



Chick's Keynes In Time

My central thesis is that economic theory is always a creature of its time and place, and when the economy evolves, or it is desirable to apply the theory to a different place, theory must be adapted. Some aspects remain and others must be recast.

Chick, 2018: 'On the relevance of the *General Theory* at 80'.

Geoff Tily, Trades Union Congress

32nd PKES Annual Workshop, SOAS, 28 June 2023

Joan Robinson at the 1971 meeting of the American Economic Association: 'The second crisis of economic theory'

I am talking about the evident bankruptcy of economic theory which for the second time has nothing to say on questions that, to everyone except economists, appear to be in most need of an answer.



The good and the bad

... the *General Theory* gives a far richer understanding of the structure of macroeconomic interactions and methods of analysing them than much of what has been written since.

Macroeconomics After Keynes

For the profession at large, the 'Keynesian Revolution' represents a policy conclusion – a view of pathetic shallowness which the 'new Keynesians' perpetuate.

Chick, 2000A, p. 104

Chronology / schematisation for Chick's work in time

When	When	Section	Detail
1	1973	<i>Theory of Monetary Policy</i>	
2	1965-1975	Resisting Keynesian regenerations	
3	1983	<i>Macroeconomics after Keynes</i>	
4	1983-2007	Theoretical interventions	Contributions and challenging duals: <ul style="list-style-type: none"> • Monetary economics • Methodological foundations
5	2008-2023	Practical interventions	'nobody saw it coming' Euro / deflation and distribution Northern Rock / austerity Keynes and Policy in the Crisis Industrial policy / public ownership
6.	Into the Present and Future		

1. *Theory of Monetary Policy* (and duals)

If we *are* 'all Keynesians now', it is only because the word has ceased to mean anything at all

... While Monetarist and Keynesian theories are converging, the gap between Keynesian conceptions and those of Keynes is growing ever more apparent.

TMP, p.1

Dualism is the propensity to classify concepts, statements and events according to duals, as belonging to only one of two all-encompassing categories: true or false, logical or illogical, positive or normative, fact or opinion, and so on.

Dow, 1985, p. 14

1. *Theory of Monetary Policy* (and duals)

“[IS-LM fails] “because it is static and ignores the changes in expectations that are the driving force of the economy in, for example, Keynes’s model...”

It is the attempt to move away from the static framework that makes Keynes’s *General Theory* ... so untidy and difficult – and relevant” (*TMP*, pp. 4-5).

2. Against the Keynesian regeneration

- Clower, 1965: 'The Keynesian Counter-revolution: A Theoretical Appraisal'
- Leijonhuvud, 1968: *On Keynesian Economics and the Economics of Keynes*

“This last temptation is the highest treason: To say the right thing for the wrong reason”.

“The burden of the argument in this paper is that such views are erroneous and that they obscure the true nature of the Keynesian Revolution” (*MMK*, p. 57).

In contrast, the *General Theory* presents a model of a *production* economy, using **money**, moving through **time**, subject to **uncertainty** and the possibility of *error*. Is it any wonder that Walras' Law does not hold!? (1978, VC emphasis)

‘A monetary theory of production’ (Keynes, 1933, *CW* XIII, pp. 408-11)]

2. Against the Keynesian regeneration

Thanks are also due to the army of colleagues who were discouraging, though it would be impolite (much less impolite to them than they were to me) to name them; they made me think – and fight.

