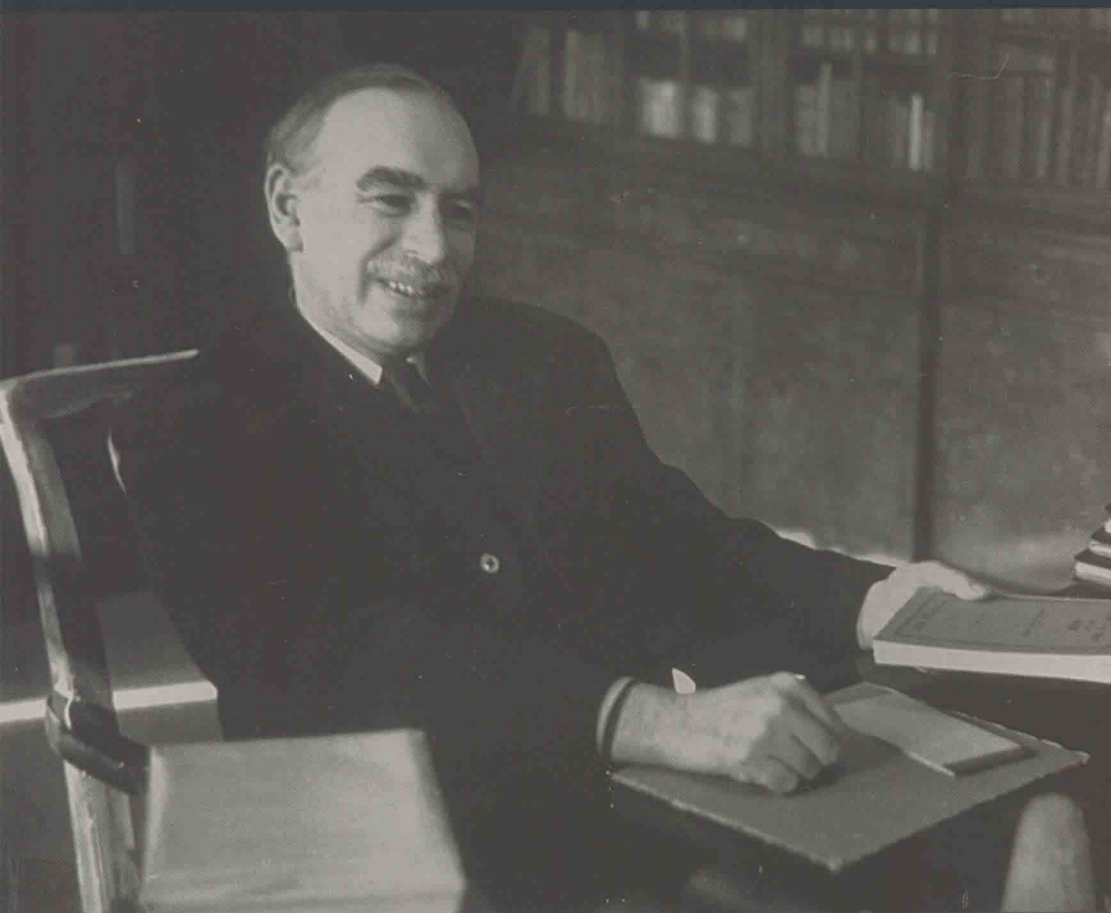


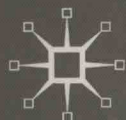
JOHN MAYNARD

KEYNES

THE GENERAL THEORY OF EMPLOYMENT, INTEREST AND MONEY



WITH A NEW INTRODUCTION
BY PAUL KRUGMAN, WINNER OF THE
NOBEL PRIZE IN ECONOMICS, 2008

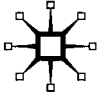


**THE GENERAL THEORY
OF EMPLOYMENT,
INTEREST AND MONEY**

JOHN MAYNARD KEYNES

palgrave
macmillan

for the Royal Economic Society



© The Royal Economic Society 1973, 2007
Introduction © Paul Krugman 2007

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6-10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

First edition published 1936
This edition published 2007 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries.

