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Abstract

A brief study of the life and times and selected writings of John Maynard Keynes is used as a backdrop against which to assess the usefulness and relevance of the modern clinical and formally packaged presentation of his ideas. Strengths and weaknesses of the modern approach are defined and comment is offered. The paper is an “in house” contribution to the activities of a Cultural Delegation to the People’s Republic of China.

Introduction

In a recent paper Wu Zhong-lun (Wu, no date) speaks, among other things, of regional co-operation between China and Australia now and in the future. Trade, friendship and co-operation are mentioned towards the end of the paper. In 1986, a Delegation from the Darling Downs Institute of Advanced Education, Toowoomba, Australia, will visit China and this paper is written in celebration of that cultural exchange and the opportunity it will provide for friendly co-operation.

The Nature of this Paper

This paper is written essentially to demonstrate the manner in which Keynesian economics is taught in Universities and Colleges in Australia at first year level. But it has a second purpose. It seeks to present a brief view of John Maynard Keynes the man and to demonstrate something of his greatness and warmth and catholic world vision. It seeks to do this essentially because it was very much the spirit of Keynes which ensured the
acceptance of his *General Theory of Employment, Interest and Money* and because today the spirit of the philosopher king is all but absent amongst economists of the West who, whether they accept it or not, are “all Keynesian now” (Editorial, 1965).

There is some agreement between economists that there were two parts to Keynes’ approach to the attainment of full employment: first create full employment through fiscal spending and second, by planning the rate and direction of investment, ensure that full employment is maintained at stable prices. But there has always been a third part, a part which is incapable of being understood by many of today’s (1980s) clinically trained economists, a part which is placed in the ‘too hard’ basket by others, and a part many might deny. This third part requires that the so called real world business of the first two parts be the preserve of enlightened humans. The fiscal attainment of full employment through managed investment is as much a value full and moral problem as it is a technical problem. So too is the distribution, through stable employment and wage rates, of the products of that employment. This third aspect of Keynes, which springs from his writings at almost every page, has been continually ignored by more modern economists who, in large numbers, appear to have convinced themselves that they can say *what is* without worrying too much about *what ought to be*.

In retrospect, the early successes of Keynesian principles allowed many governments not to fully address in practice even the second part of Keynes’ teaching, let alone acknowledge that the third component requires enlightened polemics, so that today (the 1980s in Australia) the Keynesianism that is being criticised for failure is not the Keynesianism of the master. On the contrary, it is the Keynesianism of limited positive economists, offered to governments who are either unable or unwilling to understand their real obligations in the matter.

A full appreciation of this third aspect of Keynesian economics can best emerge from a quiet and patient study of the writings of Keynes and of his life and times. The discerning reader will find a common theme in the acid biting words of the young man and in the more reserved subtlety of the mature man, namely, the vision of applied economics as a “do good” science. This paper will contain but a brief sketch of Keynes’ achievements, highlighted by short extracts from some of his works and letters. A real feast awaits those who go to Keynes’ wider writings.

The decision to write a paper which contrasts the modern clinical version of Keynes with its passionate humane origins was taken on three accounts. First, Keynes was a rare man, an international, a citizen of the world from whom we might all learn. His writings, and the example of his life, link modern economics with the ancient wisdom of the Platonic philosopher-king and the question of what form of social organisation will best permit the

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1 This paper which forms part of the arrangements associated with the Cultural Delegation’s visit to the Peoples Republic of China was written for collegial purposes and an in-house presentation at Hubei University, Wuhan. All of the quotations used in Part A of the paper are taken from Harrod’s splendid biography of Keynes (Harrod, 1972). Indeed the whole knowledge content of Part A of this paper, and most of the quotes about Keynes, draw heavily on Harrod, as this book can easily be made easily available in China. Views and opinions expressed outside of such content are those of the author.
good (just, fair, moral) life. Such a subject is fitting material for a cultural exchange. Second, governments in the West have generally pulled away from maintaining fiscally attained full employment through planning. Philosophically, detailed planning per se has been unacceptable there. Not so in other countries which have faced their planning responsibilities head on and who are now more skilled in the area. Keynesian economics might better fit these economies. Thirdly, China’s vision, as explained in the paper by Wu Zhong-lun is a long term vision based on a theme of improvement for all. Such a vision, if it is able to be continually seasoned with wisdom and an ongoing search for the good life, will bring to Keynesianism its third integral part, which is largely absent in the West, and without which it may hardly succeed.

Keynesianism, far from being pronounced by some as being no longer relevant, may yet await its greatest successes.

The Structure of this Paper

This paper is divided into two parts which are complete in themselves. Part A will discuss Keynes and his life. Part B will discuss Keynesian economics as it is taught in Universities and Colleges of Advanced Education in Australia today (the 1980s). Readers not interested in the history and philosophy aspects of Keynes may, with ease, go directly to Part B. The manner in which Parts A and B complement each other, that is, the manner in which present fiscal economics might be made more relevant and effective by consideration of questions of value, is discussed by way of conclusion.

Part A: Keynes the Man

John Maynard Keynes (1883-1947) was born the year Marx died but in his own words to George Bernard Shaw he was not attracted to Marx. Along with Churchill he has become known as one of the most famous Englishmen of his age. To read the “classics” in economics is to read Adam Smith, David Ricardo, John Stewart Mill, Alfred Marshall and Maynard Keynes.

Perhaps he was the last of a kind. He certainly has his denigrators, some of whom are so preoccupied with cleaning out the Augean stables that they appear not to have thought about how and by whom these stables are to be subsequently filled. Other thinking economists take the view that until there is a new injection of Keynesian savoir faire into the chancellories of the world it would be most foolish to throw out the old in mere expectation of the new.

His Early Childhood and Youth and His Journey from Mathematics to Economics through Philosophy: 1883-1909

Childhood and Youth

Keynes was one of two brothers and one sister born of comfortable and secure middle class parents who were active in public life. His father John Neville Keynes was a
Cambridge Don and successful scholar who lectured in Economics and Logic. His mother, Florence Ada Keynes was the first woman to hold the mayoralty of Cambridge. From the security of this background Keynes was able to develop into a man of catholic pursuits, the possessor of a humane liberal spirit whose radical mind was continually checked and balanced by a reasoned but passionate desire for actions (not words) which might make the world a better place.

He won a scholarship to Eton from his local prep school. At Eton he won prizes in Classics, Mathematics, History and English. He rowed, debated, acted and upon going up to Cambridge was already known for his cleverness and sophistication. He studied philosophy under Bertrand Russell and Alfred Whitehead and obtained a first. He became President of the Union and President of the Liberal Club. His membership of the Apostles Club (a secret society) introduced him to the Bloomsbury Group and among these intellectuals he soon became a leading light. Some biographers say that the rationalism, liberalism and general optimism of Keynes is the legacy of Bloomsbury. Certainly his professors were of limited importance at this time and throughout his life he remained a member of, if not central to, the Bloomsbury set.

