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Towards A Resolution Of The Dispute - Introduction

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Keynes, Chicago and Friedman

Chapter 43: Towards a Resolution of the Dispute

… it would be interesting to know whether there was a line of influence running from Keynes (1923) to Chicago (1934).

Robert Skidelsky (1992, 579, n) *John Maynard Keynes The Economist as Saviour 1920-1937*

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43.1 Overview

Prior to Don Patinkin's assault on Milton Friedman, the major dispute over macroeconomic lineage (and bastardry) related to John Maynard Keynes, not to Henry Simons and Lloyd Mints. Patinkin was a major participant in both disputes. Joan Robinson's (1962a, 690-1) first used the term "Bastard Keynesianism" in print in 1962. Simultaneously, Patinkin sought to establish the legitimate tradition of both Keynes and the Chicago Fathers.

Patinkin asserted that Keynes supported the Walrasian general equilibrium (IS-LM) interpretation of the *General Theory*. In contrast, Axel Leijonhufvud (1969 [1968], 302) accused Patinkin and his fellow general equilibrium theorists of providing "a seriously misleading framework for the interpretation of Keynes' theory". Robert Clower (1969 [1965], 270, 295-6, 283) argued that Patinkin was carrying forward this "Keynesian counter-revolution … with such vigour". But in Clower's view this vigour was not accompanied by rigour: "much of what now passes for useful theory is not only worthless economics (and mathematics), but also a positive hindrance to fruitful theoretical and empirical work". Patinkin was guilty of "*ad hoc* theorizing – inventing a solution to a problem which has actually been evaded rather than Ong resolved".[i]

Patinkin objected to what he regarded as 'history-mining' to add respectability to contemporary policy recommendations. Thus Patinkin (1980, 25, 23) advised economists to "cut the umbilical cord to Keynes". According to Patinkin (1989, 235-6, 211) in the 1960s attempts were made to "identify Keynes' theory with that of the 'Modern Cambridge School' [and] to invoke Keynes' authority for the more radical policy views of this School". This involved driving "a wedge" between "the economics of Keynes" and those who were denigrated as "bastard Keynesians". Friedman (chapter 7 [1972/1974], 133-4, 18) approved of this wedge. For him, "Keynes was a true Marshallian in method". Friedman (1970, 7-8) also asserted that "if Keynes were alive today he would no doubt be at the forefront of the [monetarist] counter-revolution. You must never judge a master by his disciples".

The chapters in Part Four fall into four sections. The first three chapters represent Patinkin's ongoing scholarly interest in explaining the evolution of Keynes' economics and his relationship to the Chicago economists. In his Sir Dennis Robertson lecture, Patinkin (chapter 44 [1974], 4, 27, 12) explained that he was using the term “Keynesian monetary theory” in contrast to “the quantity theory” to describe “the *General Theory* and the literature to which it gave rise – though I should note that the aspect of the theory that is my primary concern here (namely, the treatment of money from the viewpoint of the choice of an optimum portfolio) is in some respects more precisely developed in Keynes’ *Treatise on Money* … There is no doubt that Keynes of the *General Theory* is at one with Keynes of the *Tract* (1923, pp.78-9) in taking as his point of departure the individual’s demand for money holdings”.

Patinkin explained that his general approach to doctrinal history was that “isolated passages do not a theory make”. Therefore the crucial distinction between the Cambridge School and the Keynesian School was that the latter – but not the former – recognised the “implications of the optimal-portfolio approach”. Patinkin cited Robertson’s (1928, 37) reference to the choice-theoretic marginal calculation underpinning an individual’s demand for money but concluded that “the Cambridge economists did not recognise the full implications of the optimum-portfolio approach to monetary theory; they did not really integrate it into their thinking”. Patinkin (chapter 44 [1974], 10) also argued that “the novelty of Keynesian monetary theory” related to the distinction between stocks and flows. However, Robertson (1928, 29) explained that “we can fix our attention either on the *stock* of money in existence at a given *point* in time, or on the *flow* of money being used during a given *period* of time. Each of these procedures has its own advantages, and it will be well to be familiar with both of them before we are done” [Robertson’s emphases]. Patinkin interspersed his lecture with “various facetious remarks” – mostly aimed at Milton Friedman.

Chapter 45 is a review of *The Collected Writings of John Maynard Keynes*: From The *Tract* to the *General Theory*. According to Patinkin (chapter 45 [1975], 254-5, 257-8, 269) “‘monetary theory’ in the *Treatise* means, first and foremost, a theory that explains the determination of the price level”. Patinkin interpreted Keynes as a co-author of the Keynesian Neoclassical Synthesis: “the General Theory is not a static theory of unemployment equilibrium but a dynamic theory of *dis*equilibrium” [emphasis in original]. Patinkin also appropriated Keynes as a keen econometrician: a pioneer in estimation of reduced form models (see also Patinkin 1976).

