Keynes' General Theory

The Preface, and Chapter 1

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Oct 13, 2020 16 2

So, hello paying subscribers and I'm so sorry for the wait. I promise it will probably end up having been worth it, because we are going to talk about the greatest book of economics that most people avoid reading, The General Theory of Employment, Interest and Money.

The first thing I'd like to do is establish my place in the transmission of the dharma as someone who can comment on Keynes. I learned from Jan Kregel and Nathan Tankus. Jan Kregel learned from Joan Robinson and Nicky Kaldor. Joan Robinson and Nicky Kaldor learned from the Master Himself.

Today we are going to be talking about the original preface, and the first chapter – a single page. It may seem like a cop out to even consider the preface, but Keynes takes care to lay out the book's core methodological and economic principles before it even starts.

In fact, the book as a whole can be nearly summarized with one line from the preface: "A monetary economy, we shall find, is essentially one in which changing views about the future are capable of influencing the quantity of employment and not merely its direction." Since we're all good deconstructionists, let's take this sentence apart.

"A Monetary Economy"

I'm assuming a lot of people subscribed to this have at least a passing familiarity with Marx, or at least the idea in Marx that capitalist production is "for profit, and not for use." Though Keynes dismisses Marx in a few places in the literature, it's important to understand that the two of them are starting from this same basic premise, but with a very different affective response. Keynes accepts as obvious the fact that people participate in the capitalist economy in order to make money, not in order to make utility or use values, and moves on.

But to Marx, this fact was abhorrent. The production of "useless" objects simply to make money appears a fundamental irrationality to both Marxists and teens alike. It smacks of hypocrisy and waste, and having to wake up early even though there's nothing to do until 10am. Even worse is the difference between use value – water is very useful for life, yet cheap – and exchange value – diamonds are basically useless outside of some expert level cutting, yet expensive. The world is all out of wack, and value investors are taking a bath. Ideally, this distance between exchange value and use value is eliminated under Communism, and the French theorists will have so much less to compare their signifiers and signifieds to.

The marginalists – the mainstream economists against which Keynes fought – argue that money is a straightforward proxy for utility. In their account, people only want money because of the things that it buys – use values. They sell their labor for money, which they use to buy things, which they employ for their utility. People will only buy things for utility sake, so then necessarily production is for use, rather than for profit. On this reading, money is just a way to avoid a really complicated series of barter transactions. Once everyone gets what they want, the money by which they did it falls out of the story, so why not just divide everything by that year's Consumer Price Index and deal in "real" terms, ask the marginalists. Trade labor for sandwiches, and not pretend the middleman means anything.

So, from the jump, Keynes is rejecting the idea that the economy is guided by ideas of usefulness, or best allocations of scarce resources, or that money is simply a veil for barter, or any of the old right-wing myths.

"we shall find, is essentially one about changing views about the future are capable of influencing"

Here we find the origins of so much of what I'm probably going to end up calling "Mystical Keynesianism." This sounds like I'm being mean, but it's also basically what I believe in, and I think the basis for understanding what Keynes' work means metaphysically and methodologically.

Keynes goes to great lengths in the preface to emphasize that the theory he is presenting is a "dynamical" one, that it is interested in how levels of output and employment change. This is a break from most prior theories, which are mostly comparative statics. By "comparative statics" I mean they take the form of "here's how the world is with Wages equal to X, and here's how it is with wages equal to X+1, what's the difference between these worlds." Sometimes these earlier theories will provide stories about how the movement from one state to another is actuated (Marshall, subsequently critiqued by Sraffa), or how an apparently static situation will progressively intensify (Ricardo), or how a state can intensify so much that it changes (Ricardo II, or "Hegelian Marxism"). Eventually I'm sure we'll wind up talking about Harrod, but that's for a later post.

What is wild here though, is that in all of these earlier accounts, changes in the economy are caused by same-period changes in something that feeds into the economy. In Marshall, it would be something like an exogenous change in the amount of copper available, or a sudden increase in demand for copper pipes. These changes bring about changes in the short term of prices for different goods, which then moderate as more stock is brought online and the economy returns to equilibrium. Believing that there will be more copper later doesn't do anything to change the current market in this model – it just makes one a crank.