In 1905 he graduated with a first in Mathematics. Subsequently he returned to Cambridge to prepare for the Civil Service Examination and this required that he study Economics under A.C. Pigou and Alfred Marshall. He graduated second of 104 candidates (whatever did finally happen to Niemeyer?) and was judged worst for his performance in Mathematics and Economics. His own words tell the story:

J.M. Keynes to G.L. Strachey, 4 October 1906

My marks have arrived and left me enraged. Really knowledge seems an absolute bar to success. I have done worst in the only two subjects of which I possessed a solid knowledge – Mathematics and Economics. I scored more marks for English History than for Mathematics – is it credible? For Economics I got a relatively low percentage and was the eighth or ninth in order of merit – whereas I knew the whole of both papers in a really elaborate way. On the other hand, in Political Science, to which I devoted less than a fortnight in all, I was easily first of everybody; I was also first in Logic and Psychology and in Essay. (Harrod, 1972, p. 121)

From Mathematics to Economics

In 1906, Keynes entered the India Offices’ Military Department where for two years he attended more to his own work than he did to the demands of his office, which were less than demanding:

When at the end of two years he resigned from the India Office he told Page that all he had succeeded in achieving during that time was getting one pedigree bull shipped to Bombay. This was no doubt a Keynesian exaggeration. But there were frequent complaints of his
having nothing to do during office hours. ‘Business is very slack here. I did not do one minute’s work yesterday. I have not averaged an hour’s office work a day this week so that I am well up to date with the dissertation.’ (Harrod, 1972, pp. 141-142)

His own work was subsequently to be published as *A Treatise on Probability*. For Keynes, probability was the relationship between one set of propositions called evidence and another set called conclusions such conclusions being more or less valid according to grounds supplied by the first. His work, though mathematical, is one of logic rather than science.

By 1908 his dissertation had not won him a fellowship to Kings and he resigned a resident clerkship so that he could freely concentrate on its enlargement for publication. During most of the time between 1908 and 1911 his energies were absorbed in this task which was not finally completed until 1921. His resolve was interrupted by an appointment to Cambridge.

A.C. Pigou had replaced Alfred Marshall as Professor of Political Economy and Keynes’ own father had accepted Chairmanship of the Board, also on Marshall’s resignation. Pigou was to pay Keynes £100 a year out of his own pocket for lecturing, a custom started by Marshall, and the die was cast. Keynes had been led by his intensive study of probability from mathematics to economics via philosophy.

**The Young Economist; 1909-1919**

Soon after settling in at Cambridge, Keynes began to publish. Articles appeared in the *Economic Journal*, letters appeared in the *Economist*. His main concern was with Indian currency and finance and he also involved himself in the second general election of 1910 as a Liberal Party campaigner. In 1911 he accepted editorship of the *Economic Journal* which he subsequently nursed to economic viability. In 1913 he became Secretary to the Royal Economic Society. He accepted a place (by invitation) on the Fowler Commission which finally enquired into Indian currency and finance. Certainly one can acknowledge the hectic pace at which he must have been living. Perhaps one so intelligent might not himself find such a pace hectic.

In 1915 he entered Treasury for the duration of the 1914-1918 war. Articles continued to appear in such periodicals as the *Economic Journal* and the *Quarterly Journal of Economics* and elsewhere. Indeed at no time does this paper assume to fully report his literary endeavours. A good deal of his time and energies were spent as an independent advisor to Lloyd George then Chancellor of the Exchequer. Keynes appears to have given advice without fear or favour and Harrod (1972) gives an interesting explanation of the state of affairs that had developed.

> Keynes is, of course, a most brilliant man, and the right way to treat him is to pick his brains; then he can be most useful: but you must
never put him in a responsible position, because he will let his enthusiasm carry him off the rails. (Harrod, 1972, p. 242).

Harrod goes on to say that nothing could have been further from the truth. On the contrary:

he absorbed all good information readily, welcoming it from the humblest source, and knew how to reject the shoddy. In the quest for truth he was essentially judicial. There was none of the self-importance, of the reluctance to discard a view that has become associated with one’s ego, of the terror of renouncing what one has committed oneself to in public, which are the besetting sins of great persons. (Harrod, 1972, p. 243)

By 1916 he was socially well connected and would attend the same parties as the Prime Minister. When Asquith succeeded Lloyd George as Prime Minister, Keynes was given his own staff and represented the Government officially in Paris and New York. These times were grand times for him.

J.M. Keynes to Mrs Keynes, 11 February 1917

I was approved and included in the final list to get a CB this honours list. But when Lloyd George saw it he took his pen and struck my name out, - an unheard of proceeding. Purely revenge for the McKenna War Council Memoranda against him, of which he knows I was the author. I can’t say that I care appreciably. But you won’t see my name in tomorrow’s list. However (partly I suspect to cancel the above) I have got a much more solid advantage in these last few days, having been properly constituted head of a new Dept, with a staff behind me, to deal with all questions of External Finance. It will be an enormous advantage to have a staff of my own, whom I can organize according to my own ideas. I have been given some very good men and I hope before long to develop a great deal of work, which is now entirely in my own hands, and to get much freer. I was told that I could have more pay if I asked for it. But I didn’t. (ibid, 256)

J.M. Keynes to Mrs Keynes, 15 October 1917

Before you get this letter you will have had my telegram to say that I am safely back…We are travelling one of a convoy with an escort, - it is a very beautiful sight, seven great liners, with a total population I suppose approaching 20,000 steaming in formation with a cruiser at their head and two destroyers on their flanks. Today we are in the extreme danger zone, and as it is a horribly clear afternoon we are looking out rather anxiously for the additional escort of destroyers and perhaps hydroplanes which was to have joined us last night but has not yet turned up…Lockhart’s Life of Scott has been my chief
solace; but that’s now finished and I’m very much enjoying Dr Thorne...As I am carrying despatches and have the best cabin on board, I sit at meals next the Captain of the ship along with the American colonels. These are innocent middle-aged gentlemen from the Mexican border with whom I get on very well and spend unnumbered hours playing poker – at moderate expense to my pocket. (Harrod, 1972, p. 222)

J.M. Keynes to Mrs Keynes, 6 December 1917

I got safely back on Wednesday (from Paris this time), after nearly a week’s absence, travelling very comfortably by special trains and destroyer, by which latter 18 miles of the Channel was crossed in half an hour. I enjoyed Paris very much, but it was rather hard work with perpetual conferences and entertainments and by no means the amount of sleep I am accustomed to. On the last day I actually reached the point of talking French!

At the final Plenary Conference of the Dixhuit Pays Inter-Allies I sat with Mr Balfour, Lord Reading and Lord Northcliffe (sitting between the latter two) representing the British Government! (Harrod, 1972, pp. 260-261)

But his joie de vivre was soon to turn to disgust. At the war’s end Keynes found himself a member of the Reparations Commission. This Commission, among other things, was in discussion on ways to make Germany pay for the destruction caused by the war she had started. A Committee within the Commission was headed by W.M. Hughes, Prime Minister of Australia and by Lords Cunliffe and Sumner; Cunliffe was Governor of the Bank of England and Sumner was a respected Judge. The Hughes-Cunliffe Committee as it came to be known pushed the line that Germany should repay £24,000 million at £1,200 million a year. There was much too and fro and Keynes lost the day. He had pointed out that in order to fulfil such an obligation imposed on her, Germany would need to capture all of France’s post war trade and also one half of Britain’s. His alternative plan, which involved the issue and purchase of bonds (financed by America) would allow Germany to retain her working capital so that some war reparations might be met.

