

# THE MALTHUSIAN ORIGINS OF THE *GENERAL THEORY*: OR HOW KEYNES CAME TO WRITE A BOOK ABOUT SAY'S LAW AND EFFECTIVE DEMAND

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“In my opinion, nothing in Keynes’ previous life or work really quite prepares us for the *General Theory*. . . . Why do I say that the *General Theory* still comes as a surprise? Because in all of these [previous works] there is a sequence and pattern, and no one step occasions real astonishment. The *General Theory*, however, is a mutant, notwithstanding Keynes’ own expressed belief that it represents a ‘natural evolution’ in his own line of thought.”

Paul Samuelson (1960, p. 153)

To most economists the use of aggregate demand is so completely natural it is difficult to imagine economic theory without it. Yet prior to the publication of the *General Theory* not only was the concept aggregate demand seldom employed by economists, but its use as an important operational variable was specifically denied. It was to deny the need for aggregate demand, or effective demand as it was then generally called, that Say’s Law was invoked. Keynes was completely correct when he stated that the vast majority of his contemporaries believed they could “safely neglect the aggregate demand function” (Keynes, CW VII, p. 32). That is what they believed and that is what they did.

Keynes in the *Treatise on Money* made no use of aggregate demand. In contrast, the *General Theory* is primarily about its importance. There has been a considerable literature on the intellectual steps taken by Keynes between the *Treatise* and the *General Theory*. And while there is general agreement that Keynes began to focus on effective or aggregate demand at the end of 1932 or the beginning of 1933, explanations of this change in theoretical direction have been generally vague. The aim of this paper is to explain the change in the direction of Keynes’s thought, a change which has had the most profound implications for economic theory down to our very day. It will be the argument of this paper that Keynes developed a theory of fluctuations in aggregate demand to explain fluctuations in output and employment due to the influence on him of the writings of Thomas Robert Malthus which Keynes was reading in October and November, 1932. Keynes was at that time reading Malthus’s writings because he was in the process of updating his essay on Malthus for inclusion in *Essays in Biography* (Keynes, 1933).

It has been traditionally argued that Keynes arrived at his conception of “effective demand” independently and only afterwards realized that others had had similar ideas

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\*I am grateful to Professor Mark Blaug of the University of Exeter, Professor Peter Clarke of Cambridge University, Professor Ray Petridis of Murdoch University, Professor Anthony Waterman of the University of Manitoba, and John King and Michael Schneider of La Trobe University for their assistance in the preparation of this paper. I am also grateful for the comments of an anonymous referee. The responsibility for the text, however, remains with the author.

before him. Amongst those to whom Keynes gave such credit was Robert Malthus. This paper will instead argue that it was reading the Malthus side of the Malthus-Ricardo correspondence which put the idea of effective demand into Keynes's head. It was because Keynes was reading this correspondence in late 1932 that the *General Theory* was written as it was, focusing on effective demand as the central issue in the theory of depressions and unemployment. It would follow from the arguments of this paper that had Keynes not read Malthus, he almost certainly would never have written a book attacking Say's Law or attributing recessions and depressions to failure of effective demand.

The orthodox view was put by Moggridge in his shorter biography of Keynes:

“Another indication of Keynes's growing confidence in his new ideas was that he began to find predecessors for them. In preparing his *Essays in Biography* for the press during the autumn and winter of 1932-3, he revived a 1922 essay on T.R. Malthus, the early Cambridge economist, which he had originally prepared for the London Political Economy Club and had read at intervals to various societies in Cambridge during the 1920s. Taking advantage of the contemporaneous work by Piero Sraffa, who was editing the works of David Ricardo for the Royal Economic Society, he revised the essay, but then, at the last possible moment, he added additional passages which seemed to give Malthus the germs of Keynes's own recently worked out views, particularly as regards effective demand.” (Moggridge 1980, p. 109)

This has been the traditional view. Keynes, it is said, attributed to Malthus ideas similar to those he had independently worked out himself. A survey of the literature reveals that little attention has been paid to a possible Malthusian influence on Keynes. Moggridge (1973) in his chronological discussion of the development of Keynes's views between the *Treatise* and the *General Theory* gives only passing reference to the updating of the Malthus essay. It is mentioned as having occurred, but it is not presented as having had any influence one way or the other on Keynes's thinking. (p. 81)

In his recent biography of Keynes, Moggridge (1992) refines his ideas further. In this later work, Keynes's key analytical discovery in the *General Theory* is specified as the “output equilibrating model” (p. 562). Moggridge writes that “we can date Keynes's adoption of his output equilibrating model to late 1932 or early 1933 *at the latest*” (Ibid. p. 562 - italics in original). It is only to provide evidence for this dating that Moggridge cites Keynes's essay on Malthus.