Patinkin (1979, 156) thought that it was “essential’ to realise that “Keynes did not live in the world of academe. He was not a professor”. Patinkin (chapter 45 [1975], 254, 267, 269) noted that the *Treatise* was “designed to firmly establish his academic reputation”. Patinkin sought to encourage the reading of the *General Theory* but to discourage the reading of the *Treatise*: “least enjoyable as a reading experience is the *Treatise* … I can (from the viewpoint of macroeconomic theory) see little profit (and certainly no pleasure) from reading it today … one cannot help the feeling that it represents a Keynes out of character: a Keynes attempting to act the role of a Professor, and a Germanic one at that”.[ii] In contrast, in the General Theory “we once again find the true Keynes … the stirring voice of a prophet who has seen a new truth, and who is convinced that it – and only it – can save a world deep in the throes of crisis. It is a sharp polemical voice directed at converting economists all over the world to the new dispensation – and combating the false prophets among them who perversely continue with the erroneous teachings of the earlier gods whom Keynes had already abandoned”.

Keynes visited the University of Chicago in June-July 1931 to attend the Harris Foundation lectures and seminars on 'Unemployment as a World Problem' (Wright 1931a). In his Henry Simons Lecture on "Keynes and Chicago", Patinkin (chapter 46 [1979/1981], 290-1, 299) ridiculed the simplicity of the "obscure" and "strange" notation of Keynes "fundamental equation!" In his discussion of the Chicago reviews of the *General Theory*, Patinkin noted that Frank Knight framed his criticism of Keynes' theory of liquidity preference in the context of an optimal portfolio analysis. This style of analysis "does not appear in earlier Chicago writings on money, and so can itself be regarded as reflecting the influence of Keynes' theory of liquidity preference – an influence that was to manifest itself in" Friedman's writings.

The next four chapters capture the response of Jacob Viner, Henry Simons and Knight to Keynes' and his *General Theory* (chapter 47 [1932]; chapter 48 [1936/1964]; chapter 49 [1936]; chapter 50 [1937]). The following three chapters are part of a post-war symposium on monetary policy between Mints and Alvin Hansen, with a commentary by Howard Ellis (chapters 51-53 [1946]). Chapter 54 is a previously unpublished essay which attempts to resolve aspects of the dispute by examining Friedman's lecture notes and readings from Mints' Economics 330 in 1932-3.

43.2 The Evolving Chicago Response to Keynes and the Keynesians

While Keynes' *Treatise on Money* (1930) was apparently welcomed in Chicago, his *General Theory* (1936) was not. This appears to be true even for Paul Douglas, who was regarded as being on the left-wing component of the Chicago spectrum. Douglas (1931, 9; 1933a, 80) described the *Treatise* as "brilliant" and "the most stimulating single work on money".[iii] But he was "not convinced" by "the school of thought … based on Keynes's *General Theory of Employment, Interest and Money*". Instead, Douglas (1972, 455) preferred a *Treatise*-style explanation: "the rate of interest was higher than the marginal productivity of capital".

The period following Keynes' visit to Chicago was highly productive both for him (culminating in the *General Theory* and the Keynesian revolution) and for Simons (it corresponded with the effective beginning of his publishing career). After the publication of the *General Theory*, Keynes became a widely "hated" figure in some American circles (Harrod 1951, 448-9). Since Friedman learnt monetary economics at Chicago before this period it is important to precisely delineate the chronology and the components of this North American animosity towards Keynes and his disciples.

Before the *General Theory* Keynes and the Chicago economists had begun to proceed down divergent evolutionary paths as a section of the Cambridge school evolved into the Keynesian school. Keynes' journey reflected, in part, the influences of two young disciples, Richard Kahn and Joan Robinson. They (together with Austin Robinson, Pierro Sraffa and James Meade) were "among the irritants" that propelled Keynes from the *Treatise* to the *General Theory* (Austin Robinson 1992, 211). They were also among the irritants in the oyster that created the anti-Keynesian reaction.

The February 1946 Employment Act was perceived as having "in effect, enacted Keynesian policies into law" (Friedman and Friedman 1980, 122). In September 1946 Friedman returned to Chicago after a gap of eleven years. In between these two dates both Keynes and Henry Simons died: Keynes on 21 April 1946 aged 62, and Simons on 19 June 1946 aged 46, apparently by suicide (Coase 1993, 244; Friedman and Friedman 1998, 155). The post war configuration was, in part, a dispute between the heirs of Keynes and the heirs of Simons.

There were at least five overlapping aspects to the anti-Keynesian reactions. First, there were some personal elements. Secondly, there was the political dimension of Keynesianism. Thirdly, there was an irritation at the manner in which Keynes and the Keynesians ridiculed their "classical" predecessors. Fourthly, there was some resistance to the replacement of the quantity theory by the income-expenditure-multiplier. Finally, there was the contribution that Keynes made to policies such as tariffs and protection.

With respect to personal characteristics, economists sometimes see themselves as exerting an influence in the evolution of world history; but few would portray themselves individually as playing an heroic but tragic role in such a cosmic drama. Keynes (JMK IX [1931], xvii), however, published a volume almost entitled Essays in Prophesy and Persuasion. Dropping the "Prophesy" from the title he nevertheless claimed to have been a tortured Cassandra since the publication of the *Economic Consequences of the Peace* "painfully conscious that a cloud of witnesses would rise up against me and very few in my support".