Keynes’ position in the proceedings was senior and his opinions for this are somewhat startling. That he was to resign in protest, not into inactivity but into activity, reveals to future generations his superior strengths. The series of quotes below is far more eloquent in the telling of the story it than anything I am likely to write.

On his official position:

J.M. Keynes to Dr J.N. Keynes, 16 March 1919

I am Deputy for the Chancellor of the Exchequer on the Supreme Economic Council with full powers to take decisions; also one of the two British Empire representatives on the Financial Committee of the
Peace Conference; chairman of the Inter-Allied Financial Delegates in Armistice Negotiations with Germany; and principal Treasury Representative in Paris. All of which sounds rather grander than it is, but it’s a full day’s occupation. (Harrod, 1972, p. 275)

On Cunliffe and Sumner:

If we can quiet down the Heavenly Twins [Lords Cunliffe and Sumner] by agreeing any fool report for the Three and then get rid of them by winding up the Commission, we can get around with some human beings and start quite afresh. (Harrod, 1972, p. 276)

On Clemenceau (the French Prime Minister):

He felt about France what Pericles felt of Athens – unique value in her, nothing else mattering; but his theory of politics was Bismarck’s. He had one illusion – France; and one disillusion – mankind, including Frenchmen, and his colleagues not least. (Harrod, 1972, p. 300)

On Wilson (the American President):

At the crisis of his fortunes the President was a lonely man. Caught up in the toils of the Old World, he stood in great need of sympathy, of moral support, of the enthusiasm of the masses. But buried in the Conference, stifled in the hot and poisoned atmosphere of Paris, no echo reached him from the outer world, and no throb of passion sympathy, or encouragement from his silent constituents in all countries. He felt that the blaze of popularity which had greeted his arrival in Europe was already dimmed; the Paris Press jeered at him openly; his political opponents at home were taking advantage of his absence to create an atmosphere against him; England was cold, critical and unresponsive. He had so formed his entourage that he did not receive through private channels the current of faith and enthusiasm of which the public sources seemed dammed up. He needed, but lacked, the added strength of collective faith. The German terror still overhung us, and even the sympathetic public was very cautious; the enemy must not be encouraged, our friends must be supported, this was not the time for discord or agitations, the President must be trusted to do his best. And in this drought the flower of the President’s faith withered and dried up. (Harrod, 1972, p. 300)

On Lloyd George (the British Prime Minister):

But it is not appropriate to apply to him [Lloyd George] the ordinary standards. How can I convey to the reader, who does not know him, any just impression of this extraordinary figure of our time, this syren, this goat-footed bard, this half-human visitor to our age from the hag-
ridden magic and enchanted woods of Celtic antiquity? One catches in his company that flavour of final purposelessness, inner irresponsibility, existence outside or away from our Saxon good and evil, mixed with cunning, remorselessness, love of power, that lend fascination, enthrallment and terror to the fair-seeming magicians of North European folklore. Prince Wilson sailing out from the West in his barque George Washington sets foot in the enchanted castle of Paris to free from chains and oppression and an ancient curse the maid Europe, of eternal youth and beauty, his mother and his bride in one. There in the castel is the King with yellow parchment face, a million years old, and with him an enchantress with a harp singing in the Prince’s own words to a magical tune. If only the Prince could cast off the paralysis which creeps on him and, crying to heaven, could make the sign of the Cross, with a sound of thunder and crashing glass the castle would dissolve, the magicians vanish, and Europe leap to his arms. But in this fairy-tale the forces of the half-world win and the soul of Man is subordinated to the spirits of the earth. (Harrod, 1972, p. 300)

On the whole affair:

J.M. Keynes to Duncan Grant, 14 May 1919

I have been as miserable for the last two or three weeks as a fellow could be. The peace is outrageous…Meanwhile there is no food or employment anywhere, and the French and Italians are pouring munitions into Central Europe to arm everyone against everyone else. I sit in my room hour after hour receiving deputations from the new nations. All ask, not for food or raw materials, but primarily for instruments of war against their neighbours…

One most bitter disappointment was the collapse of my grand scheme for putting everyone on their legs. After getting it successfully through the Chancellor of the Exchequer and the Prime Minister and seeing it formally handed to Wilson and Clemenceau, the American Treasury (from whom no more was asked than any one else) turns it formally down as a most immoral proposal which might cost them something and which senators from Illinois would not look at. They had a chance of taking a large, or at least a humane, view of the world, but unhesitatingly refused it. Wilson, of whom I have seen a good deal more lately, is the greatest fraud on earth. The weather is very fine. I spent last weekend in Fontaine-bleau Forest and tried to get to Chartres, but was defeated by two punctures to my motor. Do write to me and remind me that there are still some decent people in the world. Here I could cry all day for range and vexation. The world cannot be quite as bad as it looks from the Majestic.
A week or two ago I went to a Matisse exhibition and enclose the catalogue. I like the latest least. Am I right in thinking that he is becoming almost academic? (Harrod, 1972, pp. 292-293)
On his Resignation:

Austen Chamberlain to J.M. Keynes, 21 May 1919

Bradbury has just shown me your letter of the 19th. I know how great a sacrifice of personal inclination, and even more, you have made in continuing your work for us in Paris. On your side I think you know how much I have valued and appreciated the enormous assistance which you have given us…

Bradbury will write to you as to the other members of the staff but I could not leave to him the expression of my strong feeling that a continuation of your services for the present is of great importance in the public interest, nor can I refrain from making my personal appeal to you to continue your help until the situation is more clearly defined. (Harrod, 1972, pp. 256-257)

J.M. Keynes to Austen Chamberlain, 26 May 1919

I appreciate your letter very much, just as I have had good reason to appreciate my treatment by the Treasury all through; and if my only grounds for leaving were the need of a rest and the desire to get back to my own work, I could not resist your appeal. But that is not the position. I was so anxious to leave this Conference on general grounds that I did not like to make too much fuss about my reasons arising out of my disagreement with the policy which is being pursued here. But I stated them in my previous letter and to me they are very real and important. We have presented a Draft Treaty to the Germans which contains in it much that is unjust and much more that is inexpedient. Until the last moment no one could appreciate its full bearing. It is now right and necessary to discuss it with the Germans and to be ready to make substantial concessions. If this policy is not pursued, the consequences will be disastrous in the extreme.