In his chronology of the steps between the *Treatise* and the *General Theory*, Patinkin (1993) makes no mention of Malthus or of Keynes's biographical essay on Malthus. Patinkin does, however, provide a discussion (p. 656) of when he, Dimand (1988), and Moggridge (1992) believe that Keynes began to formulate a theory of effective demand. Patinkin believes the dating to be in early 1933. Patinkin notes that both Dimand and Moggridge accept that Keynes became interested in effective demand after the last of his Michaelmas lectures on November 28, 1932.<sup>1</sup> Patinkin does not,

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<sup>1</sup> Patinkin also notes that Clarke (1988) chooses a slightly earlier dating.

however, relate the timing of Keynes's sudden interest in effective demand to Keynes's immediately prior work on the economics of Malthus.

In his *Anticipations of the General Theory*? Patinkin (1982) hardly mentions Malthus. He does accept that if Keynes's own contribution had been the

“notion of aggregate demand coupled with the rejection of Say's law, and the corollary contention that aggregate demand can fall short of aggregate supply, thus generating unemployment” (p. 5)

that this notion had been raised by Malthus. But, since Patinkin does not accept this as the key insight of the *General Theory*, he does not accept Malthus even as someone who had taken the same position as Keynes, never mind having “anticipated” him.

Peter Clarke in his *Keynesian Revolution in the Making* (1988) comes close to recognizing the critical role which Malthus played in forming Keynes's thinking. Yet in the end Clarke accepts the orthodox view in seeing the sequence of events as Keynes first formulating his theory and then discovering a predecessor in Malthus (p. 266). In Clarke's view, it is “overwhelmingly likely” that it was in the summer of 1932 that Keynes came up with the theory of effective demand (p. 263). Clarke sees Malthus as having provided an inspiration of sorts, but not in terms of the actual development of Keynesian thought. According to Clarke, Keynes's reading of the Ricardo-Malthus's correspondence was to “give him a name for his new concept - effective demand” (p. 267) but was not the inspiration for Keynes's theory of effective demand.

Dimand in his *Origins of the Keynesian Revolution* (1988) makes only two passing references to Malthus. There is no suggestion that a reading of Malthus had had any influence on the direction taken by Keynes in the *General Theory*.

There have, however, been some who have recognized the possibility of a cause and effect relationship between Malthus and Keynes. O'Leary (1942) in his discussion of the influence of Malthus on Keynes, spends the bulk of his paper pointing out the similarities between “Malthus's general theory and that of Keynes” (p. 901). O'Leary notes that “the theory of effective demand is the heart of Keynes's general theory” (p. 908) which is similar to the role effective demand played in Malthus's theories (p. 909). This then leads O'Leary to raise an additional issue:

“In view of the degree to which Malthus anticipated Keynes's general theory, it seems pertinent to examine into the question of whether Malthus had any influence upon Keynes's thinking.” (p. 917)

O'Leary recognizes that Keynes had been updating his “Essay on Malthus” for the *Essays in Biography*. He notes in this context that Keynes had recognized that the term “effective demand” had been used by Malthus as early as 1800 (p. 917). He points out that “Keynes's *Essay* is replete with praise for Malthus's work” (p. 918).

He notes that “Keynes’s references to Malthus in his *General Theory* are disappointingly casual” (p. 918) and that in fact, Keynes is dismissive of “the importance of Malthus’s contribution” (p. 918). In the end, O’Leary merely concludes:

“There can be little doubt that Keynes was influenced by Malthus’ ideas, but it is impossible to say to what extent. It does appear, however, that there is more of Malthus in Keynes’s *General Theory* than Keynes himself has realized.” (p. 919)

Klein (1966) is also in no doubt that Keynes was influenced by his reading of Malthus saying, in regard to Malthus, that “in one instance, we can be reasonably sure that Keynes derived a profound inspiration” from one of his classical forebears (p. 125). But while Klein recognizes the influence, he is ambiguous about the extent to which Malthus influenced Keynes. He notes the existence of this influence and the similarities between Keynes and Malthus in that both deal with effective demand and Say’s Law. Klein cannot, however, be interpreted as saying that Keynes discovered the idea of effective demand by reading Malthus, saying only that “Keynes was aware of this historical similarity and must have profited much from a perusal of the early literature” (p. 125).