MMK, p.81

No paper has ever cost me such expense of spirit: every inch of it has been fought over

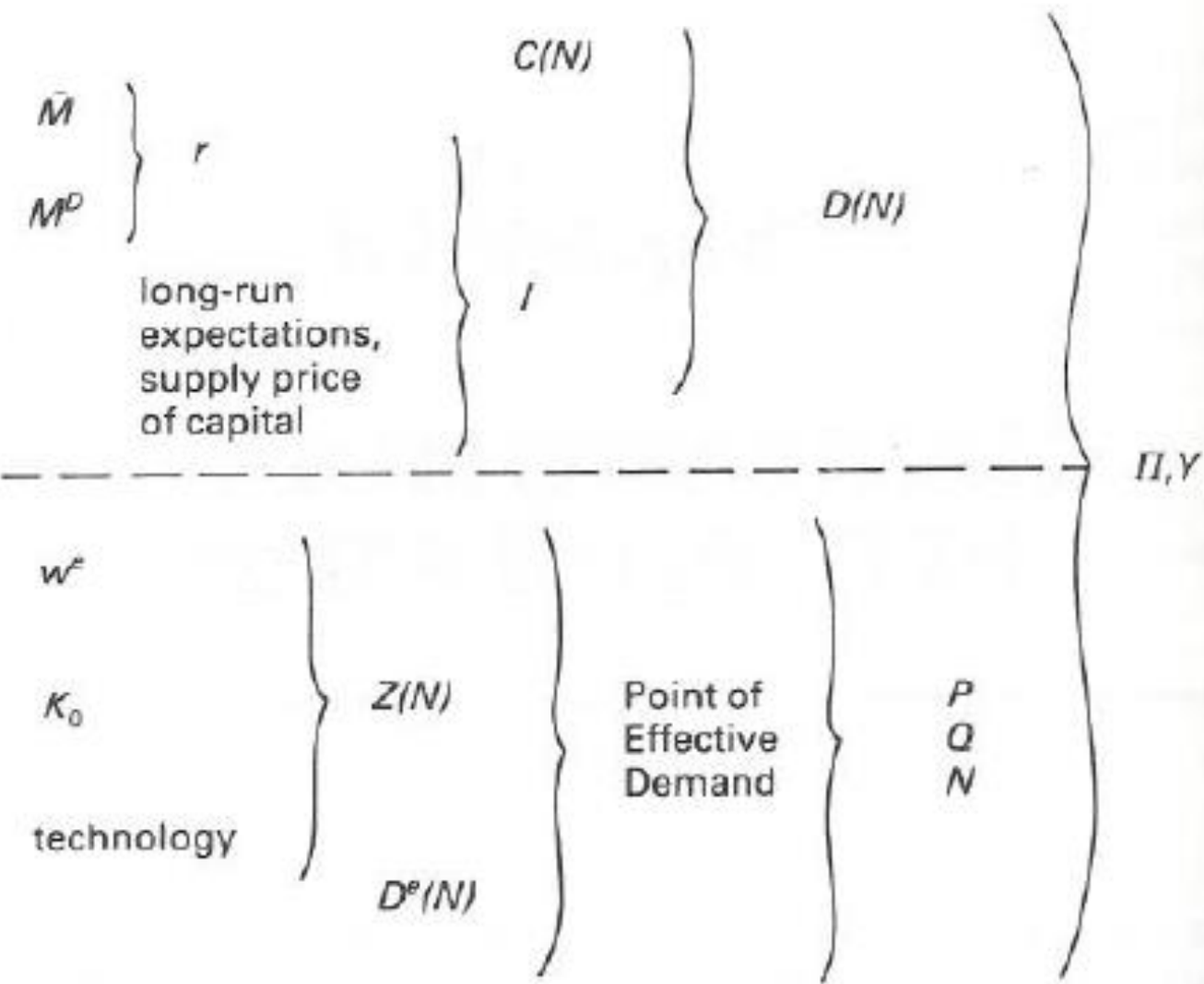
MMK, p. 55

MACRO ECONOMICS AFTER KEYNES

A RECONSIDERATION
OF THE
GENERAL THEORY



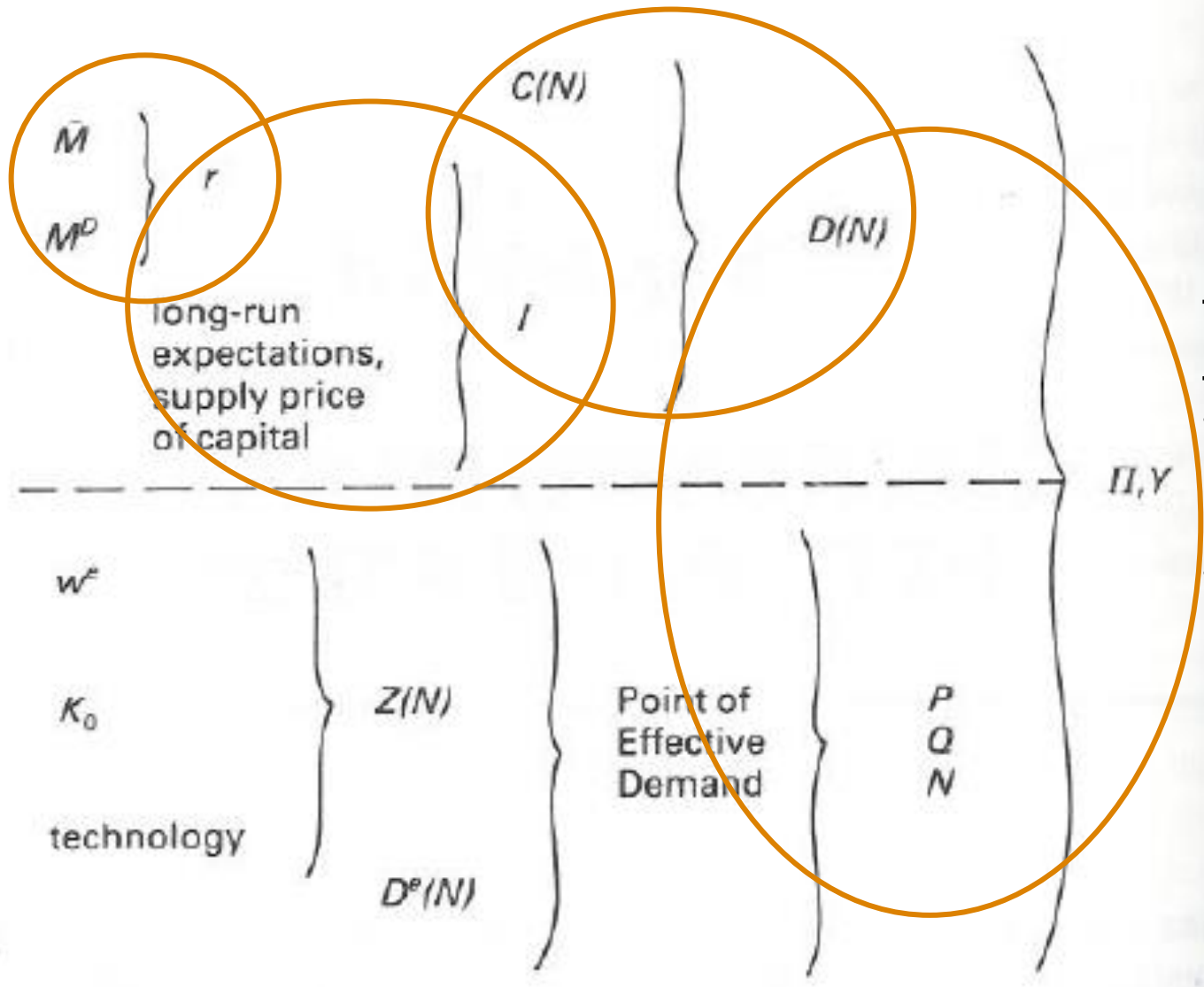
3. Macroeconomics After Keynes



- **Conclusion**

From this new perspective comes the astonishing conclusion that the chief cause of unemployment is not so much that the real wage is too high, but that the *rate of interest* is too high. What an implausible thing to say. What relationship could there possibly be between unemployment, the most human of problems, and the rate of interest, the driest of economic variables? That is a major theme of the *General Theory*. (MAK, p. 10)

