conception of economic theory" (94)—which undervalues the underlying unity of Keynes's theory.

20 Actually, Keynes's primary concern was not the implausibility of being able to isolate all factors, but an objection to the—inductive—notion that the future should behave like the past.

21 However, Hoover seems obliged to equivocate: "Bateman (1990) anticipates a key point of this essay: despite Keynes's critical assault on Tinbergen, Keynes was neither an opponent of empirical economics nor of econometrics in general" (97 n9).

The distinction is valid and more clear-cut than Backhouse's analysis. Keynes was opposed to the econometric techniques that underpinned postwar Keynesian theory and policy. His approach was wholly distinct from that of the proto-Keynesians.

Keynes and Monetary Policy

The central preoccupation of my own work is the restoration of the monetary nature of Keynes's economics and policy. His early contributions argued for the rejection of the gold standard, and the implementation instead of exchange-management policies, whereby the authorities would manage exchange rates through the buying and selling of currency rather than the routine manipulation of discount rates. Interest rates—across the spectrum—would instead be set and permanently held low (it was known as a cheap-money policy). Low interest rates would facilitate private investment and reduce the cost of government borrowing. During the 1930s, the gold standard gradually fell apart and governments around the world wrested control of monetary policy from privately-owned central banks and implemented policies in line with Keynes's proposals. The *Companion* concedes that these policies have been neglected by the profession; e.g. Bateman writes: "Certainly, the young economists who formed the bulwark of the Keynesian revolution following the Second World War were overwhelmingly interested in fiscal policy; this group showed little interest or concern with monetary policy. But Keynes saw a clear role for monetary policy" (278).

Laidler's chapter, with its monetarist perspective, dwells on how Keynes's contributions "exerted a direct influence on monetarism's early evolution" (54). He sees both the *Tract on Monetary Reform* and *How to Pay for the War* making a "vigorous case for price-level stability" (54) and warning of the dangers of excess money growth. But Laidler then contrasts Keynes's and Friedman's approaches to the Great Depression. Friedman and Schwartz emphasized "ill-conceived monetary policy" as causing the Depression, while Keynes considered expansionary monetary policy an ineffective remedy to depression. This is completely standard. Moreover it continues to preserve the duality between monetary monetarists and fiscal Keynesians.

Peden is one of the few scholars to have tackled Keynes's monetary policies before, though his contributions on this issue are not extensive, nor are they evangelical, and, in my view, they fail to do justice to the subject. He recognizes that monetary policy issues were

central to Keynes's economics and handles both the gold standard and cheap-money policy (though he avoids this standard jargon). But his account treats these matters in an *ad hoc* way, rather than as a permanent backdrop or preoccupation.

The gold standard enters Peden's story initially as the particular question of whether Britain should return to gold after World War I. Peden recognizes Keynes's opposition to the return and his advocating "manag[ing] the currency" (102). The discussion then dwells on the conventional story concerning the overvaluation of sterling on entry and release from gold permitting devaluation.

The interest-rate story is again presented according to specific events and circumstances. Keynes is not portrayed as an advocate of permanent cheap money. Indeed, Peden portrays moves to cheap money as uncontroversial among policymakers at the time, with Keynes's views presented as at loggerheads, to some extent, with the cheap-money policy that policymakers were seemingly eager to implement.

For Peden (104), the first (interest rate) event was Britain's departure from gold: "The longer-term advantage of going off the Gold Standard was that it was no longer necessary to defend a fixed exchange rate by raising Bank rate, which was reduced from 6 per cent to 2 per cent in 1932 and kept at that level with a view to encouraging investment."

Connected with this event, Peden also labors a distinction between long and short rates and dwells on Keynes's views of the *inadequacy* of such policies rather than their *necessity*. So, on the former, Peden implies that Keynes might have doubted the importance of reduced Bank rate:

> Keynes emphasized the importance of the long-term rate of interest rather than changes in short-term rates as an influence on investment (although a rise in the latter would tend to raise the long-term rate). In contrast, Ralph Hawtrey, the Treasury's only in-house economist in the interwar period, emphasized the importance of Bank rate …. [104]

Certainly Keynes came to regard the long-term rate of interest as more important, but that did not obviate the necessity for low short rates. (Moreover, this manner of presentation may register the interest–investment relationship, but it fails to capture its critical importance to Keynes's policy perspective.)