Keynes' attack on President Wilson in *Economic Consequences of the Peace* caused "particular resentment". Herbert Hoover regarded Keynes as "one of the most conceited men he had ever met" (Stein 1969, 134, 142). Keynes retorted that "Attempts to humour or placate the Americans or anyone else seems quite futile" (Skidelsky 1983, 342, xxii). Keynes had established himself as "a person to listen to". But the *New York Times* suggested that Keynes' attitude towards foreigners equated to Samuel Johnson's remark that "So far as I can see, foreigners are mostly fools" ([1926] cited by Stein 1969, 134, 484, n33).

With respect to his opponents, Keynes often saw stubborn reactionaries, not highly endowed with intelligence. In March 1933, he wrote to Kahn (who was then in the U.S.) that "it seems hardly an exaggeration that there are no longer any serious obstacles to a reasonable policy, except Neville Chamberlain, Hilton Young and, perhaps, the Governor [of the Bank of England]". When Chamberlain, the Chancellor of the Exchequer, invited Keynes to discuss some of his recent articles, Keynes wrote to Kahn: "Could it be that the Walls of Jericho are flickering?" (cited by Moggridge 1992, 573).

During a visit to the US in 1917, Keynes did not like what he found and made "a terrible impression for his rudeness" (JMK XVI [1918], 264). He was not averse to ridiculing his disciples. In 1934, during a third visit, Keynes received a visit at his hotel from Calvin Hoover (1965, 173, 125). Using Keynes' bathroom, Hoover's careful use of only one towel was ridiculed by Keynes, who swept a bunch of clean towels to the floor so as to demonstrate how to stimulate the American economy. According to his disciple and first biographer, Keynes was "not predisposed to admire the American way of life"; his preferred style of "cultured" civilisation required "ample domestic service" (Harrod 1951, 4-5).[iv]

Some of his more radical disciples displayed a similar propensity. In 1936, Roy Harrod and Hubert Henderson complained that "2 people in Cambridge together with a few undergraduates" were propagating the belief that those who did not accept the *General Theory* were "intellectually inferior beings" (cited by Clarke 1988, 308). Joan Robinson with her "bleak Cambridge rudeness" generated a mixture of intense admiration and irritation, with the latter perhaps the dominant reaction (Turner 1989; Skidelsky 1992, 538; Tobin 1972, 105; Tobin 1978, 452).[v] In 1934, Kahn advised Robert Bryce (1996, 43) that when he took up his scholarship at Harvard he should boycott the lectures and seminars.

Two years previously, Kahn travelled to America on a boat appropriately called "Majestic" (Marcuzzo 2001, 22). From the USA, Kahn wrote to Joan Robinson and Keynes of his contemptuousness of Americans: "the people are so desperately dim, and far too frequently grubby into the bargain … in respect of society, I had to lower my standards considerably, in respect of both age, eminence, intelligence and quality … after watching the struggle of these wretched people I shall for the first time realise my good fortune in being a member of the King's High Table, and take more pleasure in its society than I had in the past". Kahn was especially contemptuous of American academics: "I believe that Americans being what they are, it is only the unfitted who were relegated to academic life … I feel that if I wanted to do academic work in the States the thing to do would be to get a job at one of their banks". At the University of Chicago, Kahn was disgusted by "the grubbiness of their style of living" and the "revolting food that is served up in all their halls and clubs" (15 February 1933, 8 January 1933, 27 February 1933, cited by Marcuzzo 2001, 54-7).[vi]

Kahn (15th January 1933) also reported to Joan Robinson that Viner tried to be "extremely contemptuous of Cambridge … Viner gave me proudly to understand that he never devotes more than an hour to the [Economic] Journal and was "very proud of not having read more than a few passages from the Treatise".[vii] Yet Viner (chapter 47 [1932], 504) was (or had very recently been) full of praise for the diagnoses and remedies contained in *Essays in Persuasion*, which he described as being widely accepted as "substantially and brilliantly right". Moreover, Keynes stood "head and shoulders" above other economists as a "propagandist" whose work was "undiluted by academic scruples to disclose all the qualifications and the uncertainties of his logical argument". Keynes also displayed "fearlessness in assigning to his opponents their appropriately low intelligence quotas … Perhaps what the world has needed and most urgently needs today, is a few more Keynes". Viner had a reputation for being a ruthless teacher who sought to maintain the strictest standards by humiliating students (Domar 1992, 121; Minsky 1985, 218; Samuelson 1972, 5-6; Friedman and Friedman 1998, 35; Stigler 1988, 19-20; Becker 1991, 145). In 1932-3, Friedman attended Viner's Economics 301 simultaneously with Mints' 330; such praise of Keynes could only have added to the impression that the *Treatise* was of great significance.

Viner (chapter 48 [1963], 256, 263, 266) later highlighted the distinction between the "heroic" Keynes of the 1940s and his American disciples. He continued to express strong reservations about the *General Theory*. Viner was not sympathetic to Keynes' "after us the deluge" approach. He objected to the mythology (expressed by Seymour Harris) that the Keynesian "truths" about the need for expansionary fiscal policy in times of depression needed to be "repeated hundreds of times before they made the required impression". Viner noted that he had made exactly that point in August 1931 and that his Chicago colleagues did not need "to learn it from Keynes".