If, therefore, the decision is taken to discuss the Treaty with the Germans with a view to substantial changes and if our policy is such that it looks as if I can be of real use, I am ready to stay another two or three weeks. But if the decision is otherwise, I fear that I must resign immediately. I cannot express how strongly I feel as to the gravity of what is in front of us, and I must have my hands quite free. I wish I could talk to you about the whole miserable business. The Prime Minister is leading us all into a morass of destruction. The settlement which he is proposing for Europe disrupts it economically and must depopulate it by millions of persons. The New states we are setting up cannot survive in such surroundings. Nor can the peace be kept or the League of Nations live. How can you expect me to assist at this tragic farce any longer, seeking to lay the foundation, as a Frenchman puts it, ‘d'une guerre juste et durable’.
The Prime Minister’s present Austrian policy puts me in an equal difficulty. Lords Sumner and Cunliffe have produced a Reparation Draft of which I have already sent you a copy. Now General Smuts and I are invited to join their deliberations. But the British representation cannot be fundamentally divided against itself, and it is necessary to choose. I append a letter which General Smuts has written to the Prime Minister about this. [He refused to serve.] I also enclose two of Sir F. Oppenheimer’s latest telegrams. (Harrod, 1972, pp. 251-252)

The Independent Freelance and Man of Ideas and Action; 1919-1930

Keynes resigned for a purpose. There were things to be said and he wanted to say them. He thus set about organising his affairs so that he might have financial independence free from fear of vindication through the power of the purse.

He began to play the foreign exchange market and later he ventured out into commodities. He had his early losses but overall he was most successful both for himself and for his College. His pursuits were increasingly wide ranging. This is the time of Keynes the author, the bursar, the farmer, the foreign correspondent, the public speaker, the businessman, the art collector, the theatre builder, the official commissioner, the Liberal Party campaigner, the editor, the arguer of women’s causes, the traveller, the public debater, the controversialist and the husband.

During this period Keynes would typically pass the long weekend (Monday) at Cambridge where he would attend to University work. During the week he would work in London and for holidays he would go to Tilton his newly acquired (purchased) home and farm. Tilton was ancestral property.

His main works during this period were A Treatise on Probability, and A Treatise on Money. Two more famous smaller works were The Economic Consequences of Mr Churchill and Economic Possibilities for our Grandchildren. But to cite only these works is to understate his prodigious output over the period. For example some of the Commercial Supplements in the Manchester Guardian ran to over one hundred pages and dealt with most complex issues in the reconstruction of Europe.

His two defeats in this period (public ones at least) were gold and the general election. He had argued against Britain’s return to gold and he had supported the Liberal Party campaign and lost on both accounts. But he was not defeated in life. His connection with Bloomsbury continued. He married Lydia Lopokova a member of the Diaghilev Ballet – a successful and permanent marriage by all accounts. His editorship of the Economic Journal continued and he held high level membership on the Economic Advisory Council and the Council of Enquiry into Finance and Industry. The defeat of the Liberal Platform in the election marked the end of Keynes’ public (political) life. In the years under review, Keynes had, according to Harrod, mellowed. His style was less
polemic and more the reasoned formal prose of the man of letters and affairs. During these years, Keynes had learned an alternative approach to government and had adopted a different tactic in writing grand schemes for the world. He had become “just Keynes”, ready for history to repeat itself. In a sense he had been prepared for the role he was to play in World War II and in the subsequent reconstruction of the world order. In the brief interval of the next five years or so, Keynes was to lay a new foundation for economic prosperity in that world order – his General Theory.

The General Theory of Employment Interest and Money; 1930-1936

The Circus

In 1931, a group of young economists at Cambridge (Joan and Austin Robinson, Richard Kahn, James Meade, Piero Sraffa were the main ones) were able to gain entrance to a study circle known as The Circus. Entry was gained by a stiff oral exam. The Circus was essentially a seminar to criticise A Treatise on Money. The Circus was short lived but Khan, Joan Robinson and others continued to work with Keynes and the General Theory was born. This work has endured. Keynes was the blacksmith and Robinson, Khan and the seminars were the anvils. Keynes’ famous letter to George Bernard Shaw best sums up what was being accomplished.

J.M. Keynes to Mr George Bernard Shaw, 1 January 1935

Thank you for your letter. I will try to take your words to heart. There must be something in what you say, because there generally is. But I’ve made another shot at old K.M. last week, regarding the Marx-Engels correspondence just published, without making much progress. I prefer Engels of the two. I can see that they invented a certain method of carrying on and a vile manner of writing, both of which their successors have maintained with fidelity. But if you tell me that they discovered a clue to the economic riddle, still I am beaten – I can discover nothing but out-of-date controversializing.

To understand my state of mind, however, you have to know that I believe myself to be writing a book on economic theory which will largely revolutionalize – not, I suppose, at once but in the course of the next ten years – the way the world thinks about economic problems. When my new theory has been duly assimilated and mixed with politics and feelings and passions, I can’t predict what the final upshot will be in its effect on action and affairs. But there will be a great change, and, in particular, the Ricardian foundations of Marxism will be knocked away.

I can’t expect you, or anyone else, to believe this at the present stage. But for myself I don’t merely hope what I say, - in my own mind I’m quite sure. (Harrod, 1972, p. 545)

P.A. Samuelson, the Nobel Laureate in Economics is on record as saying that the General Theory is the book that influenced him most. He also admits that the economic theory
It seems to me that economics is a branch of logic, a way of thinking, and that you do not repel sufficiently firmly attempts...to turn it into a pseudo-natural science...Economics is a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world. It is compelled to be this, because, unlike the typical natural science, the material to which it is applied is, in too many respects, not homogeneous through time. The object of a model is to segregate the semi-permanent or relatively constant factors from those which are transitory or fluctuating so as to develop a logical way of thinking about the latter...Good economists are scarce because the gift for using “vigilant observation” to choose good models, although it does not require a highly specialised intellectual technique, appears to be a very rare one.

In second place, as against Robbins, economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value...I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties. One has to be constantly on one’s guard against treating the material as constant and homogeneous. It is as though the fall of the apple to the ground depended on the apple’s motives, on whether it is worthwhile falling to the ground, and whether the ground wants the apple to fall, and on mistaken calculations on the part of the apple as to how far it was from the centre of the earth. (Moggridge, 1976, p. 21)

The Economist Statesman: 1939-1946

With the outbreak of World War II, Keynes joined the Treasury. He was given a room and some staff assistance but was not a member of the Civil Service. He was “just Keynes” but he was consulted on the great majority of treasury matters. The very fact that he was not a civil servant gave him the opportunity to serve fully and openly by allowing him to offer advice that might otherwise not have been offered.

Our behaviour towards refugees is the most disgraceful and humiliating thing which has happened for a long time. Also rather disconcerting to find that we have such obvious fatheads still in charge...if there are any Nazi sympathizers still at large in this country, we should look in the War Office and our Secret Service,
not in the internment camps. I can remember nothing equal to what is going on for stupidity and callousness. (Harrod, 1972, p. 587)

There was certainly no talk of conscientious objection this time around and he threw himself into service. He served primarily on the Consultative Council to the Prime Minister. During this period many civil honours were offered to him. He became a member of the Governing Body of Eton, he was granted honorary PhDs from Edinburgh, the Sorbonne and Cambridge. He made broadcasts to the people. He continued his Editorship of the *Economic Journal* and his teaching. He remained a member of the Board of Directors of a large insurance company. During this period he visited the USA both privately and on behalf of the British Government to teach and to negotiate the Lend-Lease programme.