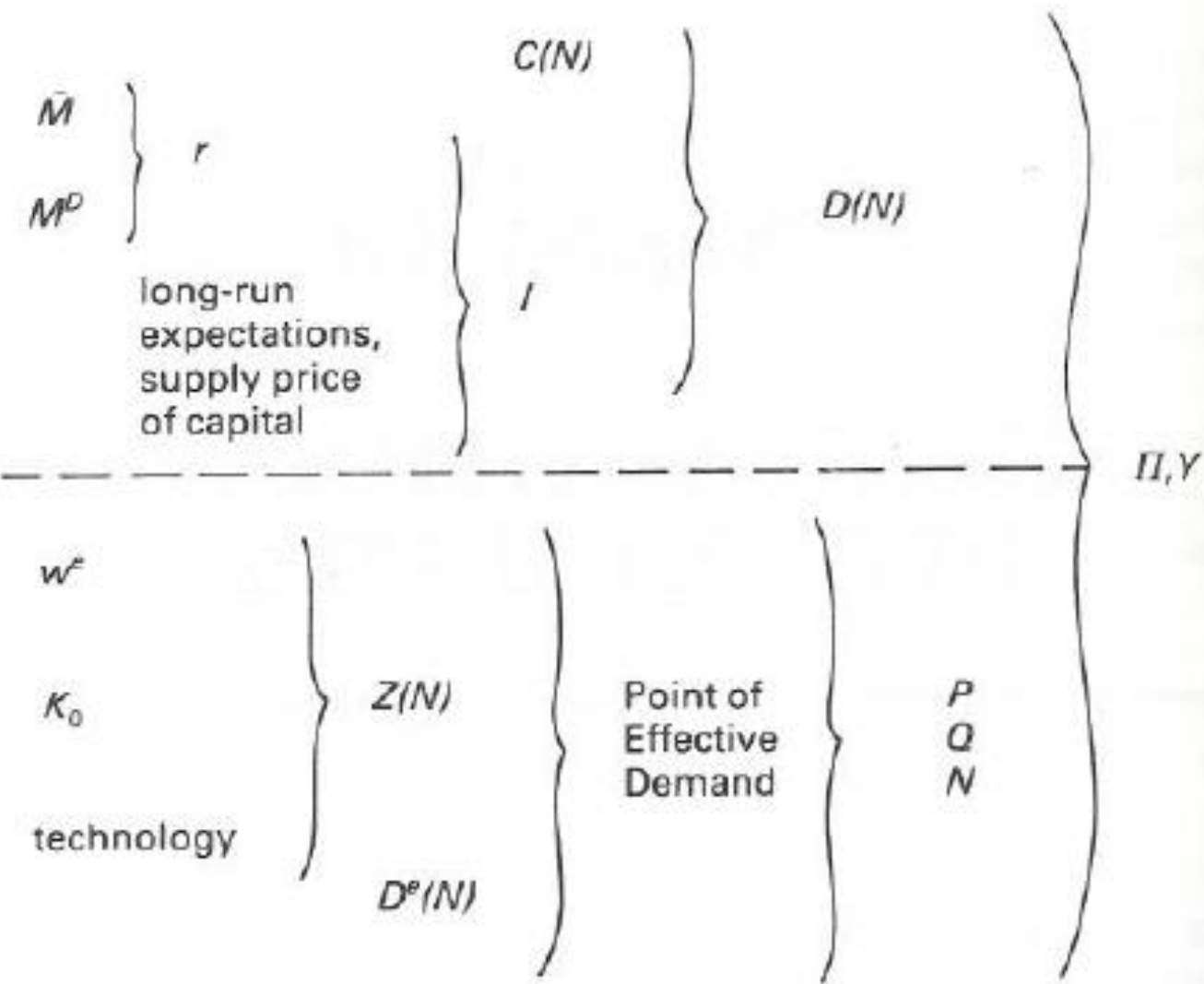
3. Macroeconomics After Keynes



- **Method:**

Keynes's method is something of a compromise, using the partial equilibrium method to analyse a market taken in isolation, then feeding the result back into the mainstream of economic events, which were themselves moving meanwhile. There is a distinct time-stream of events, in sharp contrast to general equilibrium, where everything happens at once, ... (MAK, p. 15, my emphasis)