With respect to the political dimension of Keynesianism, Schumpeter (1951, 287-8) saw sociological analogies between the Keynesian school and the Marxist school: "a group that professes allegiance to One Master and One Doctrine". Keynesianism became an especially suspect ideology during the post-war McCarthyite period. During the Great Inflation of the 1970s, *The New Economics* (Harris 1947) became associated with *The New Inflation* (Jones 1973). In consequence, anti-Keynesianism became as virulent as anti-Communism. Paul Sweezy (1996, 84, 78) reflected the early 1930s was a time of uninhibited discussion; later this freedom of association "came back to haunt people who weren't very careful during the 1930s. They were accused of being Communists and subversives". Sweezy was uncertain at which point prior to 1936 the term "Keynesian" became used as a "general nomenclature", but it was clear that an economist could be "a kind of left wing socialist Keynesian or a conservative business Keynesian".

This aspect of the early Keynesian movement was apparent to Alvin Hansen by April 1933. Hansen's view was that "it is wholly fallacious to assume that a government can, in a private capitalist economy, spend its way out of depression". Hansen added that there were similarities between Keynes' *Treatise* and Marx's *Das Kapital*: "Both the truth and the error have been used by ardent propagandists in the political arena to support practical policies in which they believe" (Hansen and Tout 1933, 342, 143).

The radical nature of some Keynesians was apparent to Paul Sweezy (1996, 76, 78) who returned to Harvard in 1932 after a year at the London School of Economics (LSE). Sweezy regarded himself at that time as "a Marxist and as a radical" but noted that Joan Robinson was "far to the left of many of the Marxists, in terms of her instincts and sympathies". Sweezy (1934, 805, 807) reviewing Pigou's *Theory of Unemployment* in the *JPE*, noted that members of the "Cambridge" school had some "unpublished" arguments which purported to show that a reduction in nominal wages would not necessarily reduce real wages. The neoclassical view would "receive the ascent of most economists"; the Cambridge school was interpreted as launching an assault on this paradigm.[viii]

With respect to tariffs, on June 13th 1930, the Senate passed the Hawley-Smoot tariff, which the President signed four days later. The previous month virtually every respectable American economist (including 1,038 AEA members) had signed a petition urging Congress to reject the bill (Hicks 1960, 220-2). This led to what Paul Douglas (1972, 477) described as "a deadly international trade war". Albert Hart (1948, 370) described it as a "notable event" in the 1930s "'economic warfare'. This struggle was not merely one of the Nazis against the democratic powers, but a struggle in which 'every man's hand was against every other'". In their January 1932 *Memorandum* on Anti Depression Policy, Lauchlin Currie, Paul Theodore Ellsworth and Harry Dexter White (chapter 42 [1932]) noted that since 1925 all major countries had revised upwards their tariff schedules which had caused "maladjustments which are now playing economic havoc … The United States has been in the forefront of the building up of tariff walls; it is only fitting that she take the lead in the downward revision so necessary to economic sanity".

In contrast, in July 1930, Keynes (JMK XX 378, 488, 494-5) advised the British Prime Minister that he had "become reluctantly convinced that some protectionist measures should be introduced". As his first biographer noted this was a "momentous proposal". When Keynes arrived to give a talk at Oxford, Harrod's (1951, 424-7) "face fell" upon hearing that he planned to speak in favour of a revenue tariff. Harrod was so inconsolable that Keynes was obliged to talk about the much safer *Treatise* instead. According to Skidelsky (1983, xxii), Harrod "believed that a bright future depended upon 'selling' Keynes to the United States. This required downplaying all those aspects of Keynes' character and thought likely to give offence across the Atlantic". Referring to Keynes' advocacy of protection, Harrod (1951, 428) asked: was Keynes "a little too ready to be an iconoclast?"

Prior to his visit to Chicago in 1931, Keynes (JMK XX [1931], 523, 505, 501, 519) was obliged to defend his position. Perceiving the choice to be between tariffs and exchange rate flexibility Keynes explained that "if I look into the bottom of my own heart, the feeling which I find there is … that a tariff is a crude departure from *laissez-faire*, which we have to adopt because we have at present no better weapon in our hands, but that it will be superseded in time, not by a return to *laissez-faire*, but by some more comprehensive scheme of national planning". Keynes complained that "new paths of thought have no appeal to the fundamentalists of free trade … I appeal for a reconsideration of the whole matter with a fresh head, and a clear one".

Keynes' 1930-31 advocacy of tariffs caused "a sensation" in Britain (JMK XX, 489). It also led to a rejoinder - *Tariffs: the case examined* - by a group of LSE economists under the chairmanship of Sir William Beveridge (1932).[ix] Joan Robinson (1962b, 84, 64) referred to this "great outcry against Keynes' treachery towards Free Trade" and noted that Viner was the authority cited by the LSE economists. Viner (chapter 47 [1932]) argued that Keynes was "seriously wrong" in advocating that Britain join the "crowded ranks of tariff sinners" had "contributed greatly to a further weakening of the already waning faith of the English public in the virtues of free trade". For Simons (1948 [1944], 1213; 1943, 443-4), tariffs were part of the government sponsored "racketeering" which his "rules" were designed to thwart. Simons sought to defend "Traditional Liberal Principles"; his "faith and hope" for the post war world rested on the construction of a "free-trade front".