In Ricardo, we have extensive margin, where progressively dumpier parcels of land are farmed as the number of farmers increase. Eventually the land gets so shitty that it can't support more farmers, but the number of farmers are also a function of the productivity of the land. The productivity of the land can be improved, but to do that some of the farmers have to quit farming and build better implements. Since the land itself can only feed so many farmers, ipso facto it can only feed so many non-farmers who improve the land. There's a whole savings-investment nexus here, but we're not going to do Capital 3 and departments I and II and all that right now. So, eventually, absent productivity-enhancing technical change, the economy converges on a state of maximum usage and that's that. In this world, if you want to believe something different about the future, that's fine, but it doesn't do anything to the economy you're in. It's either unsaturated and converging on saturation, or saturated and sitting there in equilibrium as farmers are born and die.

Marx adds a lot of flourishes to this Ricardian story, and we will talk about those in due time I'm sure (flying by the seat of my pants here). But, Marx's argument for these purposes is that at the saturation point, the economy hits a phase change and bugs out or Goes Communism Mode rather than just sitting there in saturation. As Trombley likes to point out, Hegel's dissertation was on phase changes in dynamical systems. All this to say, all the belief in the world won't do anything about the Tendency of the Rate of Profit to Fall in Marx's models. It has the same Ricardian underlayment, but some interesting and novel arguments about how that plays out socio-culturally and What It All Means, Man.

By contrast, in Keynes, mere belief about future states of the world – if acted upon – is sufficient to change the current economic world, because the economy is driven by investment. The world doesn't actually have to change for one's viewpoint to change. But at the same time, there isn't really a "world" that's actually there unrelated to apprehension – and yet there is still material evidence of a cognizable past in our apprehensions and factories. It's all very Bergsonian. The mechanisms for this are explained at great and engaging length later, so I won't be going into them here. Just prepare yourselves for Delezue and Whitehead down the line.

"the quantity of employment and not merely its direction"

This is the core of the "economic" argument, as opposed to the methodological or philosophical in Keynes. The older economic traditions – Quenesay, Ricardo, Mill, Mill again, Say, Walras, Jevons, Menger, Marshall, Pigou, – took for granted that all available labor and capital would be employed. They disagreed on how different macroeconomic variables related to one another, and which ones were exogenous to the model, but they broadly agreed that involuntary unemployment was fake. When there were "changing views about the future," the same number of workers would be employed, but they would simply be employed doing different things from before. Changes in technology or consumer demand had no impact on the labor market in these models. When the automobile was invented, some horse-and-buggy workers became Ford workers and that was that. When the fidget spinner was invented, some workers who were making whatever the previous fad object was shifted into fidget spinner production.

These models locked in these dynamics in a couple of places, whether by assuming away the savings-investment nexus, or by making strange assumptions about how the labor market worked, or by assuming certain ways that investment responds to interest rates. The important thing is that all of these end up shaking out to be the same assumption (something Keynes addresses later on, and so we will skip here).

Ultimately, what makes the economic argument of the General Theory so compelling is the fact that it is built around accounting for how involuntary unemployment is possible. Employment is set by demand, which is set by consumption and investment. If there isn't enough consumption and investment, then employment falls, rather than wages. How exactly this happens, and what exactly is to be done about it, and what exactly this means is what the rest of the book works out, step by step.

Some Discourse on Method for Context

So, with the actual economic claims out of the way, we can look at the methodological stance taken in the preface.

The processes of thought and academic practice that Keynes outlines are extremely Kuhnian. This doesn't seem to mean that much, because everyone cites Kuhn and fully got bored of hearing the term "paradigm shift" thirty years ago, but it's a good structuring reference. It is not quite oversimplifying Kuhn to point out that much of his argument boils down to the claim that, in Keynes' words, "the difficulty lies, not in the new ideas, but in escaping from the old ones."