Nonetheless, Peden proceeds to an all-too-rare *correct* statement of the theory of liquidity preference:

> he [Keynes] developed a theory of the term structure of interest rates. On the basis of this theory he argued that the monetary authorities—the Bank of England and the Treasury—could control interest rates by supplying demand for different types and maturities of securities, and by influencing expectations about long-term interest rates, if the monetary authorities were prepared to let the quantity of money to increase to meet requirements for current transactions, and to give up their attempts to control the market by funding the national debt. [104]

But, again, Peden dwells on Keynes's views of the *inadequacies* of such policies. The preceding quotation is followed by: "He [Keynes] also believed that monetary policy alone could not bring about recovery in the post-1929 slump, since businessmen were so pessimistic that they would respond to low interest rates only after the state had increased economic activity through public investment" (105).

In a section entitled "Public Investment and Fiscal Policy, 1924-1939," Peden then returns directly to fiscal policy, featuring a routine account of the Macmillan Committee and the "Treasury view." In the course of this discussion, His Majesty's Treasury is presented as *the* champion of the cheap-money policy: "[t]he Treasury continued to believe that a lowering of interest rates would continue to be the principal means of warding off a depression ...." (107). The proposals for international monetary reform that Keynes presented in *The Means to Prosperity* are described by Peden in the context of facilitating fiscal policy: "to make it easier for all countries to expand public expenditure simultaneously without fears as to the effects on their gold reserves" (107).

Moving to spring 1939, in the context of war expenditure, Peden again portrays the wartime cheap money policy as the initiative of the authorities: "[t]he Bank of England recommended maximum rates of interest for government borrowing should be fixed at the outbreak of war and be held constant thereafter" (108). Peden even celebrates the role of Dennis Robertson, who, with the Bank, had previously been a steadfast opponent of low interest rates. He neglects to mention Keynes's series of articles in *The Times* and his correspondence with the Chancellor that were surely the real motivators of the so-called three percent war. While Peden concedes a degree of control over interest rates to the authorities and attributes the associated the-

oretical justification to Keynes, again it is circumstance that permits this acceptance:

> To that extent the report [of the Treasury Committee in 1939] represented an acceptance of Keynes's liquidity preference theory—but it did so in circumstances where there would be controls over investment (Howson 1988). During the war, and for some time afterwards, there were strict physical controls over the allocation of steel and other capital goods, making it possible to restrict private investment and to require that surplus savings be lent to the government. It also proved possible during the war to adhere to a 3 per cent ceiling for long-term borrowing (fifteen to twenty years), and 2.5 per cent for medium-term (five to ten years), but firms could not easily be persuaded to part with their money for long periods, with the result that one third of the money borrowed within Britain during the war was in the form of potentially inflationary short-term borrowing or ways and means advances from the Bank of England. [108–09]

Here Peden also raises inflationary concerns. First, he argues that controls over investment are necessary if the authorities are risking a low rate. Whether or not control of investment was important to Treasury acceptance of the theory, it was not important to Keynes's theory of liquidity preference. Second, Peden records a Treasury concern over increasing the volume of short-term borrowing. (The description is misleadingly worded: Keynes's theory has an increase in short-term borrowing as an inevitable consequence of trying to set low interest rates. He did not regard this as inflationary, nor did the Treasury.)

In his penultimate section, Peden addresses Keynes's role in "shaping the postwar world: Bretton Woods, employment policy and cheap money." In a bold sleight of hand, Peden has the international debate motivated by the ill consequences of the *suspension* of the gold standard, rather than by inadequacies of the *operation* of the gold standard. Peden then credits Keynes as the prime mover at Bretton Woods for a conservative financial architecture that mirrored the gold standard as closely as possible. In reality, Keynes's arrangements were designed to support his domestic monetary policies. Capital control would permit low interest rates and his Clearing Union was aimed at ensuring that balance of payments considerations should not normally inhibit domestic activity through the provision of an elastic supply of international money.