Skidelsky (1992) takes an interesting position and actually acknowledges the possibility that Keynes may have been “influenced by the Malthus of Effective Demand, rather than, as has hitherto been supposed, discovering him after he had developed the principle independently himself” (p. 417). Skidelsky, however, suggests that this influence may date back to 1924 which he adduces because in a speech given in 1924 Keynes quoted a passage on demand failure from a letter written by Malthus to Ricardo. Yet the context of the speech indicates that the passage quoted would have merely illustrated that Ricardo and Malthus had “frequently differed on points of economic theory and method” (from an unpublished speech contained in the Modern Archive at King’s College, Cambridge). Indeed, far from seeing Malthus as underrated and Ricardo as disastrous for economic theory, in that same speech Keynes praised Ricardo by describing him as “the most powerful abstract intelligence which has found Economics worthy of it” (ibid.). In the final analysis, Skidelsky has raised the Malthusian influence only as a possibility. That he devotes only a single paragraph to this possibility rather than pursuing it suggests that he views the influence as marginal. Indeed, when Skidelsky came to discuss Keynes’s final Michaelmas lecture in 1932, he adopted the traditional view by stating the Keynes “felt for the first time the need to place himself in a tradition or perhaps to invent a tradition in which he could place himself. Malthus, whom he had always admired, fitted the bill” (p. 464).

Overall, there has been little suggestion in the literature that Malthus had an important influence on Keynes. It will be the aim of this paper to demonstrate not only the existence of this influence, but to point out how critically important that influence was.

## **The Overlap between Malthus and Keynes**

That there are deep similarities between the *General Theory* and Malthus's economic views is not in doubt. Keynes himself establishes this connection in Chapter 23 where he includes Malthus in his "brave army of heretics" (CW VII, p. 371). But while Malthus might have been included, little attention is paid to him. He is referred to in a perfunctory manner, just one of a number. It is true that Keynes states he is devoting less space to Malthus because he has dealt with him in the *Essays in Biography* (p. 362). Nevertheless this very brief reference would provide no suggestion that Malthus played a particularly important role in the development of Keynes's thinking.

But to recognize just how close Malthus and Keynes were, it is necessary to appreciate just how similar their arguments are. There is an extraordinary degree of overlap if both Keynes and Malthus actually reached the same conclusions independently. Note the following areas of similarity:

- . **Say's Law** - Both Malthus and Keynes argue that it is the reliance by others on Say's Law that creates fundamental misunderstandings about the nature of the economy. For Malthus it was the belief in the Law of Markets by Say, Ricardo and James Mill. For Keynes it was just about all of his contemporaries who unwittingly were still following in the footsteps of Ricardo in accepting Say's Law.
- . **Failure of effective demand** - Where Say's Law breaks down is in situations where output is greater than the willingness to purchase that output. It is precisely the unwillingness to purchase all that the fully employed economy can produce which causes the economic system to falter in both Malthus and Keynes.
- . **Oversaving** - Both Malthus and Keynes attribute the problem of demand failure to decisions to save. In Malthus, the cause of the problem is related to decisions to increase savings. Decisions to save lead to interruptions in the demand for consumer goods, which then lead to progressive reductions in demand throughout the economy, which in turn cause less to be produced in succeeding periods. In Keynes, it is the failure of investment to soak up all of the savings which have been generated. The deficiency of investment relative to saving causes the economy to contract.

### **Keynes's Discovery of Say's Law**

It is Keynes's reference to Say's Law which is particularly telling. When Malthus was writing, he was in the midst of the general glut debates of the early nineteenth century. Indeed, his correspondence with Ricardo was a major part of that debate. Virtually all economists of importance were involved in the question of whether demand failure could occur and lead to economic distress. The issue was the validity of what is now known as Say's Law. In 1936, when the *General Theory* was published, Say's Law was not an issue. Keynes, in trying to find examples of applications of Say's Law, was compelled to go back to John Stuart Mill *Principles* published in 1848 (CW VII, p. 18) and the Marshalls' *Economics of Industry* published in 1879 (ibid., p. 19).