ISBN-13: 978-0230-00476-4 paperback
ISBN-10: 0-230-00476-8 paperback

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalogue record for this book is available from the Library of Congress.

10 9 8
16 15 14 13 12 11

Printed and bound in Great Britain by
CPI Antony Rowe, Chippenham and Eastbourne

General Introduction

This new standard edition of *The Collected Writings of John Maynard Keynes* forms the memorial to him of the Royal Economic Society. He devoted a very large share of his busy life to the Society. In 1911, at the age of twenty-eight, he became editor of the *Economic Journal* in succession to Edgeworth; two years later he was made secretary as well. He held these offices without intermittence until almost the end of his life. Edgeworth, it is true, returned to help him with the editorship from 1919 to 1925; MacGregor took Edgeworth's place until 1934, when Austin Robinson succeeded him and continued to assist Keynes down to 1945. But through all these years Keynes himself carried the major responsibility and made the principal decisions about the articles that were to appear in the *Economic Journal*, without any break save for one or two issues when he was seriously ill in 1937. It was only a few months before his death at Easter 1946 that he was elected president and handed over his editorship to Roy Harrod and the secretaryship to Austin Robinson.

In his dual capacity of editor and secretary Keynes played a major part in framing the policies of the Royal Economic Society. It was very largely due to him that some of the major publishing activities of the Society—Sraffa's edition of Ricardo, Stark's edition of the economic writings of Bentham, and Guillebaud's edition of Marshall, as well as a number of earlier publications in the 1930s—were initiated.

When Keynes died in 1946 it was natural that the Royal Economic Society should wish to commemorate him. It was perhaps equally natural that the Society chose to commemorate him by producing an edition of his collected works. Keynes himself had always taken a joy in fine printing, and the Society, with the help of Messrs Macmillan as publishers and the Cambridge University Press as printers, has been anxious to give Keynes's writings a permanent form that is wholly worthy of him.

The present edition will publish as much as is possible of his work in the field of economics. It will not include any private and personal correspondence or publish letters in the possession of his family. The edition is concerned, that is to say, with Keynes as an economist.

Keynes's writings fall into five broad categories. First, there are the books which he wrote and published as books. Second, there are collections of articles and pamphlets which he himself made during his lifetime (*Essays in Persuasion* and *Essays in Biography*). Third, there is a very considerable volume of published but uncollected writings—articles written for newspapers, letters

to newspapers, articles in journals that have not been included in his two volumes of collections, and various pamphlets. Fourth, there are a few hitherto unpublished writings. Fifth, there is correspondence with economists and concerned with economics or public affairs.

This series will attempt to publish a complete record of Keynes's serious writing as an economist. It is the intention to publish almost completely the whole of the first four categories listed above. The only exceptions are a few syndicated articles where Keynes wrote almost the same material for publication in different newspapers or in different countries, with minor and unimportant variations. In these cases, this series will publish one only of the variations, choosing the most interesting.

The publication of Keynes's economic correspondence must inevitably be selective. In the day of the typewriter and the filing cabinet and particularly in the case of so active and busy a man, to publish every scrap of paper that he may have dictated about some unimportant or ephemeral matter is impossible. We are aiming to collect and publish as much as possible, however, of the correspondence in which Keynes developed his own ideas in argument with his fellow economists, as well as the more significant correspondence at times when Keynes was in the middle of public affairs.

Apart from his published books, the main sources available to those preparing this series have been two. First, Keynes in his will made Richard Kahn his executor and responsible for his economic papers. They have been placed in the Marshall Library of the University of Cambridge and have been available for this edition. Until 1914 Keynes did not have a secretary and his earliest papers are in the main limited to drafts of important letters that he made in his own handwriting and retained. At that stage most of the correspondence that we possess is represented by what he received rather than by what he wrote. During the years 1914–18 and 1940–46 Keynes was serving in the Treasury. With the opening of official records, many of the papers that he wrote have become available. From 1919 onwards, throughout the rest of his life, Keynes had the help of a secretary—for many years Mrs Stevens. Thus for the last twenty-five years of his working life we have in most cases the carbon copies of his own letters as well as the originals of the letters that he received.