Viner's (chapter 48 [1963], 266) admiration for Keynes was qualified both by the *General Theory* and "the journalistic and polemical Keynes of the 1920's and early 1930's". But judged by the reviews this animosity appeared not to cloud the reception to the *Treatise*. Indeed, the only genuinely critical review of the *Treatise* came from Cambridge and from A.C. Pigou. Pigou (1931, 544) complained that "There is too much carping at 'current economic theory' - whatever precisely that may be; too much adverse comment upon classes of persons, 'the bankers', 'the financial press', and so on, names not specified; too many naively patronising remarks. It was, perhaps, a fault in Marshall that he discovered more truth in the writings of others than was actually there, and unduly depreciated his own contributions. There is no fault of that kind in Mr. Keynes!" Dimand (1988, 56) noted that this was an "extreme outlier among the reviewers".

In May 1931, Pigou (JMK XIII [1931], 214-8) wrote to Keynes indicating that he had suspected that the *Treatise* was purporting to offer a formula which "revealed price changes which could not be revealed by the 'Cambridge equation'". Pigou was temporarily appeased. But as word spread about the developments that would lead to

The General Theory, “spies ... members of the fifth column” from London came to listen to Keynes’ lectures (Austin Robinson 1947, 40).

In 1934, Pigou gave a series of lectures at LSE, entitled *Economics in Practice*. In his first lecture, Pigou (1935, 22-4) made several cryptic comments about developments in Keynes' career since Marshall's death: “Not long ago one of my most distinguished colleagues urged his fellow economists to ‘eschew the Treatise, pluck the day, fling pamphlets to the wind’ [a reference to JMK X [1924], 199]. A few years later he himself offered, and we gratefully received, a work with the title Treatise”. Keynes was apparently compared, unfavourably, to Marshall, whose generosity to his predecessors, according to Pigou, was “a great man’s fault, not a little man’s … Controversy for its own sake is a prodigious waste of time ... Are we, in our secret hearts, wholly satisfied with the manner, or manners, in which some of our controversies are carried on? A year or more ago, after the publication of an important book, there appeared an elaborate and careful critique of a number of particular passages in it. The author’s answer was, not to rebut the criticisms, but to attack with violence another book, which the critic had himself written several years before! Body line bowling! The method of the duello! That kind of thing is surely a mistake. It is a mistake, not merely in general and in the abstract, but also for solid reasons of State. Economists in this country lack influence which - in their own opinion - they ought to have, largely because the public believe that on all topics they are hopelessly divided. Controversies conducted in the manner of Kilkenny cats do not help to dissipate this opinion”.

Pigou (1949, 21) acknowledged that both the *Treatise* and the *General Theory* “broke that dogmatic slumber” which had descended upon interwar economics: “The period of tranquillity was ended … For this the credit is almost wholly due to Keynes”. Pigou (1953, 26-7) was also curious about “the explanation of the tone of Keynes's criticisms ... the red flags for bulls”. Since autumn 1930, Keynes had been referring to Kahn as “the little priest” (Moggridge 1992, 532). In his LSE lectures, Pigou (1935, 2) referred to the “priests” and “priestesses”, who regarded anyone in trade as “being essentially inferior to oneself”. This – combined with an analogous generational conflict - was also a component of the American animosity to the Keynesians which increasingly revealed itself in the early 1930s.

In April 1931, Keynes made some remarks to an American radio audience which, according to Stein (1969, 145), were “typical of many that alienated businessmen and endeared him to young economists”. The *New York Times* reported that Keynes had ridiculed the experts who “talk much greater rubbish than an ordinary man can ever be capable of”. At Harvard there was a generational conflict in which the juniors regarded many of the seniors as “‘retreads’ who had outlived their usefulness”. Frank Taussig was “the grand old man” of Harvard economics who liked to humiliate students with all the venom of a “prosecuting attorney” (Mason 1982, 394, 427; Douglas 1972, 33). Taussig (1932, 356, 359-61) adopted a similar attitude towards what he regarded as “quack” economic remedies: “The doctors are sure that most of the proposed and advertised remedies for cancer are worthless, or worse than worthless – not only do no good, but may do harm. The economists have the same conclusion about sundry popular measures for depressions”. In his classification scheme, “public and private charity … this business of providing for all the claimants by indiscriminate relief has its dangers as well as limitations … they may stand in the way of return to health". Taussig was very uncertain about the benefits of public works: "The very fact that public works are searched for in advance – that they are so to speak cooked up – indicates that they are not keenly wanted". He also stated that he was "unable to see that unemployment insurance or unemployment reserves can operate as a preventive"; they should be classed "among the palliatives".

A few months after this article was published, Kahn (3 March 1933) wrote to Keynes from Harvard, explaining that Taussig objected to Kahn's "arrogance" and his "impertinent" approach: he "very much resented my abusive attitude towards the businessman … He was appalled that a young man should imagine that he could venture to advise the experienced business man. This cocksure attitude of mind was typical of the Keynesian school, but was particularly deplorable in the young. Things were far more complicated than was allowed for in my philosophy".[x]