It is the very fact that Keynes even mentions Say's Law, never mind that he sets out to disprove it, which provides evidence that reading Malthus had an exceptionally

strong influence on the development of Keynes's thought. During the 1930s Say's Law was not a mainstream issue. It is one of the mysteries of Keynesian scholarship that so little attention has been paid to answering why Keynes paid as much attention to Say's Law as he did. If one, however, assumes that Keynes read Malthus and then, because of this reading, devoted the *General Theory* to effective demand, then the answer is apparent, and indeed obvious. Malthus attacked Say's Law, and it was for this reason, and almost certainly for this reason alone, that Keynes attacked Say's Law too.

What Keynes was doing, unbeknownst to his contemporaries, was resurrecting the general glut debate of the early nineteenth century. Keynes was wading in on the side of Malthus in an almost totally forgotten controversy. He was arguing that Malthus had been right all along that demand failure might occur. Keynes's aim was to refute the view which had been established by Say, Ricardo, James Mill and John Stuart Mill, that whatever might cause an economy to fail and cause unemployment to rise, it would never be due to a failure of effective demand. Other things might cause recession and unemployment, but demand failure would not. By 1936, this had been a settled conclusion amongst economists for more than a century.<sup>2</sup> Pre-Keynesian economists had, with virtual unanimity, stated that belief in demand failure as a cause of recession and unemployment was a fallacy. It was only as a consequence of the *General Theory* that this settled conclusion was overturned.

Because Keynes was taking his starting point from Malthus, he set out to prove that more could be produced than the community was willing to buy. This is the issue of demand failure and it is the point Ricardo understood Malthus to be making. Ricardo categorically denied the possibility of demand failure in correspondence with Malthus and it was this part of their correspondence which Keynes read in 1932. Keynes himself was in no doubt that he was taking a Malthusian interpretation of effective demand. In a letter to Ralph Hawtrey dated November 8, 1935, Keynes specifically stated that he was taking his lead from Malthus.

*“Effective demand.* In modern economics this term has gone out of use and that is part of my defence for reviving it in my own sense, but my own sense seem to me to bear an exceedingly close family resemblance to what Malthus meant by it.” (CW XIII, p. 602 - emphasis in original.)

In adopting the Malthusian meaning of effective demand, Keynes began from the premise that more could be produced than the community wanted to buy. That is, the community had the power to buy but not the will. This meaning of over-production, the meaning attached to it by Malthus, had been consistently rejected by virtually all economists. Keynes was correct to state that economists had denied the possibility of insufficient effective demand. But this did not imply what Keynes asserted it implied, that recessions could not occur and that involuntary unemployment was a theoretical impossibility.

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<sup>2</sup>See Edgeworth's entry on “Over-production” in the original *Palgrave's Dictionary of Political Economy* (Vol 3, pp. 45-46).

To many of Keynes's contemporaries, and even more so as the history of economics has been re-written to conform with the opening chapters of the *General Theory*, the denial of the possibility of a general glut seems to be saying that recessions cannot occur. It was this particular mis-reading of classical economic theory which gave the *General Theory* its revolutionary tone.

### **The Essay on Malthus**

We are here dealing either with one of the most unlikely coincidences in the history of the sciences or with a cause and effect relationship. One may argue that Keynes discovered the idea of effective demand and then almost immediately happened to be updating his essay on Malthus. Or one may instead argue that it was because Keynes was updating the essay that he was struck by the idea of effective demand which he then adopted as his own.

We know that it was in the latter half of 1932 and early 1933 that Keynes was working on his *Essays in Biography*. The preface to the *Essays* was written in February, 1933 making this the last possible date. But there is other evidence which can help to pinpoint more accurately when he was working on Malthus.