There were, of course, occasions during this period on which Keynes wrote himself in his own handwriting. In some of these cases, with the help of his correspondents, we have been able to collect the whole of both sides of some important interchanges and we have been anxious, in justice to both correspondents, to see that both sides of the correspondence are published in full.

The second main source of information has been a group of scrapbooks kept over a very long period of years by Keynes's mother, Florence Keynes, wife of Neville Keynes. From 1919 onwards these scrapbooks contain almost the

whole of Maynard Keynes's more ephemeral writing, his letters to newspapers and a great deal of material which enables one to see not only what he wrote, but the reaction of others to his writing. Without these very carefully kept scrapbooks the task of any editor or biographer of Keynes would have been immensely more difficult.

The plan of the edition, as at present intended, is this. It will total twenty-five volumes. Of these, the first eight will be Keynes's published books from *Indian Currency and Finance*, in 1913, to the *General Theory* in 1936, with the addition of his *Treatise on Probability*. There will next follow, as vols. IX and X, *Essays in Persuasion* and *Essays in Biography*, representing Keynes's own collections of articles. *Essays in Persuasion* will differ from the original printing in two respects: it will contain the full texts of the articles or pamphlets included in it and not (as in the original printing) abbreviated versions of these articles, and it will have added one or two later articles which are of exactly the same character as those included by Keynes in his original collection. In the case of *Essays in Biography*, we shall add one or two other biographical studies that Keynes wrote later than 1933.

There will follow four volumes, XI to XIV, of economic articles and correspondence, and one volume of social, political and literary writings. We shall include in these volumes such part of Keynes's economic correspondence as is closely associated with the articles that are printed in them.

The further nine volumes, as we estimate at present, will deal with Keynes's *Activities* during the years from the beginning of his public life in 1905 until his death. In each of the periods into which we propose to divide this material, the volume concerned will publish his more ephemeral writings, all of it hitherto uncollected, his correspondence relating to these activities, and such other material and correspondence as is necessary to the understanding of Keynes's activities. These volumes are being edited by Elizabeth Johnson and Donald Moggridge, and it is their task to trace and interpret Keynes's activities sufficiently to make the material fully intelligible to a later generation. Until this work has progressed further, it is not possible to say with exactitude whether this material will be distributed, as we now think, over nine volumes, or whether it will need to be spread over a further volume or volumes. There will be a final volume of bibliography and index.

Those responsible for this edition have been: Lord Kahn, both as Lord Keynes's executor and as a long and intimate friend of Lord Keynes, able to help in the interpreting of much that would otherwise be misunderstood; Sir Roy Harrod as the author of his biography; Austin Robinson as Keynes's co-editor on the *Economic Journal* and successor as secretary of the Royal Economic Society. The initial editorial tasks were carried by Elizabeth Johnson. More recently she has been joined in this responsibility by Donald Moggridge. They have been assisted at different times by Jane Thistlethwaite,

x *General Introduction*

Mrs McDonald, who was originally responsible for the systematic ordering of the files of the Keynes papers; Judith Masterman, who for many years worked with Mrs Johnson on the papers; and more recently by Susan Wilsher, Margaret Butler, and Barbara Lowe.

Editorial Introduction

'I have been much pre-occupied with the causation, so to speak, of my progress of mind from the classical position to my present views,—with the order in which the problem developed in my mind. What some people think is an unnecessarily controversial tone is really due to the importance in my own mind of what I *used* to believe, and of the moments of transition which were for me personally moments of illumination.... You don't mention *effective demand* or, more precisely, the demand schedule for output as a whole, except in so far as it is implicit in the multiplier. To me the most extraordinary thing, regarded historically, is the complete disappearance of the theory of demand and supply for output as a whole, *i.e.* the theory of employment, *after* it had been for a quarter of a century the most discussed thing in economics. One of the most important transitions for me, after my *Treatise on Money* had been published, was suddenly realising this. It only came after I had enunciated to myself the psychological law that, when income increases, the gap between income and consumption will increase,—a conclusion of vast importance to my own thinking but not apparently, expressed just like that, to anyone else's. Then, appreciably later, came the notion of interest being the measure of liquidity preference, which became quite clear in my mind the moment I thought of it. And last of all, after an immense amount of muddling and many drafts, the proper definition of the marginal efficiency of capital linked up one thing with another.'