3. Macroeconomics After Keynes



- **Conclusion**

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4. Theoretical interventions (selected): 1983-2007

- 1986: Dow: *Macroeconomic thought: A methodological approach*
- 1986: 'the evolution of the banking system and the theories of saving investment and interest'
- 1988: 'A PK perspective on the relation between banking and regional development'
- 2002: 'Lost and found: some history of endogenous money'
- 2002: Dow: 'Monetary policy with endogenous money and liquidity preference a non-dualistic treatment'
- Methodology
- 1998: 'On knowing one's place the role of formalism in economics';
- 1988: 'Two further essays on equilibrium'
- 2002: 'Keynes's theory of investment and necessary compromise'
- [2023: 'Holism and the fallacy of composition in macroeconomics']

5. Practical interventions: 2008-2023

Gresham College 2012, '*Nobody* saw it coming'



But such is the power of the monoculture which mainstream economics inhabits that important warnings were given no credence: they did not fit the belief system and were therefore ignored. Those who predicted the crisis were outside the club; to the mainstream they were nobodies; and nobody saw it coming.

5. Practical interventions: 2008-2023

1999: 'Deflation and distribution'

... the facts are consistent with a similar [to the 1920s] hidden agenda of redistribution in the policies of the British Conservative governments of the 1980s and 90s and of the Maastricht Treaty. The former is not so surprising: it is one of the functions of the Tory party to champion Capital in the struggle for relative shares ... Maintaining the interests of Capital is also traditionally the concern of central bankers ... The mystery is that enshrining this particular bias in an international Treaty as a permanent arrangement should be acceptable (*ibid.*, p. 82, my emphasis)

5. Practical interventions: 2008-2023

2010: 'Keynes and Policy in the Crisis'

- Keynes was in favour of low interest rates, not only in a crisis but as a general principle, in order to stimulate investment and prevent recessions from occurring (Tily 2007).
- My view of the present financial crisis is that it is an epi-phenomenon [secondary symptom] ... albeit the most far-reaching of any financial crisis to date. But to concentrate only on the financial side disguises the underlying problem in the real economy: that we have had a long period of capital accumulation and a slowdown of technical change and population growth in the West.

6. Into the Present

2011: Review of *A Modern Guide to Keynesian Macroeconomics and Economic Policies*, Eckhart Hein and Englebort Stockhammer (Eds.)

... an overall impression of intellectual tranquillity and settled methods and models amongst Keynesian/Post-Keynesian practitioners, which I think slightly misleading.

... methodological foundations are not much in evidence in the bulk of the book, nor are Keynes's theoretical ideas. Where is liquidity preference or the marginal efficiency of capital, and where is the uncertainty so strongly associated with these [*sic.*] ideas?