There are, firstly, letters to his wife. On October 30, 1932 Keynes writes to her as follows:

“My dearest sweet duck,

“I have become completely absorbed in re-writing my life of Malthus, and sit by the hour by my desk copying bits out and composing sentences and wanting to do nothing else with stacks of books round me. What a relief not to be writing arguments! What an easy and agreeable life fanciful writers must have! (Unpublished letter in the Modern Archive at King's College, Cambridge)

On November 20, 1932, Keynes writes of his Malthus essay again. Lydia is at this time visiting Russia which is why Keynes refers to the quiet life he is leading.

“I have got back to my Malthus Essay and have been writing it, very quiet by myself, all day with much enjoyment.” (Unpublished letter in the Modern Archive at King's College, Cambridge)

There is also surviving correspondence between Keynes and James Bonar who had, in 1885, written a book entitled *Malthus and His Work* which had been reprinted in 1924 with additional material. The first letter from Keynes to Bonar is dated November 3, 1932 (Unpublished letter in the Modern Archive at King's College, Cambridge). Keynes states he is interested in adding something about Malthus although what this something is he does not reveal. But there are two points of high significance. One is a query asking whether Bonar has the transcripts of letters from Malthus which he had quoted in his revised book, showing Keynes's interest in Malthus's correspondence. The other point of significance is that Keynes states that he and Sraffa are to visit Malthus's old home the following week.

If Keynes is interested in Malthus's letters, there is no better source for some of them than his companion of the following week. One may easily deduce that by this stage early in November, 1932, Keynes had in his hands the letters which Malthus had written to Ricardo and almost as surely by then had closely read them. It is asking too much to believe that Keynes would write to Bonar seeking transcripts of Malthus's letters but not have also gone through the letters closest to hand. One may therefore assume that as of November 3, 1932, Keynes has read the Malthus correspondence with Ricardo which was to feature in his essay on Malthus.

Correspondence between Keynes and Sraffa also exists. Sraffa was the editor of Ricardo's collected works and it is precisely because Sraffa is the editor of the Ricardo papers that Keynes writes to him. The letter sent by Keynes is not in the files at King's. But from the letter in reply, dated December 20, 1932, it is clear that Keynes had sent Sraffa an early draft of the essay on Malthus. It is also clear that Keynes had been reading the Malthus side of the correspondence with Ricardo which was to be excerpted in the essay and the purpose of the letter is to seek permission to quote from Malthus's letters.<sup>3</sup>

One additional feature is very important. Sraffa readily gives his permission to Keynes to quote from the letters but adds, "Only don't treat too ill my David". Sraffa is asking Keynes to treat Ricardo (ie "David" Ricardo) kindly. Either from the letter which Keynes had sent, or from previous discussions in Cambridge, Sraffa is aware that Keynes has an unfavourable view of Ricardo, or at least of Ricardian economics. This attitude was later to be reflected in the short opening chapter of the *General Theory* where Keynes describes what he means when he uses the term "classical economics".

From the correspondence, Keynes is seen to have been working on his essay on Malthus from at least the end of October, 1932 and is interested in Malthus's correspondence from at least the start of November, 1932. It is more than likely that Keynes had looked at this material some time before these dates, but certainly by this time Keynes is familiar with the material in the Ricardo-Malthus correspondence. It is reasonable to assume that the Malthus correspondence he had looked at by this time includes the material which was to be incorporated in the final published version of the essay. If so, by late 1932, Keynes had been looking at the Malthus side of the Ricardo correspondence dealing with the questions of over-saving, Say's Law and effective demand.

Clarke (1988, p. 266) is quite specific that all of the important additions to the "Essay on Malthus" had been completed by the end of November, 1932. According to Clarke, the draft essay had been virtually completed by the time Keynes gave his final 1932 Michaelmas lecture on November 28. Yet in most respects the actual timing of the additions to the essay is of secondary importance. In dating Malthus's influence on Keynes, it is not when Keynes was writing the essay but when Keynes was studying Malthus that is critical. And as the letters to his wife, Bonar and Sraffa make

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<sup>3</sup>Keynes would have had very privileged access to these letters in 1932. Malthus's letters to Ricardo were not published until the 1950s.



clear, Keynes had been looking at Malthus and reading his correspondence from at least the end of October, 1932.

### **Effective Demand**

Prior to the publication of the *General Theory*, demand side considerations were of minor importance in business cycle analysis. It is the major theoretical innovation of the *General Theory* that the theory of recession and unemployment became the focus of the demand side of the economy. It is the re-orientation of economic theory to the demand side which represents the critical contribution of the Keynesian Revolution.

