



J. M. KEYNES

SCHUMPETER

THE GENERAL THEORY OF EMPLOYMENT  
INTEREST AND MONEY  
THE THEORY OF ECONOMIC DEVELOPMENT

JOHN MAYNARD KEYNES

THE GENERAL THEORY OF  
EMPLOYMENT INTEREST  
AND MONEY

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JOSEPH A. SCHUMPETER

THE THEORY  
OF ECONOMIC DEVELOPMENT

AN INQUIRY INTO PROFITS, CAPITAL, CREDIT,  
INTEREST, AND THE BUSINESS CYCLE

TRANSLATED FROM THE GERMAN BY  
REDVERS OPIE

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THE GENERAL THEORY  
OF EMPLOYMENT INTEREST AND MONEY

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THE THEORY OF ECONOMIC DEVELOPMENT

Reprinted from the English Edition by Harvard University Press 1934

JOHN MAYNARD KEYNES

**THE GENERAL THEORY OF  
EMPLOYMENT INTEREST  
AND MONEY**

## PREFACE

THIS book is chiefly addressed to my fellow economists. I hope that it will be intelligible to others. But its main purpose is to deal with difficult questions of theory, and only in the second place with the applications of this theory to practice. For if orthodox economics is at fault, the error is to be found not in the superstructure, which has been erected with great care for logical consistency, but in a lack of clearness and of generality in the premisses. Thus I cannot achieve my object of persuading economists to re-examine critically certain of their basic assumptions except by a highly abstract argument and also by much controversy. I wish there could have been less of the latter. But I have thought it important, not only to explain my own point of view, but also to show in what respects it departs from the prevailing theory. Those, who are strongly wedded to what I shall call "the classical theory", will fluctuate, I expect, between a belief that I am quite wrong and a belief that I am saying nothing new. It is for others to determine if either of these or the third alternative is right. My controversial passages are aimed at providing some material for an answer; and I must ask forgiveness if, in the pursuit of sharp distinctions, my controversy is itself too keen. I myself held with conviction for many years the theories which I now

attack, and I am not, I think, ignorant of their strong points.

The matters at issue are of an importance which cannot be exaggerated. But, if my explanations are right, it is my fellow economists, not the general public, whom I must first convince. At this stage of the argument the general public, though welcome at the debate, are only eavesdroppers at an attempt by an economist to bring to an issue the deep divergences of opinion between fellow economists which have for the time being almost destroyed the practical influence of economic theory, and will, until they are resolved, continue to do so.

The relation between this book and my *Treatise on Money*, which I published five years ago, is probably clearer to myself than it will be to others; and what in my own mind is a natural evolution in a line of thought which I have been pursuing for several years, may sometimes strike the reader as a confusing change of view. This difficulty is not made less by certain changes in terminology which I have felt compelled to make. These changes of language I have pointed out in the course of the following pages; but the general relationship between the two books can be expressed briefly as follows. When I began to write my *Treatise on Money* I was still moving along the traditional lines of regarding the influence of money as something so to speak separate from the general theory of supply and demand. When I finished it, I had made some progress towards pushing monetary theory back to becoming a theory of output as a whole. But my lack of emancipation from preconceived ideas showed itself in what now seems to me to be the outstanding fault of the theoretical parts of that work (namely, Books III



and IV), that I failed to deal thoroughly with the effects of *changes* in the level of output. My so-called "fundamental equations" were an instantaneous picture taken on the assumption of a given output. They attempted to show how, assuming the given output, forces could develop which involved a profit-disequilibrium, and thus required a change in the level of output. But the dynamic development, as distinct from the instantaneous picture, was left incomplete and extremely confused. This book, on the other hand, has evolved into what is primarily a study of the forces which determine changes in the scale of output and employment as a whole; and, whilst it is found that money enters into the economic scheme in an essential and peculiar manner, technical monetary detail falls into the background. 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. But our method of analysing the economic behaviour of the present under the influence of changing ideas about the future is one which depends on the interaction of supply and demand, and is in this way linked up with our fundamental theory of value. We are thus led to a more general theory, which includes the classical theory with which we are familiar, as a special case.

The writer of a book such as this, treading along unfamiliar paths, is extremely dependent on criticism and conversation if he is to avoid an undue proportion of mistakes. It is astonishing what foolish things one can temporarily believe if one thinks too long alone, particularly in economics (along with the other moral sciences), where it is often impossible to bring one's ideas to a conclusive test either formal or

experimental. In this book, even more perhaps than in writing my *Treatise on Money*, I have depended on the constant advice and constructive criticism of Mr. R. F. Kahn. There is a great deal in this book which would not have taken the shape it has except at his suggestion. I have also had much help from Mrs. Joan Robinson, Mr. R. G. Hawtrey and Mr. R. F. Harrod, who have read the whole of the proof-sheets. The index has been compiled by Mr. D. M. Bensusan-Butt of King's College, Cambridge.

The composition of this book has been for the author a long struggle of escape, and so must the reading of it be for most readers if the author's assault upon them is to be successful,—a struggle of escape from habitual modes of thought and expression. The ideas which are here expressed so laboriously are extremely simple and should be obvious. The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds.