In addition to all of these duties Keynes still found time to patronise the arts, and this is the remarkable side of the man. His economic machinations were not an end in themselves, they were a means to enjoyment of the good life.

In the early days of the war, when all sources of comfort to our spirits were at a low ebb, there came into existence, with the aid of the Pilgrim Trust, a body officially styled the ‘Council for the Encouragement of Music and the Arts’, but commonly known from its initial letters as CEMA. It was the task of CEMA to carry music, drama and pictures to places which otherwise would be cut off from all contact with the masterpieces of happier days and times; to air-raid shelters, to wartime hostels, to factories, to mining villages. ENSA was charged with the entertainment of the Services; the British Council kept contact with other countries overseas; the duty of CEMA was to maintain the opportunities of artistic performance for the hard-pressed and often exiled civilians.

With experience our ambitions and our scope increased. I should explain that whilst CEMA was started by private aid, the time soon came when it was sponsored by the Board of Education and entirely supported by a Treasury grant. We were never given much money, but by care and good housekeeping we made it go a long way. At the start our aim was to replace what war had taken away; but we soon found that we were providing what had never existed even in peacetime. That is why one of the last acts of the Coalition Government was to decide that CEMA, with a new name and wider opportunities, should be continued into time of peace. Henceforward we are to be a permanent body independent in constitution, free from red tape, but financed by the Treasury and ultimately responsible to Parliament, which will have to be satisfied with what we are doing when from time to time it votes us money. If we behave foolishly, any Member of Parliament will be able to question the Chancellor of the Exchequer and ask why. Our name is to be the Arts Council of Great Britain. I hope you will call us the Arts Council for short, and
not try to turn our initials into a false, invented word. We have carefully selected initials which we hope are unpronounceable.

I do not believe it is yet realised what an important thing has happened. State patronage of the arts has crept in. It has happened in a very English, informal, unostentatious way – halfbaked if you like. A semi-independent body is provided with modest funds to stimulate, comfort and support any societies or bodies brought together on private or local initiative which are striving with serious purpose and a reasonable prospect of success to present for public enjoyment the arts of drama, music and painting.

At last the public exchequer has recognized the support and encouragement of the civilizing arts of life as a part of their duty. But we do not intend to socialize this side of social endeavour. Whatever views may be held by the lately warring parties, whom you have been hearing every evening at this hour, about socializing industry, everyone, I fancy, recognizes that the work of the artist in all its aspects is, of its nature, individual and free, undisciplined, unregimented, uncontrolled. The artist walks where the breath of the spirit blows him. He cannot be told his direction; he does not know it himself. But he leads the rest of us into fresh pastures and teaches us to love and to enjoy what we often begin by rejecting, enlarging our sensibility and purifying our instincts. The task of an official body is not to teach or to censor, but to give courage, confidence and opportunity. Artists depend on the world they live in and the spirit of the age. There is no reason to suppose that less native genius is born into the world in the ages empty of achievement than in those brief periods when nearly all we most value has been brought to birth. New work will spring up more abundantly in unexpected quarters and in unforeseen shapes when there is a universal opportunity for contact with traditional and contemporary arts in their noblest forms.

But we do not think of the Arts Council as a schoolmaster. Your enjoyment will be our first aim. We have but little money to spill, and it will be you yourselves who will by your patronage decide in the long run what you get. In so far as we instruct, it is a new game we are teaching you to play – and to watch. Our wartime experience has led us already to one clear discovery; the unsatisfied demand and the enormous public for serious and fine entertainment. This certainly did not exist a few years ago. I do not believe that it is merely a wartime phenomenon. I fancy that the BBC has played a big part, the predominant part, in creating this public demand, by bringing to everybody in the country the possibility of learning these new games which only the few used to play, and by forming new tastes and habits and thus enlarging the desires of the listener and his capacity for enjoyment. I am told that today when a good symphony concert is broadcast as many as five million people may listen to it.
Their ears become trained. With what anticipation many of them look forward if a chance comes their way to hear a living orchestra and to experience the enhanced excitement and concentration of attention and emotion, which flows from being one of a great audience all moved together by the surge and glory of an orchestra in being, beating in on the sensibilities of every organ of the body and of the apprehension. The result is that half the world is being taught to approach with a livelier appetite the living performer and the work of the artist as it comes from his own hand and body, with the added subtlety of actual flesh and blood.

We of the Arts Council are greatly concerned to decentralize and disperse the dramatic and musical and artistic life of the country, to build up provincial centres and to promote corporate life in these matters in every town and country. It is not our intention to act on our own where we can avoid it. We want to collaborate with local authorities and to encourage local institutions and societies and local enterprise to take the lead. We already have regional offices in Birmingham, Cambridge, Manchester, Nottingham, Bristol, Leeds, Newcastle-on-Tyne, Cardiff and Edinburgh. For Scotland and for Wales special committees have been established...Certainly in every blitzed town in this country one hopes that the local authority will make provision for a central group of buildings for drama and music and art. There could be no better memorial of a war to save the freedom of the spirit of the individual. We look forward to the time when the theatre and the concert-hall and the gallery will be a living element in everyone’s upbringing, and regular attendance at the theatre and at concerts a part of organized education.

But it is also our business to make London a great artistic metropolis, a place to visit and to wonder at. For this purpose London today is half a ruin. With the loss of the Queen’s Hall there is no proper place for concerts. The Royal Opera House at Covent Garden has been diverted for other purposes throughout the war. The Crystal Palace has been burnt to the ground. We hope that Covent Garden will be re-opened early next year as the home of opera and ballet. The London Country Council has already allotted a site for a National Theatre. The Arts Council has joined with the Trustees of the Crystal Palace in the preparation of plans to make that once again a great People’s Palace.

No one can yet say where the tides of the times will carry our new-found ship. The purpose of the Arts Council of Great Britain is to create an environment, to breed a spirit, to cultivate an opinion, to offer a stimulus to such purpose that the artist and the public can each sustain and live on the other in that union which has occasionally existed in the past at the great ages of a communal civilized life. (Harrod, 1972, pp. 616-619)
But his crowning achievement was his Bretton Woods work. At this series of negotiations and conferences the great majority of the world’s post war nations set about organising a new world order in trade, monetary relations and banking. Keynes put up a scheme known as the Clearing Union based upon an international currency. The Americans put up the White Plan and the White Plan won the day. No hop, step and jump, such as this brief account is, can sufficiently highlight the role played by Keynes in the complex to and fro of the negotiations. It fell to Keynes to deliver the final speech on the last day of the proceedings. His treatment of the subject reveals his urbanity and humour.