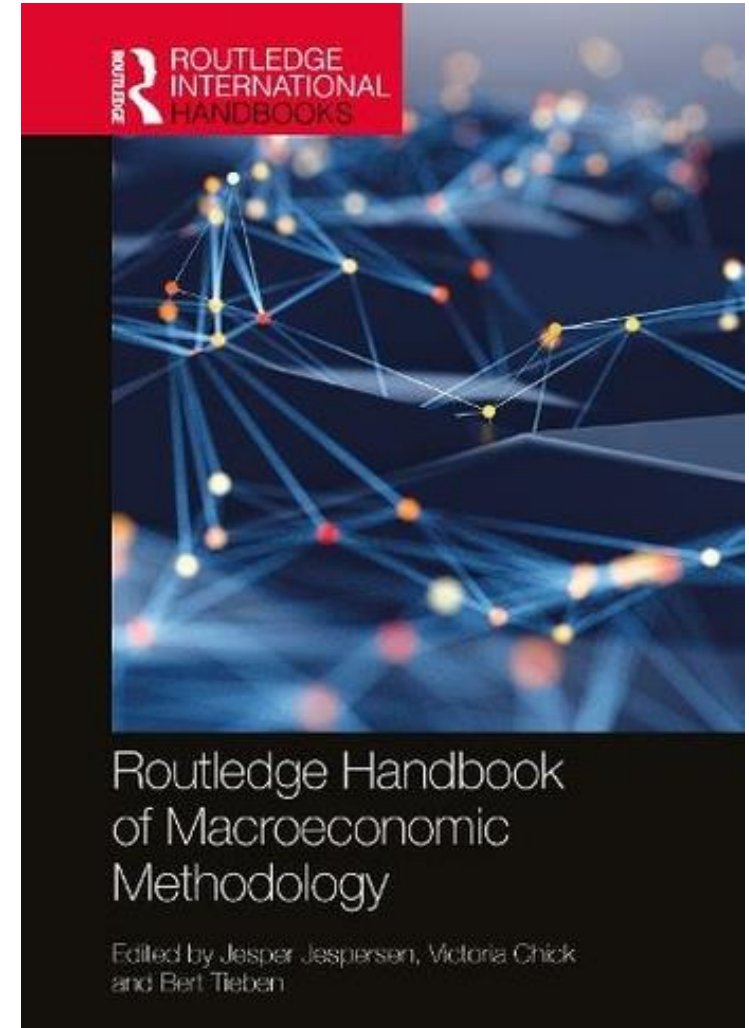
... a tendency among Post-Keynesians to avoid bringing disputes among heterodox schools into the open, perhaps because being heterodox creates a bunker mentality. But this unwillingness partly explains the muddled thinking behind both policy responses to the current crisis and criticisms of them. It is time to be clear.

6. Into the Present

Charles Maier cited in Tily (2023), Eds. Chick, Jespersen and Tieben.

American blueprints for international monetary order, policy towards trade unions, and the intervention of occupation authorities in West Germany and Japan sought to transform political issues into problems of output, to adjourn class conflict for a consensus on growth.

Maier, C. S. (1977) 'The politics of productivity: Foundations of American international economic policy after World War II', *International Organisation* 31 (4), (Autumn), 607–33.



Victoria Chick (1936-2023)

So, the challenge [to make the economists apply a realistic method to macroeconomic analysis], mentioned by Keynes nearly 80 years ago, is still with us to be fulfilled. (2023)



Chick and Jespersen, 'Keynes's macroeconomic method'

“I suppose that to most people economists are very dull dogs and the thoughts of their being cross within or without the confines of their discipline is a surprising one.”

<https://www.gre.ac.uk/research/activity/faculty-of-business/thames-papers-in-political-economy>