With these words, Keynes told R. F. Harrod in the summer of 1936 the development of his ideas towards the *General Theory*.¹

The origins of the *General Theory* lie in Keynes's dissatisfaction with his *Treatise on Money* even at the time of publication,² in the prolonged international slump of the years after 1929, and in the stimulation that emanated from a 'circus' of young Cambridge economists who began meeting soon after the publication of the *Treatise* to discuss and dissect its two volumes. It was the discussions within this group, retailed to him by Richard Kahn, that provided the basis for the first transitional stage between the *Treatise* and the *General Theory*.³

This stage was soon followed by Keynes's explicit commitment to revise the theoretical foundations of the *Treatise*, which had only dealt incidentally in

¹ Keynes to R. F. Harrod, 30 August 1936. This letter appears in full in volume xiii.

² See, for example, his letter to his mother of 14 September, 1930 in JMK, vol. v, p. xv.

³ A note on the circus and all surviving papers appear in volume xiii.

terms of movements in output. Thus in his preface for Japanese readers of the *Treatise*, dated April 1932, Keynes noted that rather than revise his *Treatise* he proposed 'to publish a short book of a purely theoretical character, extending and correcting the theoretical basis of my views as set forth in Books III and IV'.⁴ This commitment became clearer in the autumn of 1932, when Keynes changed the title of his course of lectures from 'The Pure Theory of Money', their title since the autumn of 1929, to 'The Monetary Theory of Production', the title they were to have until 1934. These lectures were concerned with movements in output as a whole and had the beginnings of the concept of liquidity preference, although it was not until his lectures in the autumn of 1933 that it took the form used in the *General Theory*.

The first major published indications of the direction Keynes's thought was taking between the *Treatise* and the *General Theory* came in 1933 in the form of an essay 'The Monetary Theory of Production', a pamphlet 'The Means to Prosperity', an article 'The Multiplier' (which is included in the American edition of 'The Means to Prosperity'), and a biographical sketch of T. R. Malthus,⁵ all of which are cast in terms of movements of output as a whole and reflected dissatisfaction with accepted theory.

Thus the major building blocks of the *General Theory* had been steadily accumulating ever since 1932. By the spring of 1934, in fact, all of them were in place, except for the idea of the marginal efficiency of capital, as is clear from drafts from that period and a working paper Keynes prepared during his visit to America in May and June.⁶ It was only during the summer of 1934, however, that the final piece fell into place, and by the autumn Keynes was delivering his lectures, now entitled 'The General Theory of Employment' from proof sheets.

However, before publication there was to be another year of intense discussion and redrafting. Keynes circulated proofs of the book to R. F. Kahn, Joan Robinson, R. F. Harrod, D. H. Robertson and R. G. Hawtrey and took careful note of their comments and suggested improvements, stating clearly his points of disagreement when he did not adopt them.⁷ Thus it was after almost five years of intense preparation that the book appeared in February 1936 at a price of 5 shillings to encourage a large sale among students.

⁴ JMK vol. v, p. xxvii.

⁵ 'The Monetary Theory of Production' appears in volume xiii, 'The Means to Prosperity' in volume ix (vi) i, 'Robert Malthus: The First of the Cambridge Economists' in volume x, Ch. 12.

⁶ This paper will appear in volume xiii.

⁷ This correspondence, keyed into the drafts and the final text of the *General Theory* appears in volume xiii.

After publication there was still further discussion and, occasionally, controversy. Keynes himself encouraged this discussion, for, as he put it,⁸

I am more attached to the comparatively simple fundamental that ideas underlie my theory than to the particular forms in which I have embodied them, and have no desire that the latter should be crystallized at the present stage of the debate. If the simple basic ideas can become familiar and acceptable, time and experience and the collaboration of a number of minds will discover the best way of expressing them.

In this spirit, Keynes entered into considerable correspondence with critics, expositors and extenders of his ideas.⁹ Moreover, as the debate progressed, his own ideas were changing and by August 1936 he was writing to R. G. Hawtrey¹⁰

I may mention that I am thinking of producing in the course of the next year or so what might be called *footnotes* to my previous book, dealing with various criticisms and various points which want carrying further. Of course, in fact, the whole book wants re-writing and re-casting. But I am still not in a sufficiently changed state of mind as yet to be in the position to do that. On the other hand I can deal with specific points.