Mr President,

I feel it a single honour that I am asked to move the acceptance of the Final Act at this memorable Conference. We, the delegates of this Conference, Mr President, have been trying to accomplish something very difficult to accomplish. We have not been trying, each one to please himself, and to find the solution most acceptable in our own particular situation. That would have been easy. It has been our task to find a common measure, a common standard, a common rule applicable to each and not irksome to any. We have been operating, moreover, in a field of great intellectual and technical difficulty. We have had to perform at one and the same time the tasks appropriate to the economist, to the financier, to the politician, to the journalist, to the propagandist, to the lawyer, to the statesman – even, I think, to the prophet and to the soothsayer. Nor has the magic of the microphone been able, silently and swiftly perambulant at the hands of our attendant sprites, the faithful Scouts, Puck coming to the aid of Bottom, to undo all the mischief first wrought in the Tower of Babel. And I make bold to say, Mr President, that under your wise and kindly guidance we have been successful. International conferences have not a good record. I am certain that no similar conference within memory has achieved such a bulk of lucid, solid construction. We owe this not least to the indomitable will and energy, always governed by good temper and humour, of Harry White. But this has been as far removed as can be imagined from a one-man or two-man or three-man conference. It has been teamwork, teamwork such as I have seldom experienced. And for my own part, I should like to pay a particular tribute to our lawyers. All the more so because I have to confess that, generally speaking, I do not like lawyers. I have been known to complain that, to judge from results in this lawyer-ridden land, the Mayflower, when she sailed from Plymouth, must have been entirely filled with lawyers. When I first visited Mr Morgenthau in Washington some three years ago accompanied only by my secretary, the boys in your Treasury curiously inquired of him – where is your lawyer? When it was explained that I had none, - “Who then does your thinking for you?” was the rejoinder. That is not my idea of a lawyer. I want
him to tell me how to do what I think sensible, and, above all, to
device means by which it will be lawful for me to go on being
sensible in unforeseen conditions some years hence. Too often
lawyers busy themselves to make common sense illegal. Too often
lawyers are men who turn poetry into prose and prose into jargon.
Not so our lawyers here in Bretton Woods. On the contrary, they
have turned our jargon into prose and our prose into poetry. And
only too often they have had to do our thinking for us. We owe a
great deal of gratitude to Dean Acheson, Oscar Cox, Luxford,
Brenner, Collado, Arnold, Chang, Broches and our own Beckett of
the British Delegation. I have only one complaint against them
which I ventured to voice yesterday in Commission II. I wish they
had not covered so large a part of our birth certificate with such very
detailed provisions for our burial service, hymns and lessons and all.
Mr President, we have reached this evening a decisive point. But it
is only a beginning. We have to go from here as missionaries,
inspired by zeal and faith. We have sold all this to ourselves. But
the world at large still needs to be persuaded.

I am greatly encouraged, I confess, by the critical, sceptical and even
carping spirit in which our proceedings have been watched and
welcomed in the outside world. How much better that our projects
should begin in disillusion than that they should end in it! We
perhaps are too near to our own work to see its outlines clearly. But
I am hopeful that when the critics and the sceptics look more closely
the plans will turn out to be so much better than they expected, that
the very criticism and scepticism which we have suffered will turn
things in our favour.

Finally, we have perhaps accomplished here in Bretton Woods
something more significant than what is embodied in this Final Act.
We have shown that a concourse of 44 nations are actually able to
work together at a constructive task in amity and unbroken concord.
Few believed it possible. If we can continue in a larger task as we
have begun in this limited task, there is hope for the world. At any
rate we shall now disperse to our several homes with new friendships
sealed and new intimacies formed. We have been learning to work
together. If we can so continue, this nightmare, in which most of us
here present have spent too much of our lives, will be over. The
brotherhood of man will have become more than a phrase.
Mr President, I move to accept the Final Act. (Harrod, 1972, pp.
689-691)

Harrod really takes us there: at the end of his speech he was given a standing ovation. As
he was leaving, the delegates rose and sang *For He’s a Jolly Good Fellow*. It was a high
point in his public career.
His Bretton Woods days were followed by an equally demanding task. Keynes knew that when Germany and Japan ceased to be the enemy the nation would then need to wage a new war against economic ruin. His energies were now given to negotiating the US Loan to Britain. These negotiations were often stormy and frequently Keynes and the Americans clashed. In 1946, the strain of it all took its toll. While taking a short holiday at Tilton he suffered a fatal heart attack. His Westminster Abbey service was attended by both his parents and he was mourned in England and America.

Keynes the man was a central part of Keynes the economist. Although many Western academic economists have fully grasped the Keynesian prescription for the fiscal attainment of full employment, few have ventured beyond it to supply the administrative arrangements and know how for its maintenance through the public management of investment. Fewer still appear capable for holding alive in their minds his utopian and optimistic vision. I have yet to meet a single economist in the Universities of Australia who, in his everyday business of life, acts as if he understands.

**Part B: Keynesian Economics at First Year Level in Universities and Colleges in Australia**

This section of the paper presents a “typical” treatment of Keynes. It presents Keynesian economics as it is offered at first year level in introductory courses in Universities and Colleges in Australia. The segment included in this part would be used by an academic wishing to demonstrate the general nature of the Keynesian System and the manner in which policies operable within that system might function.

The presentation which follows would be offered as a four hour lecture series in a thirteen to fifteen week term offering two hours of lectures and two hours of tutorials each week. The geometrical presentation adopted is not too simple for the mathematically gifted nor too difficult for those not possessing mathematical skills. Other topics in such a thirteen week course might include inflation, the trade cycle, the multiplier, input-output analysis and elements of international trade.

Usually, in such courses students are assessed 40% of the total marks progressively by a variety of test instruments and the remaining 60% by a three hour end of semester examination. The course would be presented in lecture format to an audience of some 150-200 students who would have access to one or two hours of tutorial assistance each week.

In the next section, course content is set out in note form. Students would be provided with this information and it would be explained in lectures and tutorials. Further reading and study would be expected of them.
Course Content

General

Before Keynes, the main approach to the question of the general level of employment was enshrined in Say’s Law. Under this law, demand is determined by factor income generated in production. New factors of production, since they are paid at the rate of their addition to production, also generate the means to the consumption of that production. New factors of production wedge themselves into the system by addition to, rather than by displacement of, existing factors and the market expands accordingly. The limit to expansion is full employment the natural order of things. The market equilibrium is the full employment equilibrium.

In this system, full employment is assured because prices and wages would adjust downwards thereby rationing real income amongst those willing to work, and because a flexible interest rate would always ensure that savings were matched with investment thus allowing the full equivalent of production in one period to be passed on to the next period.

The refinement of Say’s Law is best found in A.C. Pigou’s writings:

The state of demand for labour, as distinguished from changes in that stage, is irrelevant to employment because wage-rates adjust themselves in such a manner that different states of demand, when once established, tend to be associated with similar average rates of employment. This implies that, from a long-period point of view, the real wage-rates for which people stipulate, so far from being independent of the demand function, are a function of that function in a very special way…The implication is that such unemployment as exists at any time is due wholly to the fact that changes in demand conditions are continually taking place and that frictional resistances prevent the appropriate wage adjustments from being made instantaneously. (Hansen, 1953p. 18)

It was just this teaching of his Professor that Keynes attacked. By arguing against the two basis tenets (flexible prices and interest rates) he was able to demonstrate that equilibrium obtained when supply is exhausted by demand may indeed be an under full employment level. In such cases, governments might be responsible for public policy initiatives to bring about full employment. Laissez-faire would need to be modified.