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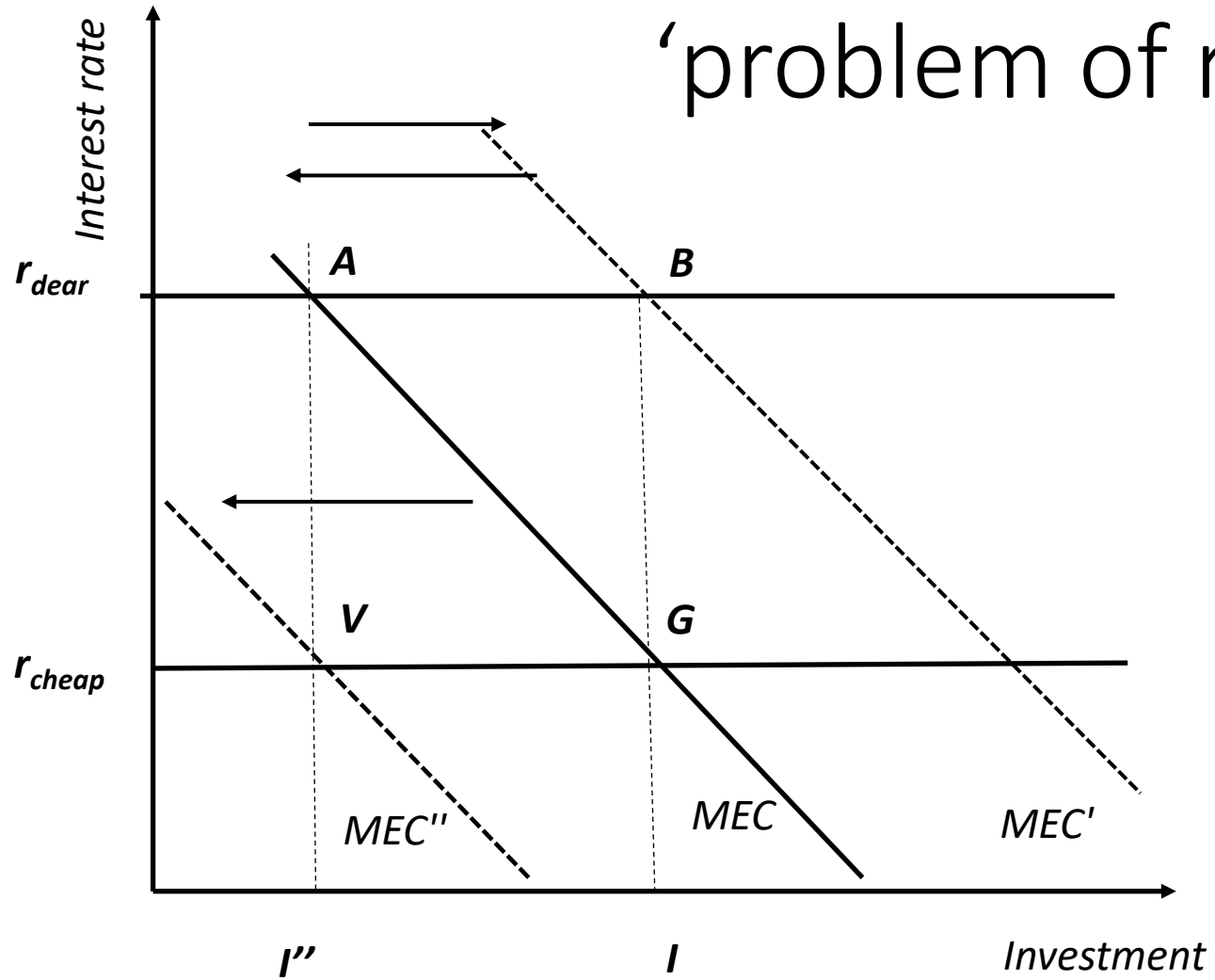
Thames
Polytechnic

G. C. Harcourt

**Capital Theory:
Much Ado about
Something**

Thames Papers in
Political Economy

Cheap money *versus* 'problem of real economy'



Where Keynes falls short

- Balance sheet / stock flow
- Rudimentary banking
- Consumer credit
- Long run

The relevance of the GT at 80 (2018)

- Globalisation
- Privatisation and deregulation
- Competition, financialisation and new banking model
- Finite resources, global warming
- inequality

6. Grammar and writing important

the book suffers from unfortunate prose. Words are clumsily and inaccurately used. (On p. 153, an estimate is “very much significantly different from zero”. A preferred habitat is defined (p. 214) as one to which investors “will on balance adhere but which, as suitable opportunities arise, they are not adverse to move out of”.) There are enough words in italics and inverted commas to keep one’s nerves continually on edge, and repetition abounds.

Volume of investment determined by:

- marginal efficiency of capital schedule
- rate of interest

Rate of interest determined by :

- liquidity preference schedule
- quantity of money

Volume of employment determined by:

- volume of investment
- multiplier

Value of multiplier determined by:

- propensity to save

(Harrod to Keynes, 1935)