From this period, we have one draft table of contents to a book entitled 'Footnotes to *The General Theory of Employment and Money*', a title that echoes his first draft table of contents after *Economic Consequences of the Peace*.¹¹ He also used this title for the lectures he delivered in Cambridge in the spring of 1937, from which drafts of two lectures survive.¹² In fact he seems to have been making considerable progress towards stepping outside the *General Theory* by that time, for he told Joan Robinson in April 1937¹³

I am gradually getting myself into an outside position towards the book, and am feeling my way to new lines of exposition. Perhaps you will see what I have in mind in my forthcoming lectures.

Unfortunately, the proposed 'footnotes' never got beyond the lectures, for Keynes suffered a severe heart attack in the early summer of 1937 and was

⁸ See Keynes's article 'The General Theory of Employment' (1937). This article appears in volume xiv.

⁹ This correspondence appears in full in volume xiv.

¹⁰ Keynes to R. G. Hawtrey, 31 August 1936. This letter appears in full in volume xiv.

¹¹ See *A Revision of the Treaty* (JMK, vol. III) p. xiii.

¹² These appear in volume xiv.

¹³ Keynes to Joan Robinson, 20 April 1937.

never able to work at anything near his old pace until war came in 1939—and then his energies were directed in other directions. How he would have revised the *General Theory* if he had remained in good health is impossible to guess. One can only be certain that he would have revised it.

Since its publication in Britain in February 1936, the *General Theory* has been published in the United States (originally from sheets printed in England) and translated into German, Japanese, French, Spanish, Czech, Italian, Serbo-Croat, Hindi, Finnish, Roumanian, Hungarian and Russian. The German, French and Japanese editions all carried special additional prefaces which followed the original English preface. These additional prefaces are printed below.

This edition follows the reprinted English first edition, which differs from the first English printing in that a correction to lines 23–5 of page 123 was moved from an erratum note following the index into the text. In Appendix 1 we have introduced a list of minor textual corrections from the reprinted first edition. In addition, in Appendices 2 and 3 we reprint Keynes's articles 'Fluctuations in Net Investment in the United States' and 'Relative Movements of Real Wages and Output' which deal with errors on pages 103–4 and 9–10 respectively of the text itself. For further discussion of the *General Theory* and its genesis, the reader is referred to volumes XIII and XIV.

In printing this volume we have made it our first objective to follow as precisely as possible the pagination of the original edition. An immense literature of detailed criticism and analysis has grown up around the text of the original edition and we have been anxious that references in that literature should apply equally to this new edition. This has meant that we have been unable to follow precisely the standard typography of the other volumes in the series. The gain of ready reference, in our view, justifies this course. As in other volumes of the series, we have reduced the excessive capitalisation favoured by Keynes's original printers, but irritating to a modern eye.

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* [JMK vols. v and vi], 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

13 *December* 1935

Preface to the German Edition

Alfred Marshall, on whose *Principles of Economics* all contemporary English economists have been brought up, was at particular pains to emphasise the continuity of his thought with Ricardo's. His work largely consisted in grafting the marginal principle and the principle of substitution on to the Ricardian tradition; and his theory of output and consumption as a whole, as distinct from his theory of the production and distribution of a *given* output, was never separately expounded. Whether he himself felt the need of such a theory, I am not sure. But his immediate successors and followers have certainly dispensed with it and have not, apparently, felt the lack of it. It was in this atmosphere that I was brought up. I taught these doctrines myself and it is only within the last decade that I have been conscious of their insufficiency. In my own thought and development, therefore, this book represents a reaction, a transition away from the English classical (or orthodox) tradition. My emphasis upon this in the following pages and upon the points of my divergence from received doctrine has been regarded in some quarters in England as unduly controversial. But how can one brought up a Catholic in English economics, indeed a priest of that faith, avoid some controversial emphasis, when he first becomes a Protestant?