The Keynesian Road to Full Employment

Step 1: The Circular Flow

The aggregate activities of the buyers and sellers of the nation are categorised according to sectoral activities. There are four sectors in the economy and their activities are
coordinated by a fifth sector – the financial sector, whose effect on the economy is considered neutral for the purposes of the model.

**Figure 1: The Four Sector Economy**

The coordinated activities of each of the sectors constitute the circular flow of income and it will be the amount of money in circulation which determines aggregate demand and therefore the level of employment.

The Private Sector.
The consumption and savings activities of the individual constitute his or her activities as a member of the private sector. In the act of consuming, the individual generates part of an aggregate income stream emanating from the private sector.

Personal Consumption is given as $C = a + bY_d$

where

- $C$ = consumption
- $a$ = autonomous consumption
- $b$ = marginal propensity to consume
- $Y_d$ = personal disposable income

and the aggregate of each individual’s consumption pattern is the sector’s spending on durable and semi durable goods. (Housing is treated as investment.)

**Figure 2: The Consumption Function**
The straight line consumption function is a rationalisation of Keynes’ presentation. Under Keynes the marginal propensity to consume (b) (it equals is the number found by dividing the increase in consumption by the increase in income) continually decreased with increases in income as too does the average propensity to consume (found by dividing total consumption by total income.)

Figure 3: Aggregate Consumption: Keynesian and Modern

However, at high levels of $Y_d$ the marginal propensity is thought to change very little with increased income – it is postulated constant.

For the individual in the private sector, income not consumed, is saved.

$Y = C + S$

where

$Y =$ income (disposable)
$C =$ consumption
$S =$ savings

Thus, $S = Y – C$ and the savings function can be determined by geometrically subtracting consumption from income. This is also true in aggregate.
The form of savings function is $S = -a + sY_d$ where $s$ is the marginal propensity to save.

The Business Sector.

The same individual may be a member of more than one sector. Investment activity or business saving activity would place an individual in the business sector. In making such decisions he will be part responsible for the aggregate stream of income emanating from the business sector.

Business investment ($I$) is made up of fixed investment in plant and equipment and of investment in inventories. In the model under construction, investment is said to be determined by the firm to suit its own needs. Investment is exogenous to the level of income in the circular flow. Thus, investment takes the form:
where $\bar{I}$ shows the exogenous independent nature of business investment.

Business saving is really the amount of profits not distributed. Amounts retained are equal to depreciation allowances plus undistributed profits and business saving is computed after payment of direct taxation and the distribution of profits to owners. Thus, aggregate gross disposable income $Y_d$ is equal to the sum of personal disposable income and business saving.

$$Y_d = P_d + S_b$$

where

- $Y_d =$ gross disposable income
- $P_d =$ personal disposable income
- $S_b =$ business saving

Thus,

$$Y_d = C + S_p + S_b$$

where

- $S_p =$ personal savings

or

$$Y_d = C + S$$

where

- $S =$ personal saving plus business saving
Firms are thought to place little emphasis on business saving because they have access to personal savings for investment purposes. For this reason, personal savings are also business savings. Business savings behave in the manner of \( S = -a + sY_d \).

Figure 6: The Savings Function

\[ S = -a + sY_d \]

The Overseas Sector.

Imports and exports are said to be the business of the overseas sector. Imports are argued to be a function of the gross national income and to behave in the following manner:

Figure 7: The Import Function

\[ M = mY \]

where

\( M = \) imports
\( m = \) propensity to import
\( Y = \) gross national income.
“m” is assumed constant in the short run but would change if the exchange rate changed, if quotas and/or tariffs were imposed and if domestic and foreign price ratios were to change.

Exports are said to be exogenous, i.e., they are determined by factors inherent in the economies of overseas countries. Economic conditions abroad determine exports, not economic conditions at home.

**Figure 8: The Export Function**

![Figure 8: The Export Function](image)

The Government Sector.

Actions specific to the government sector are taxation and government spending. Taxation behaves in the following manner:

**Figure 9: The Tax Function**

![Figure 9: The Tax Function](image)

where

\[
T = \text{total tax take}
\]
t = propensity to tax
Y = gross national income

“t” is determined by government policy and is constant in the short run, i.e., from budget to budget. This assumption, like the many others, is a first approximation only.

Government spending is said to be exogenous to gross national income because it (government spending) is determined at budget time, for the year in advance, and specifically to finance government policy. Thus, by way of first approximation, government spending behaves in the following manner:

**Figure 10: The Government Expenditure Function**

Step 2: From Circular Flow to General Equilibrium

The expenditure of one period leads to the production of that period, i.e.:

E\(_1\) = GNP\(_1\)

where

E\(_1\) = expenditure in period I and is equal to C + I + G + (X – M), and 
GNP\(_1\) = gross national product, the value of the nation’s production of goods and services in the period

Production in the period leads to income in the period and this income determines the expenditure available for the next period.

Thus:

E\(_1\) → GNP\(_1\) → GNY\(_1\) → E\(_2\) → GNP\(_2\) → GNY\(_2\)

and so on (GNY = gross national income, i.e. the money value of the circular flow).

Equilibrium over time will result if E\(_1\) = E\(_2\) = E\(_3\) and so on. However, withdrawals (W) from the circular flow may result in E\(_2\) being different from E\(_1\). Withdrawals represent...
income received by householders and not passed back to domestic firms, and incomes received by firms and not passed back to domestic householders. Money can leak out of the circular flow because:

- taxes are paid to the government and these are held in the Reserve Bank or Central Bank which is not part of the banking system accessible to the public. Business also may save, i.e., withhold profits from their owners, these profits being temporarily withdrawn from circulation,
- not all income received by householders is spent on consumption. Some goes out of circulation as taxes, held in the Reserve Bank, and some is saved for consumption in a subsequent period, and
- nations buy from one another. There will thus be an outward flow of funds equal in value to the amount of foreign purchases made. Imports in one period result in a withdrawal for the next period.

In short, T, S and M are withdrawals in one period which might cause expenditure in the next period to be different.

Whether or not $E_2$ differs from $E_1$ will depend on the extent to which withdrawals are balanced by injections (J). Injections are additions to the incomes of householders that do not arise from the spending of domestic firms. Injections arise from a number of sources.

- Purchases by the government and public authorities from households: money flows into circulation from the Reserve Bank;
- Sales by firms to overseas residents: money flows in from overseas.
- Investment in capital goods by firms: when firms buy the products of other firms, payments do not accrue to households. By definition, such payments are injections into the circular flow. Such injections are financed from business savings or from borrowings at home and abroad. In short, $X$, $G$ and $I$ are injections.

It is apparent that when withdrawals in a period are matched with injections in the same period, equilibrium of GNY between successive periods will result. This equilibrium can be illustrated geometrically.

**Figure 11: The J Function and the W Function**
In Figure 11, the J function is the geometric addition of the three withdrawals functions ($I = \bar{I}; G = \bar{G};$ and $X = \bar{X}$). It is above the horizontal axis a height equal to investment plus government spending plus exports. The W function is the geometric addition of the three withdrawals functions ($S = -a + sY_d; T = tY; M = mY$).