Joan Robinson (1977, 8) located the immediate origins of the Keynesian revolution to 1929 "with a debate about the case for government loan expenditure on public works as a means of reducing unemployment ... a great storm of controversy broke out in Cambridge" when the *Treatise* was published. Advocacy of public works was acquiring some revolutionary implications. Joan Robinson told Keynes (JMK XIV [1937], 149-9) her primary motive for writing a "told-to-the-children" *Introduction to the Theory of Employment* was to provide ammunition for the Workers' Education Association. In her attempt to popularise the Keynesian message, Joan Robinson (1937, 126-7) noted that the debate over public works gave rise to "violent conflicts of interest … the adherents of laissez faire … fear that, if it once became clear to the public that state intervention can reduce unemployment, the public might begin to think that state intervention could do much else besides". Friedman (chapter 2 [1956], 3) asserted that the "subtle" inter-war Chicago quantity theory "became a flexible and sensitive tool for interpreting movements in aggregate economic activity and for developing relevant policy prescriptions". In contrast, Joan Robinson (1937, chapter 10, appendix) contemptuously explained that "For detailed discussion of changes in trade activity the Quantity Equation is a weak and treacherous instrument … in inexpert hands the Quantity Equation can lead to great confusion". She later referred to the "pitiful state of confusion" epitomised in the 1930s by the work of Frederick Hayek and Henry Simons: "Prices were conceived to be something to do with money". In the post war period the quantity theory continued to be "so implausible" (Robinson 1972, 2, 5).

Kahn's first multiplier paper appeared in June 1931. Kahn (1933) presented his American multiplier essay on "Public Works and Inflation" at the 1932 joint AEA-American Statistical Association meeting in Cincinnati. After the meeting Kahn (10 February 1933) wrote to Joan Robinson about the "filthy kind of bilge" which passed for monetary thought amongst those in America who had not been influenced by Keynes (cited by Marcuzzo 2001, 59). Kahn (30 January 1933) informed Keynes that the 1932 AEA meeting "provided a most shocking spectacle. These people are still living in the Dark Ages. It was all about the helplessness of trying to expand the economy … I am thinking that the only way to save humanity is to lead a campaign against the Quantity Theory. I tried it on the [Chicago] Graduate Club here and they didn't very much like it, but didn't quite know what to say. These people can see nothing absurd in the president elect being 'opposed to currency inflation but in favour of credit inflation'. I am enjoying the spectacle".[xi]

Kahn's Chicago audience may not have enjoyed his sarcastic and supercilious assault on orthodox economics. According to his handwritten notes, Kahn set out the "Quantity Equation for hairpins" which Joan Robinson (1933, 23, 22, 26) wrote up in October 1933 for the first issue of *Review of Economic Studies*. Orthodox economists were portrayed as ridiculous figures, analogous to the Pope seeking to outlaw bobbed hair on moral grounds. The "violent revolution" which had taken place in Cambridge after the publication of the Treatise had left "many academic economists … bewildered". The "Analysis of Output" had dethroned the "Theory of Money … once Mr Keynes had shown us how to crack the egg, it appears the most natural thing in the world to attack the interesting part of the problem directly, instead of through the devious route of the Quantity Theory of Money". Keynes himself had failed "to realize the nature of the revolution that he was carrying through". However, "once it becomes clear what has happened the confusion disappears".

Kahn's (1984, 170-1) "antipathy to the Quantity Theory of Money dated from boyhood". His animosity made an impression on his audience: "The long and short of Mr Kahn's method of discussion is that, as soon as he notices the faintest trace of 'quantity theory' he no longer bothers about the specific problem or the specific argument in question, but tackles the adversary by trying to give him a lesson about the true meaning of that ill-fated doctrine" (Neisser 1936, 148).

Keynes' (JMK XXI, 171-8) essay on the multiplier was published on April Fools Day, 1933. On Independence Day, 1933, Keynes wrote that "What I call the Multiplier … may in the United States today be very large indeed" (cited by Skidelsky 1992, 491). Kahn (1933, 168, 173) argued that for recovery it was necessary to turn "to the state … it is only in this kind of way that the wheels of private investment and spending can be set revolving so that the system could be left to carry on once again under its own momentum … This secondary employment, which, if I am right, is of an extraordinary magnitude, is usually completely ignored in discussions on the adequacy and the cost of various measures for dealing with unemployment". On 15th April 1933, Alexander Sachs, having just received a visit from Kahn, wrote enthusiastically to the prominent New Dealer, Raymond Moley, about the much larger value of the American multiplier relative to the British (Freidel 1972, 430). Joan Robinson (1937, chapter III) reiterated this message.

On 31 December 1933, Keynes (JMK XXI [1933], 294) published an 'Open Letter to the President' in the *New York Times* in which he referred to "a crude economic doctrine commonly known as the quantity theory of money". To Americans, Keynes' letter sounded "like a letter from a school teacher to the very rich father of a very dull pupil" (Stein 1969, 150). In May 1934, Keynes met both Rex Tugwell and President Franklin D. Roosevelt with whom he may have taken the opportunity to discuss the multiplier; this was certainly the subject of his conversation with the Secretary of Labor (Perkins 1946, 226; Barber 1996, 83). Some economists, however, believed that the secondary employment components of the multiplier were "largely imaginary" (Kazakevich 1935, 351). In August 1934, possibly in response to this type of scepticism, Roosevelt, at a meeting of the National Emergency Council, asked for a precise calculation of the multiplier associated with the public works construction projects. He was told that it would "double to triple the numbers directly employed" (Seligman and Cornwell 1965, 276, 131).