Kuhn breaks science into two kinds: "normal science" and "abnormal science." "Normal science" is basically what people think of when they use the idea "science" to legitimize their beliefs in the popular arena. Kuhn calls it "puzzle solving." Essentially, someone lays out a paradigm, which allows for powerful new solutions to old problems, but which requires a lot of tinkering at the margins to make the different parts of the new framework make sense together. The paradigm gives rules for what kinds of answers are correct, and what kinds of answers are incorrect. Scientists can then have whole careers feeling like they've solved problems and advanced knowledge, because the paradigm gives them rules for deciding when they're right.

"Abnormal science" is the realm of weirdos like Paul Feyerabend or Albert Einstein. Eventually the models created by the processes of "normal science" have so much ad hoccery and drift that they are open to challenge by a totally different framework. The problem is, "abnormal science" doesn't have any clear rules about what counts as true, or a fact. What are the things that quantities of can exist is even under question. In order to get people to sign on to a new paradigm, you have to persuade them in a way that is fundamentally rhetorical. Since there's no meta-rules to adjudicate between paradigms, you have to convincingly demonstrate to the your research community that the new paradigm is a richer field to till. That, or you persuade the new researchers coming up and wait for the old ones to die – the old joke about science advancing one funeral at a time.

And so, Keynes' General Theory did represent a paradigm shift. Old Keynesians – theorists like Alvin Hansen and John Hicks or macroeconometricians like Lawrence Klein and Arthur Goldberger – took up the General Theory as laying the foundations for a new kind of Normal Science. They saw it as laying out a set of puzzles to be solved: elasticities to be estimated, liquidity preferences to be measured. Once these puzzles were solved, the economist would have total control over the economy and its outcomes.

The joint working out of these puzzles by theoreticians and policymakers represented one of the great triumphs in economic history, the postwar boom and *trente glorieuses*. Then, just as quickly, the failure of these "solved puzzles" to explain the experience of the 1970s led to another paradigm challenge that destroyed most of the useful work ever done in macroeconomics. On the whole, they weren't particularly interested in some of the stranger mysteries, the socio-cultural implications, or the role of finance. They also weren't particularly interested in putting forward new theories of production or consumption.

However, there was another group that saw the General Theory as the beginning of the elucidation of a new paradigm, rather than the finished thing. They argued that too much of Keynes' exposition consisted of hedged rhetorical exigencies meant to persuade unsympathetic economists. They felt production and investment were actually much stranger than Keynes went into in the book, and that consumers behaved much more erratically. They saw that distribution was more critical to demand than total income, and had distinct worries about trade and sectoral composition that were left out of the General Theory. Rather than extraneous fights, these extensions were believed to be necessary for the true core of the General Theory to actually make sense. We call these folks "post-Keynesians," and they're largely who I'm going to be writing about here, when I'm not writing about philosophers. Hopefully this guide will help you all through reading the dang General Theory, something not enough people do.

Next installment we talk about Chapter 2, and get into some more background on who Keynes is setting out to refute.

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note to any other fellow curious subscribers of the Veb 'stack: Project Gutenberg of Australia has a PDF with navigable linking available here (http://innovbfa.viabloga[.]com/files/JM_Keynes___Livre___The_general_theory_of_employment_interest_and_money___1936.pdf) of the 1936 version of the General Theory. Veb, thanks for providing the kick in the rear to read this book
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Eduardo Cobián Roig Oct 22, 2020
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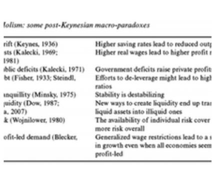
"The Post-Keynesian Worldview in Five Principles"
a talk I gave for the Berggruen Institute on zoom
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gamestop or microfoundations vs microstructure
apologies if this is a little undercooked, i was having fun riffing
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Minsky and Deleuze
"deterritorializing finance," we're having fun here!
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inflation: Oren Cass and Jacques Derrida as Harold Bloom wlog
cost of living as epistemic practice (easy to read)
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Effective Demand
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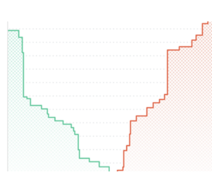
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but really, what did you expect
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The General Theory: Chapter 6
(no appendix tho, that has to wait A While)
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