Algebraically:

\[ W = -a + sY_d + tY + mY \]

So that, \( W = -a + s(Y - tY) + tY + mY \)

because \( Y_d \) is disposable income or income after taxes.

Thus

\[ W = -a + s(1 - t)Y + tY + mY \]

or

\[ W = -a + s^*Y + tY + mY, \text{ because where } s^* = s(1 - t) \]

or

\[ W = -a + (s^* + t + m)Y \]

and the equilibrium level of income ($Y_e$) is that level at which injections balance withdrawals. The simple thing that Keynes pointed out was that the equilibrium income ($Y_e$) may well be below the level of income required to generate full employment. $Y_e$ might just as easily be an under full employment equilibrium, something denied as a permitted outcome under Say’s Law.
Step 3: From General Equilibrium to Policy for Full Employment Equilibrium

Figure 12 best serves to explain the theoretical basis for full employment policy.

Figure 12: Obtaining Full Employment

$Y_F$ is that level of circular flow, that level of income that would be generated if all resources were fully employed. $Y_e$ is thus an under full employment equilibrium. To convert $Y_e$ to $Y_F$, i.e., to make the equilibrium level also the full employment level, the $W$ and $J$ functions must intersect somewhere on the vertical $Y_F$ line. There are an infinite number of possibilities but generally there are six main paths. The $W$ function could be made to pivot (change its slope) by government policies that change the value of $s^*$, $m$ and $t$. Such policies are rather complex as seldom will an action affect one of these propensities alone. For example, a decision to restrict imports (reduce $m$) may lead to retaliation which, in turn, might lower $\bar{X}$, and the $W$ function, allowing no gain or even perhaps a reduced level for the existing $Y_e$. It is not always easy to reduce taxes and $s^*$ is largely a function of people’s expectations, a very difficult area over which to prescribe policy.

There are also three ways to change the position of the $J$ function – government spending, export performance, and investment. Again, government spending can not always be committed especially in times of inflation. If the interest rate is used to manipulate investment, there may be other side effects. For example, to stimulate $I$ through reduced interest rates might also result in savings being insufficient to meet that increased investment. Finally, it is not always easy to stimulate exports. It is difficult to sell a “dud” product twice or even to break into an existing marketing arrangement with a new competitive product. Other strategies such as devaluation are not always possible.

In terms of Figure 12, a joint policy manoeuvre could pivot $W$ downwards and $J$ upwards until they intersected somewhere on $Y_F$. Such a strategy could involve reduced personal taxation combined with higher government spending and increased $I$ through a lower interest rate. The interested reader can dream up a whole range of policies which are theoretically possible but it requires much greater acumen to select the most likely one and still greater skill to manage it through the socio-political problems of the so called
real world. The purpose of these notes is to explain the basis of Keynesian full employment policy. These notes are not meant to discuss real world difficulties to the macroeconomic attainment of full employment and the question will not be discussed further. In addition, there is a voluminous literature in this particular area of economics and that literature contains a full and frank criticism of the shortcomings of the so-called Keynesian approach. Students are required to acquaint themselves with such criticism.

*The Multiplier*

The injections-withdrawals approach to full employment income determination can also be used to demonstrate the concept of the multiplier – a concept developed by Keynes, Kahn and Joan Robinson in the 1930–36 period.

In Figure 13 there has been an increase in injections.

**Figure 13: The Multiplier**

Either government spending has increased ($\Delta G$) or investment has increased ($\Delta I$) or both and the $J$ function has moved from $J$ to $J_1$, causing an increase in the level of gross national income from $Y_e$ to $Y_{e1}$. Now the equation to the $W$ function is:

$$W = -a + (s^* + t + m)Y$$

Where

-$a$ is the intercept on the vertical axis and $(s^* + t + m)$ is the slope

Thus

$$\frac{\Delta J}{\Delta Y} = \text{slope} = (s^* + t + m)$$

so that by transposition,

$$\Delta Y = \frac{1}{(s^* + t + m)} \times \Delta J$$
The term $1/(s^* + t + m)$ is the multiplier. If $S$ were, say, 0.2 and $t$ were 0.3 and $m$ were 0.1, then:

$$1/(s^* + t + m) = 1/(0.2+0.3+0.1) = 1/0.6 = 1.7 \ldots (3).$$

Thus, substituting (3) into (2)

$$\Delta Y = 1.7 \Delta J \ldots (4)$$

Equation 4 tells us that the increase in gross national income resulting from an injection will be a multiple of that injection. In the example, $\Delta Y$ is 1.7 times the initial injection. The value of the multiplier is, in this example, dependent on the values of $s^*$, $t$ and $m$. It is indeed the inverse of the slope of the withdrawals function. In practice, it is difficult for governments to influence the multiplier. The consumer is fickle in his or her saving habits. Taxation is set by the policy of the government. In countries like Australia, policy can is very much concerned with the short run problem of staying in power rather than with the long run opportunity for national development for the good life. Imports are very much determined by the peoples’ choice subject to protectionist constraints. It is not an easy thing, given international bargaining in trade, to alter (reduce) imports.

However, sufficient knowledge exists, mainly from trial and error, for governments to use the multiplier to induce changes in the direction required and of the orders required. When it finally comes to Budget Speech time, the simplistic model presented above is at the heart of the matter.

To Sum Up

Section B of the paper contains a presentation of Keynesian economics which is “typical” of the modern clinical presentation of the discipline. Such a “settled” presentation is not found in Keynes’ own writing because his logic is much more subtle and his intellectual content is so very, very much more fine and accommodating. The strength of the modern approach is that it gets on with the job. Its weakness, so evident from contrast between Part A and Part B of this paper, is that it truants itself from the important question of the good and just organisation of society.

Conclusion

This paper, because it has been written in celebration of a Cultural Exchange, has sought to communicate at two levels. It has concerned itself with the practical – the manner in which technical economic theory and skill are transmitted to students of Economics in Australia. But it has also concerned itself with the philosophical and spiritual: it has raised the question of the manner in which nations might seek to attain the good and just organisation of society. It has examined the writing of an economist who was touched
with an ancient wisdom. It has sought to demonstrate how much of this wisdom is lost to students exposed to a rushed clinical treatment of social science.

At the outset of this paper, it was mentioned that something would be written about the manner in which fiscal economics might be made more relevant and effective by considerations of questions of value. The answer given here might appear trite and simplistic but it is the answer given time and time again by the world’s great thinkers and “forgotten” time and time again by as the generations pass: no society can reach the great heights of human existence by materialism alone. Mankind is greater than man and the education of each new generation can not be complete until that generation is exposed to and acts upon the collected and just wisdom of humanity. Such wisdom can not possibly be the preserve of the cut and thrust of the everyday business of life. It is the rare individual who can act decisively and be introspective and philosophical at the same time. But such wisdom must be the preserve of the minds of leaders and their citizens and it must be the preserve of institutions and protocols which continually rank and order human ambition and striving towards the attainment of the good and just society.

Maynard Keynes, through his life and his actions, provides practical guidance and example for those who, irrespective of their positions in society, seek to foster prosperity consistent with goodness.

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