Douglas (1933b, 52-4) supported countercyclical budgetary policy operating through unemployment insurance to "lesson the violence of business fluctuations and hence provide a net stabilising effect". Douglas explained that the world behaved differently from the way "most of us were taught and in turn taught others … this naïve view has been well exposed by Wicksell and Keynes". Douglas then proceeded to make a precise multiplier calculation of 2.8 (1935, 125; 1933c, 12). Even some Keynesians, such as Samuelson (1939, 75), complained that the Keynes-Kahn multiplier was becoming an "extremely simplified mechanism ... in danger of hardening into a dogma".

Shortly after Roosevelt's inauguration, Keynes' name became closely connected to the New Deal. In June 1933, Calvin Hoover (1965, 149-50) returned to the U.S. "obsessed" by the potential parallels between what he had observed in Nazi Germany and the consequences of maintaining the "orthodox economics" that had, he thought, hitherto dominated Washington: "I was no longer an orthodox economist. I had become a 'Keynesian' as early as had Keynes himself". In the *Theory of Unemployment*, Pigou (1933, 155-6) argued that "all gratuitous payments to poor people and all social services" would reduce the labour demand schedule. Seymour Harris (1934, 324, 314; 1935, 21, 43) regarded this as "an offset to the excessive influence of inflation and purchasing power theories". Pigou was interpreted as having taken "an anti-Keynes and anti-Roosevelt Administration position" and being hostile to the "Keynes-Kahn wing of the Cambridge school".

Thus Keynes became known as the "father of the 'new' or 'non-Hoover' economics … 'New Deal' and 'Keynesianism' later became synonymous profanities to some people" (Stein 1969, 36, 147). This aroused the suspicions that he was "an evil spirit" (Harrod 1951, 448-9). Keynes reinforced this association. In spring 1934, during a further visit to the United States, the "first thing" Keynes asked Calvin Hoover (1965, 172) was "What is this 'Brain Trust' I read about?" In June 1934, Keynes presented an early version of parts of the *General Theory* to the American Political Economy Club. Keynes ridiculed "flat earth" microeconomic solutions to real world problems which required "central controls" and "sufficient effective demand". Keynes learnt first hand of the depth of business animosity towards the New Deal. Yet he "commended Washington's efforts to New York. The New Deal, he said, had aroused his 'deepest sympathy'" (Skidelsky 1992, 504-7; Moggridge 1992, 582; JMK XIII, 456-468; Winch 1969, 234).

Ex-President Herbert Hoover also reinforced a supposed connection between the New Deal, Marx, Keynes and inflation. In October 1936, during the U.S. Presidential election campaign, Hoover stated that the "New Deal attack upon free institutions has emerged as the transcendent issue in America". During his Presidency he had "refused national plans to put the government into business in competition with its citizens. That was born of Karl Marx. I vetoed the idea of recovery through stupendous spending to prime the pump. That was born of a British professor … I stopped attempts at currency inflation … That was born of the early Brains Trusters" (cited by Leuchtenburg 1968, 203-4).

The same amalgam of suspects reappeared during the post-war anti-communist hysteria. In *God and Man at Yale*, William F. Buckley Jr. made what was regarded (in the Preface) as a "devastating" case against the Yale Economics Department. Students were exposed to textbooks which contained material "brewed out of Keynes, the Fabians, and Karl Marx himself" without the countervailing arguments of Ludwig von Mises, Frederick Hayek and Knight (Chamberlin 1951, ix).

There were other tensions at Chicago in the 1930s. Kahn (30 January 1933) referred to Douglas as one of Chicago's "minor men" who he "mildly" liked.[xii] But Samuelson (1996, 149-150, 154-5) recalled that Douglas was "a reflationist, and not on very good terms with Simons and Knight; they regarded him as a power-hungry do-gooder". Kahn (15 January 1933) reported to Joan Robinson that Douglas' "work has been almost completely ignored over here, where he is regarded as a somewhat silly sort of communist politician" (see also Douglas 1976, 905).[xiii] Shortly afterwards, the Chicago Economics Department erupted into a full-scale internal Civil War. This was "Academic Life on the Battlefront" with Douglas pitted against Knight and his disciples, in particular Simons (Stigler 1988, chapter 12; Neff 1973, 109; Patinkin 1980, 5, n8). Friedman recalled that Douglas and Knight were at "very serious odds with one another. There was a feud" (cited by Blumenthal 1986, 96-7).

Shortly after this feud, Simons (1962 [1936]) created what Richard Selden (1962, 323) described as the "Rules Party" with his 'Rules Versus Authorities in Monetary Policy'. In the same month (February 1936) Keynes (1936, 164, 378, 220-1) explained that he had become "somewhat sceptical of the success of a merely monetary policy directed towards influencing the rate of interest. I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an even greater responsibility for directly organising investment … I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment".

Samuelson (1996, 148) recalled that "from 1932 to 1936 I was besotted on Frank Knight". Samuelson (1992, 239) had been taught at Chicago "that business freedom and personal freedoms have to be strongly linked". But the Keynesians argued that business freedom had to be curtailed in the interests of macroeconomic stability. In his review of the *General Theory*, Knight (chapter 50 [1937], 119) complained that Keynes was using the "the language of the soap box reformer" with "phrases like socialisation of investment". According to his disciples, Keynes "trusted to human intelligence. He hated enslavement by rules. He wanted governments to have discretion and he wanted economists to come to their assistance in the exercise of that discretion" (Cairncross 1978, 47-8). In Aaron Director's (1948, v) judgement, Keynes' work provided the foundations for "collectivism" while Simons' work provided the foundations for "freedom and equality".