On postwar domestic policy, Peden offers two pages on fiscal policy (see p. 16 above) and only one paragraph on monetary policy:

> he [Keynes] was successful in converting Treasury officials to his ideas on monetary policy. ... Wartime experience predisposed officials to accept Keynes's ideas based on his theory of liquidity preference. Hopkins [the Permanent Secretary—boss—of His Majesty's Treasury] referred explicitly to the *General Theory* when recommending the continuation, and even the reduction, of the prevailing low level of interest rates, with a view to stimulating investment in the long term and to reducing the burden on the budget. [115]

But, again, the policy is seen as relevant only for exceptional circumstances:

> However, he [Hopkins] also specified the conditions in which Keynes's theory might be expected to work. These were the continuation of direct controls over capital issues on the stock exchange; government allocation of goods, such as steel, needed for investment during the post-war reconstruction period; and permanent control over external capital movements. [115]

The same caveat is adopted when Peden refers to the postwar cheap-money policy of the British Labour Government: "Hopkins's recommendations provided the basis for monetary policy during the period of the Labour Government in 1945-51, while direct controls over investment were still effective (Howson 1993, 51–4, 322–9; Peden 2004, 334–44). Thereafter variations in interest rates were once more used to influence demand" (115).

But the caveat is misleading. The concern about "direct controls" was a preoccupation of the authors of the *Employment White Paper*. The National Debt Enquiry was set up in part as a response to these references, and the Report explicitly sets aside these concerns:

> We have been led to form a series of views not completely consistent with the brief references to the matter in the Employment White Paper. Rather we say that the White Paper ought to mean that, subject to uncertainties as to the extent to which and the conditions in which moderate fluctuations should be admitted (which uncertainties need not be brought too much into the open), the object of Government should be to maintain low interest rates, long and short, for as far ahead as can reasonably be the subject of discussion—certainly far beyond the transitional period. We do not however suggest that dogmatic conclusions should be laid down here and now for a long future about the rates of interest appropriate to different maturities. [National Debt Enquiry 1945, para. 25]

Beyond this specific misinterpretation, inadequacies of this presentation are substantial. There is no examination of why the policy was abandoned or of the success or failure of the policy. Nor is there any discussion about how this seemingly important policy has been almost entirely neglected by almost the entire profession.

The other accounts are quite trivial. Again, Brittan recruits Keynes to the monetarist cause: "What Keynes did insist upon as far back as his *Tract on Monetary Reform* was that aggregate demand would not manage itself. But this was not really so very far from the original Friedman policy of using control over the money supply to promote sustainable growth without sustainable inflation or deflation" (192).

He then goes on to try and piece together Keynes's "final views on domestic policy" from "*obiter dicta* on official postwar planning documents, letters to correspondents and similar sources" (193). Citing Bateman (1996), he claims that these views on policy were "a long way removed from the complete discretion that both Keynesians and anti-Keynesians later came to attribute to him" (193).

He also addresses the role of the long-term rate of interest:

> The basic part of this framework was a commitment to cheap money pushed through to such an extent that businesses would believe that low long-term nominal interest rates were here to stay. ... He advocated such policies and institutions not as temporary anti-recessionary expedients, but as a continuing framework to prevent national economies from lapsing for long periods below their potential levels of output and employment. [193]

So far so good, but he continues: "It is easy enough to say how unsuitable these ideas proved for much of the second half of the twentieth century, when cheap money was the first casualty of both open and repressed inflation" (193). Again Brittan raises the matter and straight away rejects it—though in a different, but equally unsubstantiated, manner to that of Peden.

Finally, Bateman offers the following: "[n]ow, it is true that Keynes had an idea of monetary policy that has few, if any, adherents today; but he had clearly articulated ideas about what monetary policy could achieve and how it should be conducted" (278). What Bateman gives with one hand, he takes away with the other: on the one hand people have been unaware of these monetary policies, on the other hand, even if they were aware, they should reject them!

Nonetheless, Bateman (278) proceeds with an account of these ultimately pointless policies:

> In a nutshell, following the publication of the *General Theory* Keynes espoused a consistent argument that monetary policy should be kept loose, or easy. He argued in the *General Theory* that the object of monetary policy should be to set interest rates low and to keep them low; he believed that this would encourage as much private investment in new capital as possible. This argument does not imply that monetary policy is ineffective, or unimportant, but it does suggest that it not be used counter-cyclically. Keynes never seriously wavered from this position during the last ten years of his life.

Absolutely, though it should be emphasized that "interest rates" is too vague; Keynes described them in April 1931 to Robert Brand (a fellow member of the Macmillan Committee) as follows: "meaning by the 'rate of interest' the complex of interest rates for all kinds of borrowing, long and short, safe and risky" (*CW* XX, 272–73). The same letter indicates that Keynes was advocating these policies long before the *General Theory*. Furthermore, there is no mention in Bateman of debt management policy as the means to these ends. For Bateman, it is sufficient to explain the rejection of these lost policies in a footnote to the paragraph above, which boils down to the argument that low interest rates might cause inflation (289).