J. M. KEYNES

*December 13, 1935*

## TRANSLATOR'S NOTE

MY CHIEF aim has been to convey the meaning as accurately as possible, and to this end I have not hesitated to use a clumsy phrase in cases where there was no current English equivalent of the German word. After considerable reflection I decided upon "circular flow" for "Kreislauf," for reasons which it would take too long to relate. There are inelegancies which have nothing to do with the technical side of translating. To eradicate these would have meant rewriting the whole, and it did not seem expedient to do so. Professor Schumpeter is so much at home in the English language that he would inevitably have left his mark on the translation even if he had not given his time as freely as he did to the more difficult points involved. For this reason, as well as for those mentioned in the preface, the book is more than a translation.

The title of the German original is *Theorie der wirtschaftlichen Entwicklung*.

REDVERS OPIE

## PREFACE TO THE ENGLISH EDITION

SOME of the ideas submitted in this book go back as far as 1907; all of them had been worked out by 1909, when the general framework of this analysis of the purely economic features of capitalistic society took the shape which has remained substantially unaltered ever since. The book was published for the first time, in German, in the fall of 1911. When, after it had been out of print for ten years, I consented, not without some reluctance, to a second edition, I omitted the seventh chapter, rewrote the second and the sixth, and shortened and added here and there. This was in 1926. The third German edition is merely a reprint of the second, from which also the present English version has been made.

I should be passing a very damaging verdict on what I have done and thought since the book first appeared, if I were to say that my failure to make alterations of other than expository consequence was caused by a belief that it is satisfactory in every detail. Although I do consider both the outlines — what might be termed the “vision” — and the results as correct in the main, there are many points on which I now have another opinion. To mention but one, by way of example: when the theory of the business cycle, which the reader finds in the sixth chapter, was first worked out, I took it for granted that there was a single wave-like movement, viz. that discovered by Juglar. I am convinced now that there are at least three such movements, probably more, and that the most important problem which at present faces theorists of the cycle consists precisely in isolating them and in describing the phenomena incident to their interaction. But this element has not been introduced into the later editions. For books, like children, become independent beings when once they leave the parents' home. They lead their own lives, while the authors lead their own also. It will not do to interfere with those

who have become strangers to the house. This book has fought its own way, and rightly or wrongly has won its place in the German literature of its time and field. It had seemed to me best to leave it undisturbed as much as possible. I should hardly have thought of an English translation but for the suggestion and encouragement of my eminent friend Professor Taussig.

For similar reasons, I have not followed the example of my great teacher Böhm-Bawerk, who with infinite care took notice of every objection or critique and embodied his own comments in his later editions. It is not any want of respect towards those who did me the honor of careful criticism of my argument that leads me to limit controversy to the minimum. I have to confess, however, that I have never come across an objection on essential points which carried conviction to my mind.

In aim and method, this book is frankly "theoretical." This is no place for a *professio fidei* on method. Perhaps I think somewhat differently now about the relation between "factual" and "theoretical" research than I did in 1911. But my conviction stands that our science cannot, any more than others, dispense with that refined common-sense which we call "theory" and which provides us with the tools for approaching both facts and practical problems. However important may be the bearing of new masses of unanalysed, especially statistical, facts upon our theoretic apparatus — and undoubtedly increasing wealth of factual material must continually suggest new theoretical patterns, and thereby currently and silently improve any existing theoretical structure — at any given stage *some* theoretical knowledge is a prerequisite to dealing with new facts, that is with facts not already embodied in existing theorems. If this knowledge remains rudimentary and subconscious, it may be bad theory but it will not cease to be theory. I have not been able to convince myself, for example, that such questions as the source of interest are either unimportant or uninteresting. They could be made so, at all events, only by the fault of the author. I hope, however, to supply before long the detailed material which is here missing

by more "realistic" studies in money and credit, interest, and cycles.

The argument of the book forms one connected whole. This is not due to any preconceived plan. When I began to work on the theories of interest and of the cycle, nearly a quarter of a century ago, I did not suspect that these subjects would link up with each other and prove closely related to entrepreneurs' profits, money, credit, and the like, in precisely the way in which the current of the argument led me. But it soon became clear that all these phenomena — and many secondary ones — were but incidents of a distinct process, and that certain simple principles which would explain them would explain also that process itself. The conclusion suggested itself that this body of theory might usefully be contrasted with the theory of equilibrium, which explicitly or implicitly always has been and still is the centre of traditional theory. I at first used the terms "statics" and "dynamics" for these two structures, but have now (in deference to Professor Frisch) definitively ceased to use them in this sense. They have been replaced by others, which are perhaps clumsy. But I keep to the distinction, having repeatedly found it helpful in my current work. This has proved to be so even beyond the boundaries of economics, in what may be called the theory of cultural evolution, which in important points presents striking analogies with the economic theory of this book. The distinction itself has met with much adverse criticism. But is it really untrue to life or artificial to keep separate the phenomena incidental to running a firm and the phenomena incidental to creating a new one? And has it necessarily anything to do with a "mechanical analogy"? Those who have a taste for delving into the history of terms should rather, if they feel so inclined, speak of a zoological analogy; for the terms static and dynamic were, although in a different sense, introduced into economics by John Stuart Mill. Mill probably had them from Comte, who, in turn, tells us that he borrowed them from the zoologist de Blainville.

My cordial thanks are due to my friend Dr. Redvers Opie, who

with unparalleled kindness undertook the arduous task of translating a text which proved very refractory to the operation. We have decided to omit the two appendices to Chapters I and III of the original, and also passages or paragraphs here and there. In some places, the exposition has been modified and a number of pages have been rewritten. As the argument itself has nowhere been altered, I think it superfluous to give a list of the changes.

JOSEPH A. SCHUMPETER

CAMBRIDGE, MASSACHUSETTS

March, 1934

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