Simons (chapter 49 [1936]) believed that the *General Theory* could easily become "the economic bible of a fascist movement". Keynes' *Treatise*, like the *General Theory* was "full of brilliant insights and occasionally devastating criticisms of other writers"; but the *General Theory* was "a revision (if not a repudiation)" of the first volume of the *Treatise*. Keynes had "now" embarked on a mission which Simons found repellent: an authentic genius "becoming the academic idol of our worst cranks and charlatans".

Between 1936 and 1951 the Keynesian and Chicagoan paths became even more distinctly divergent. Some of the American Keynesians were "more royalist than the King" (Stein 1969, 162). The anti-Keynesian economists who briefed Herbert Corey (1944, 39) drew analogies between Alvin Hansen's proposals and the concentration of power in Stalin's Russia: "They ask what is it if it is not State Socialism in high gear". Herbert Stein (1995, 11, 220) was a student at Chicago when the *General Theory* was published: "As a contemporary of mine at Chicago, Albert Hart, has said, one could be pro-Keynesian or anti-Keynesian, but one could no longer be pre-Keynesian".[xiv]

Hansen was regarded as the American Keynes. Simons (1939, 275) complained that if Hansen' proposals would generate "a continuing contest between the monetary authority seeking to raise employment and trade-unions seeking to raise wage rates". Simons also bemoaned that "the gods are surely on his side. What he proposes is exactly what many of us, in our most realistic and despairing moods, foresee ahead as the outcome of recent trends". If Hansen succeeded in establishing a monetary system "dictated by the *ad hoc* recommendations of economists like himself … the outlook is dark indeed".

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NOTES

[i] Patinkin (1952; 1956; chapter 36 [1975], 257) interpreted the *General Theory* as a dynamic theory of disequilibrium rather than a static theory of unemployment equilibrium. Referring to "the mechanics of disequilibrium states" Clower (1969 [1965], 280) argued that the "Keynesian consumption function and other market relations involving income as an independent variable cannot be derived explicitly from any existing theory of general equilibrium", adding that "This was apparently overlooked by Patinkin [1956] when he formulated his 'general theory' of macroeconomics". In his editorial commentary in *Monetary Theory Selected Readings* Clower (1969, 121) suggested that "Patinkin's conceptual universe now appears to be just a more precise and elaborate portrait of the barter world of Mill, Walras and Marshall, its only novel feature being that 'money' appears among the set of commodities bartered. The significance of Patinkin's work thus lies not so much in what he says about monetary theory as in what he unintentionally reveals about the analytical and empirical weaknesses of established price theory".

[ii] Patinkin (1979, 157) thought that Keynes' 1931 performance in Chicago was an immodest "song of praise to the *Treatise* … Keynes apparently knew the Bible – and on various occasions (e.g. the 'widow's cruse') even alluded to it – but the verse 'Let another man praise thee, and not thine own mouth' (Proverbs 27: 2) does not seem to have been one of his favourites". But Keynes' fiscal policy prescriptions preceded advances in his theory. As he directing his theoretical vision towards the *General Theory* it was "like the Children of Israel at the foot of Mount Sinai proclaiming, 'we shall do – and we shall listen'".

[iii] Laidler (1999, 223) noted that the quantity theory tradition to be found in Douglas and Director (1931) was "the Cambridge version, as developed by Keynes (1923)".

[iv] Keynes, however, explained to his mother that he could live in Canada (Moggridge 1992, 767).

[v] Even to her admirers she could be highly offensive (Harcourt 1993; 1995a; 1995b). When John Kenneth Galbraith (1981, 63) visited her in Cambridge in the early fifties, he asked who the promising young Cambridge economist were. Robinson "looked at me sternly, which in her case could be very stern indeed, and said, 'My dear Ken, we were the last good generation'".

[vi] I am grateful to Don Moggridge for pointing out to me that Kahn's diet was strictly kosher at this time.

[vii] Richard Kahn Papers, RFK/13/90/1/44-51.

[viii] The multiplier that Sweezy believed undermined the Cambridge view was driven by an expansion of purchases from non-wage earners' income caused by the cut in money wages.

[ix] After Britain left the gold standard, Keynes abandoned his advocacy of a tariff. On 28 September 1931 he wrote to the *Times* that "the immediate question for attention is

not a tariff but the currency question" (JMK IX, 243; Moggridge 1992, 529).

[x] Keynes Papers, L/K/43-4.

[xi] Keynes Papers, L/K/35-8. Kahn's judgment is supported by Willis and Chapman (1935, 56) who report that in 1933-4 amongst public officials and their economic advisers there was an "uncritical acceptance of the view that changes in the money unit would be immediately reflected in similar changes of commodity prices".

[xii] Keynes Papers, L/K/35-8.

[xiii] Richard Kahn Papers, RFK/13/90/1/44-51.

[xiv] (See Hart 1948, vii). Stein continued: "the Chicagoans took a middle-of-the-road, 'none of the above' point of view" towards the *General Theory*.