Keynes and Today's Monetary Policy

Bateman seeks to bring a degree of resolution to the various arguments in the *Companion*. He argues that the domestic policies of the postwar world were "only adopted in very few places under the guise of Keynes's influence." "The interesting thing ... is that Keynes's name *did* eventually get attached to the counter-cyclical use of fiscal policy in these countries" (283, emphasis in original). Following Peter Hall, these policies are referred to as "proto-Keynesian" (in preference to "non" or "pre") (284).

Backhouse then offers two main reasons for how Keynes's name came to be "attached" to proto-Keynesian policies. First his "theoretical model in the *General Theory*" was "widely seen at mid-century as the cutting edge of economic theory, his model of aggregate demand carried the day and served as the *ex post* imprimatur for a revolution in fiscal policy that had actually taken place without refer-

ence to him or his writings" (284). Second, this was "undoubtedly made much easier *by* the emergence of national income accounting in the 1930s and 1940s"; "it happened that the categories of measurement that emerged matched the categories in Keynes's *General Theory* perfectly" (284, emphasis in original).[22] He also adds that "the prosperity brought on in the United States by the wartime economy between 1939 and 1945 lent credence to Keynes's ideas in the eyes of many" and that the "the welfare state … grew rapidly at mid-century" (285). All of these points are merely associations, not explanations.

Ultimately, fault is found with Keynes himself, following an argument from Moggridge (1986, 287). Keynes's allegedly cavalier rhetoric allowed his name to become associated with more excessive policies: "in creating false dichotomies to make his own position look more 'revolutionary', Keynes created straw men to knock down" (287). Seeing through these "false dichotomies" allows Bateman (288) to arrive at a happy place:

> But the regular use of fiscal and monetary policy today is much more like the subtle arguments buried in Keynes's own writings that it is to either the Keynesian theories that developed after his death or the policy rules that were demanded by the right when they attached Keynesianism at the end of the twentieth century.
>
> … [W]e may have settled down into a world where the responsible use of demand management tools sometimes can occur, much as Keynes had hoped.

Earlier in the *Companion*, Brittan made the same point: "Keynes might not have quarrelled with present-day central bankers who regard low nominal interest rates as the first line of defence against stagnation and slump" (193).

Conclusion

The *Companion* essentially argues that Keynes became associated with a theory and policy perspective that was already emerging and that was not wholly in accord with Keynes's own theoretical and practical reasoning. Having provided a glib and throwaway explanation for this intellectual sleight of hand, it proceeds to associate Keynes with a perspective that bears a good deal of similarity to the policy

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[22] This match was no coincidence; Keynes was deeply involved in the development of National Accounting—see Tily (2009).

consensus of today. The *Companion* continues the very tradition that it supposedly seeks to challenge.

Are we to be convinced that such a convenient resolution, backed by limited discussion and reference to wider debate, reflects genuine scholarly reflection on the nature of Keynes's economics? The *Companion* sidesteps, trivializes, obfuscates, and distorts the many substantial issues that it purports to handle. It is a dangerous work, all the more so because its title celebrates an association with Keynes's university.

The authors wholly avoid any mention of the monetary nature of Keynes's economics, of the role of credit and, while waving the uncertainty banner, fail to apply it to the theory of liquidity preference. Indeed their account of Keynes's theory may not be sticky wages, but it remains quite trivial. Equally, the authors are remarkably sanguine about the perverse manner in which economic debate has been conducted—or, rather, has been avoided.

I have put forward an alternative account (Tily 2007). Keynes invented a profound and powerful theory that justified the substantial degree of monetary reform that occurred over the period from 1931, when the gold standard began to unravel, to his death in 1946, and that remained partially in place until about 1970. This theory was bastardized, perhaps to avoid the policy conclusions that were so deeply disturbing to vested interests. Cheap money and financial reform are not conducive to the rentier and, despite the protestations of free marketers, fiscal policy is not so objectionable. So the proto-Keynesian theory (including IS-LM) and policies were *alternative* and *rival* approaches to Keynes's. And Keynes did not approve, though he responded in a measured manner because he can hardly have been expected to imagine where matters were headed.

These considerations remain unaddressed by serious debate and the *Companion* can hardly be regarded as changing that. Whether inadvertently or deliberately, it perpetuates the opposition of the economics profession to substantial monetary reform and promotes another sanitized version of Keynes to support that opposition.

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