Keynes himself makes clear the monumental importance of effective demand. In writing to Harrod in August 1936, he states:

“You don’t mention *effective demand* or, more precisely, the demand schedule for output as a whole, except in so far as it is implicit in the multiplier. To me, regarded historically, the most extraordinary thing is the complete disappearance of the theory of the demand and supply for output as a whole, i.e. the theory of employment, *after* it had been for a quarter of a century the most discussed thing in economics. One of the most important transitions for me, after my *Treatise on Money* had been published, was suddenly realizing this.” (CW XIV p. 84-86)

Others have recognized effective demand as Keynes’s essential contribution. Peter Clarke in his *The Keynesian Revolution in the Making: 1924-1936*, when he moves from his discussion of the *Treatise* in Chapter 10 entitles Chapter 11, “The making of the theory of effective demand”. Patinkin in his *Anticipations of the General Theory?* after a long discussion of what constitutes the central message of the *General Theory*, and after looking at a number of possibilities, finally concludes as follows:

“This leaves the theory of effective demand as the distinctive analytical contribution of the *General Theory*. That this is its central message is also clear from the *General Theory* itself.” (Patinkin 1982, p. 9)

In his recent chronology, Patinkin continues to argue the central importance of aggregate demand along with the equilibrating role of changes in output (Patinkin 1993, p. 647).

Samuelson, writing in 1948, states:

“I myself believe the broad significance of the *General Theory* to be in the fact that it provides a relatively realistic, complete system for analyzing the level of effective demand and its fluctuations.” (Samuelson 1960, pages 150-151)

Keynes’s initial mention of the phrase “effective demand” can therefore be used to isolate within narrow limits the moment when Keynes makes his analytical breakthrough which was to lead him to the writing of the *General Theory* in the way he did. To understand how significant this use of the term “effective demand” was, it needs to be appreciated that Keynes had never written on effective demand prior to

November, 1932.<sup>4</sup> From the end of 1932 onwards, the use of the phrase “effective demand” explodes through his writing.<sup>5</sup>

### Michaelmas Lectures of 1932

Most scholars agree that Keynes showed no evidence of having turned towards the *General Theory* during the lectures given in May, 1932. There is general agreement that at the time of the May lectures, Keynes was still enveloped in the form of thinking attached to the *Treatise*. The earliest sightings of a change in direction are found in late summer or early autumn of 1932, with most preferring a later dating. (See Dimand 1988, p. 155; Kahn 1984, p. 113; Moggridge 1992 p. 562; Patinkin 1993 p. 656).

It will be argued in this paper that an accurate dating of the moment of conception can be found in November, 1932. Prior to November, 1932 Keynes was still locked into the conceptual apparatus of the *Treatise*. From November onwards, Keynes was developing the concepts which were to culminate in the publication of the *General Theory*.

The first of the Michaelmas lectures was delivered on October 10, 1932 and the last on November 28, 1932. Keynes opened the first lecture by announcing he was in the process of writing a new book and gave these lecture the same title he was intending to give his book: *The Monetary Theory of Production*. There are three sets of surviving notes taken by students of these 1932 lectures. These are by Robert Bryce, (Sir) Alec Cairncross and (Professor) Lorie Tarshis.<sup>6</sup>

There is little in the first seven lectures to remind one of anything more than a rudimentary version of the *General Theory*. The issues are somewhat along the lines of what is now known as Keynesian, and there are certain familiar terms put to use. But in regard to what later became the argument of the *General Theory* there is little in the first seven lectures which would comfortably fit into the *General Theory* itself.

This changes completely with the Eighth Lecture delivered on November 28, 1932. Suddenly, we are into the opening chapters of the *General Theory*. One no longer has to read between lines or look for ideas which provide a faint echo of the *General*

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<sup>4</sup>Keynes had, however, written the words “effective demand” once before. In a newspaper article dealing with German reparations published in the Sunday Times on August 21, 1921, the term is simply stated once in a completely offhanded way with no follow up discussion. It had never been used previously and was never used by Keynes again in any of the published material in the Collected Writings until he used it in his essay on Malthus. This followed his use of the term in his Michaelmas lecture on November 28, 1932.