But I fancy that all this may impress German readers somewhat differently. The orthodox tradition, which ruled in nineteenth century England, never took so firm a hold of German thought. There have always existed important schools of economists in Germany who have strongly disputed the adequacy of the classical theory for the analysis of contemporary events. The Manchester School and Marxism both derive ultimately from Ricardo,—a conclusion which is only superficially surprising. But in Germany there has always existed a large section of opinion which has adhered neither to the one nor to the other.

It can scarcely be claimed, however, that this school of thought has erected a rival theoretical construction; or has even attempted to do so. It has been sceptical, realistic, content with historical and empirical methods and results, which discard formal analysis. The most important unorthodox discussion on theoretical lines was that of Wicksell. His books were available in German (as they were not, until lately, in English); indeed one of the most important of them was written in German. But his followers were chiefly Swedes and Austrians, the latter of whom combined his ideas with specifically Austrian theory so as to bring them in effect, back again towards the classical tradition. Thus Germany, quite contrary to her habit in most of the sciences, has been

content for a whole century to do without any formal theory of economics which was predominant and generally accepted.

Perhaps, therefore, I may expect less resistance from German, than from English, readers in offering a theory of employment and output as a whole, which departs in important respects from the orthodox tradition. But can I hope to overcome Germany's economic agnosticism? Can I persuade German economists that methods of formal analysis have something important to contribute to the interpretation of contemporary events and to the moulding of contemporary policy? After all, it is German to like a theory. How hungry and thirsty German economists must feel after having lived all these years without one! Certainly, it is worth while for me to make the attempt. And if I can contribute some stray morsels towards the preparation by German economists of a full repast of theory designed to meet specifically German conditions, I shall be content. For I confess that much of the following book is illustrated and expounded mainly with reference to the conditions existing in the Anglo-Saxon countries.

Nevertheless the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of laissez-faire. The theory of the psychological laws relating consumption and saving, the influence of loan expenditure on prices and real wages, the part played by the rate of interest—these remain as necessary ingredients in our scheme of thought.

I take this opportunity to acknowledge my indebtedness to the excellent work of my translator Herr Waeger (I hope his vocabulary at the end of this volume¹ may prove useful beyond its immediate purpose) and to my publishers, Messrs Duncker and Humblot, whose enterprise, from the days now sixteen years ago when they published my *Economic Consequences of the Peace*, has enabled me to maintain contact with German readers.

J. M. KEYNES

7 September 1936

¹ Not printed in this edition [Ed.].

Preface to the Japanese Edition

Alfred Marshall, on whose *Principles of Economics* all contemporary English economists have been brought up, was at particular pains to emphasise the continuity of his thought with Ricardo's. His work largely consisted in grafting the marginal principle and the principle of substitution on to the Ricardian tradition; and his theory of output and consumption as a whole, as distinct from his theory of the production and distribution of a *given* output, was never separately expounded. Whether he himself felt the need of such a theory, I am not sure. But his immediate successors and followers have certainly dispensed with it and have not, apparently, felt the lack of it. It was in this atmosphere that I was brought up. I taught these doctrines myself and it is only within the last decade that I have been conscious of their insufficiency. In my own thought and development, therefore, this book represents a reaction, a transition away from the English classical (or orthodox) tradition. My emphasis upon this in the following pages and upon the points of my divergence from received doctrine has been regarded in some quarters in England as unduly controversial. But how can one brought up in English economic orthodoxy, indeed a priest of that faith at one time, avoid some controversial emphasis, when he first becomes a Protestant?

Perhaps Japanese readers, however, will neither require nor resist my assaults against the English tradition. We are well aware of the large scale on which English economic writings are read in Japan, but we are not so well informed as to how Japanese opinions regard them. The recent praiseworthy enterprise on the part of the International Economic Circle of Tokyo in reprinting Malthus's 'Principles of Political Economy' as the first volume in the Tokyo Series of Reprints encourages me to think that a book which traces its descent from Malthus rather than Ricardo may be received with sympathy in some quarters at least.

At any rate I am grateful to the *Oriental Economist* for making it possible for me to approach Japanese readers without the extra handicap of a foreign language.

J. M. KEYNES

4 December 1936