<sup>5</sup>The index to the *General Theory* provides eighteen separate references to effective demand, three of them more than ten pages in length.. In contrast, there are only four single page references to aggregate demand which is the term which ultimately entered the economist’s vocabulary.

<sup>6</sup>I am grateful to Professor T Rymes of Carleton University, Ottawa for making available his transcriptions of the original lecture notes.

*Theory*. Unmistakably, we are in the midst of the real thing. And it is here that Keynes for the first time applies the term “effective demand”.

The surviving lecture notes provide clear guidance as to where Keynes is heading as at November 28, 1932. There are a number of significant points raised in the lecture which provide evidence that, firstly, Keynes has decisively turned the corner towards the *General Theory* and, secondly, it has been the reading of Malthus that has provided the inspiration. Note all of the following from this eighth Michaelmas lecture of 1932<sup>7</sup>:

- . Keynes discusses book collecting and the habit of “browsing among old books to get ideas”. [Bryce, p. 48] He contrasts his own attitudes with the attitude he believes prevalent at Cambridge where past thoughts on economic matters are neglected. Keynes implies that he does not neglect past thoughts.
- . Keynes deals with certain ideas which had been held in the past which were denied by his contemporaries. The first of these older ideas he takes from Adam Smith who, Keynes states, understood that “savings did not always find [their] way into investment”. [Tarshis, p. 27]
- . The second old idea discussed is mercantilist thought which, according to Keynes, had a sound basis. He criticises free trade arguments which assume “that all factors are fully employed”. Keynes notes that in the past the “optimum output is the exception rather than the rule”. [Tarshis, p. 27]
- . The third of the sound but discarded past ideas is that “spending is good for trade”. [Cairncross p. 22; Tarshis p. 28; Bryce p. 50] Keynes criticizes economists for believing saving is economically beneficial. Indeed, “only economists believe that saving would be good”. [Bryce p. 50] Where saving does not get taken up in investment, “the spendthrift is helping the community”. [Bryce p. 50]
- . In the fourth of the discarded ideas, Keynes refers to “effective demand”. [Cairncross p. 22; Tarshis p. 28] Tarshis notes have Keynes stating that “the explanation of prices was to be found in effective demand”. [p. 28]
- . Keynes explicitly associates the principle of effective demand with Malthus. Cairncross’s notes read “cf. also Malthus on effective demand”. [p. 22]
- . Keynes sides with Malthus against Ricardo: “Malthus held this Ricardo destroyed it”. [Bryce p. 51]
- . Keynes takes up a Malthusian theme which was to be repeated in the *General Theory* that investment chronically falls short of saving. This is not, he says, a phenomenon restricted to the downswing of the business cycle. “On an average [Keynes] says there must be a large excess of savings over investment”. [Bryce

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<sup>7</sup>The name of the notetaker and the page reference in Rymes’s transcriptions of the notes are provided.

p. 52] Keynes notes that it is a “rash statement” but history has shown that the “growth of capital has been far short of saving”. [Tarshis, p. 28]

Keynes has become a rudimentary “Keynesian” no later than November 28, 1932. The lecture marks a watershed. It is possible to argue an earlier date. But given the contents of Lecture VIII of the Michaelmas term, 1932, Keynes is on the road to writing the *General Theory* from that moment onwards.

### **The Essay on Malthus**

The essay on Malthus provides further strong evidence that Keynes in November, 1932 is, for the first time in his life, attempting to understand the problems associated with recession and unemployment in terms of effective demand. There is no controversy over the dating of the essay as having been written between October, 1932 and February, 1933. There is also no controversy over the fact that all of the economic material in the essay was introduced at this time. (Moggridge CW X, p. 71n, provides an outline of which sections were added in late 1932 or early 1933)

The contents of the new inclusions are themselves strong evidence that it was effective demand that Keynes was plucking from Malthus. Keynes’s essay on Malthus rightly attributes an oversaving argument to Malthus and the essay was being written at exactly the moment that Keynes began to discuss recessions in terms of deficient effective demand. The fact that Keynes had previously had his own saving-investment apparatus and believed in public sector stimulus would have made the Malthusian addition of effective demand attractive to him.<sup>8</sup>

If one looks at the essay (CW X, p. 71-103), concentrating only on those parts written prior to its being sent to the printer, parts which were probably being written before November, 1932 (See Clarke 1988 p. 266), we find Keynes dealing with effective demand (CW X, p. 88), an issue never previously discussed by him. Keynes cites letters from Malthus to Ricardo “to show Malthus’s complete comprehension of the effects of excessive saving on output *via* its effect on profit.” (p. 99). Keynes chooses the following excerpt from a letter from Malthus to Ricardo to illustrate his point:

“... I confess indeed that I know no other cause for the fall of profits which I believe you will allow generally takes place from accumulation than that the ... *effective demand* is diminished.” (CW X, 99 - italics in original.)

This is from the parts of the essay added between October and November, 1932. In the final section added at the galley stage, probably early in 1933, further light is cast on Keynes’s interpretation of Malthus in relation to saving and effective demand. In this section of the essay, Keynes states that the quoted letters were only restating the arguments found in Chapter VII, Section IX of Malthus’s *Principles*. Keynes then writes in a footnote:

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<sup>8</sup>Rutherford (1987) demonstrates the strong similarities between Malthus’s arguments in his *Principles* and Keynes’s arguments in the *Treatise*. Of course, the *Treatise* makes no mention of effective demand which in this case is the crucial difference.

“I refer the reader to the whole of section IX as a masterly exposition of the conditions which determine the *optimum* of Saving in the actual economic system in which we live.” (Ibid., p 101)

The section of Malthus’s *Principles* referred to by Keynes is devoted to demonstrating that because of the excessive level of saving “a country with great power of production should possess a body of unproductive consumers” (Malthus, quoted in Ricardo 1966, p. 421). Malthus then states by way of a conclusion:

“But it appears to me perfectly clear in theory, and universally confirmed by experience, that the employment of a capital, **too rapidly increased by parsimonious habits**, may find a limit, and does, in fact, often find a limit, long before there is any real difficulty in procuring the means of subsistence; and that both capital and population may be at the same time, and for a period of great length, redundant, compared with the **effective demand** for produce.”<sup>9</sup> (Ibid., p. 427 - bolding added.)

That Malthus had a different theory of deficient “effective demand” than Keynes would ultimately develop<sup>10</sup> is not really germane. What Keynes takes from Malthus is the desire to demonstrate the importance of effective demand and therefore to refute Say’s Law. This is the critical issue; it is Keynes’s determination to refute Say’s Law which becomes the central theme of the *General Theory*. Keynes rightly understands Malthus to be developing a theory of deficient effective demand due to excess saving. If one follows the train of argument Keynes ascribes to Malthus, Keynes understands Malthus’s argument as proceeding from excessive saving to a fall in effective demand to a fall in profits to a fall in output. There is a good deal of refinement between this 1932 essay and the *General Theory* itself, but this captures the central theme of what was to be developed in the *General Theory* itself.

## Conclusion

It therefore seems highly probable that it was because Keynes read Malthus’s letters to Ricardo in late 1932 that he eventually focused on effective demand in the *General Theory*. Because of his reading of Malthus, Keynes attacked Say’s Law and wrote the *General Theory* to establish variations in effective demand as the major cause of fluctuations in economic activity. This was the crucial issue of Say’s Law and was a point specifically and repeatedly denied by virtually all of Keynes’s predecessors and most of his contemporaries.

If the conclusions to this paper are correct, this adds a critically important element to our understanding of the genesis of the *General Theory*. Indeed, if these conclusions are right, the story of how the *General Theory* came to be written cannot be understood in isolation from Malthus’s role nor is it possible to understand the

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<sup>9</sup>It is interesting that in the very next paragraph, Malthus uses the phrase “propensity to spend”.

<sup>10</sup>This has been argued by many; for example, Schumpeter 1954 p. 481; Blaug 1958, pp 238-240; Corry 1962, p. 126 and Black 1967, p.63. A contrary view has been put by Hollander 1962.

*General Theory* itself without seeing it in relation to Keynes's interpretation of Malthus. Indeed, it would follow from the arguments of this paper that the continuing focus on aggregate demand by macro and business cycle theorists is due largely to the insights and inspiration gained by Keynes from his reading of the Malthus side of the Malthus-Ricardo correspondence during the months of October and November, 1932.

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