

## ***The General Theory* at 80: Reflections on the history and enduring relevance of Keynes' economics\***

Thomas Palley<sup>a</sup>

### **Abstract**

This paper reflects on the history and enduring relevance of Keynes' economics. Keynes unleashed a devastating critique of classical macroeconomics and introduced a new replacement schema that defines macroeconomics. The success of the Keynesian revolution triggered a counter-revolution that restored the classical tradition and now enforces a renewed classical monopoly. That monopoly has provided the intellectual foundations for neoliberalism which has produced economic and political conditions echoing the 1930s. Openness to Keynesian ideas seems to fluctuate with conditions, and current conditions are conducive to revival of the Keynesian revolution. However, a revival will have to overcome the renewed classical monopoly.

**Key words:** Keynes, *General Theory*, Keynesian revolution, Classical economics, classical counter-revolution.

**JEL Classification:** B1, B2, E0, E12.

### **Resumen**

Este artículo reflexiona en torno a la historia y permanencia de la economía de Keynes. Este autor desató una crítica de la macroeconomía clásica que fue devastadora e introdujo un nuevo esquema que reemplazó a la concepción que se tenía hasta entonces de macroeconomía. El éxito de la revolución keynesiana desencadenó una contrarrevolución que restauró a la tradición clásica y ahora mantiene un monopolio renovado. Este monopolio proporcionó las bases intelectuales del neoliberalismo que ha producido condiciones económicas y políticas rememrando a los años treinta. La apertura

---

Manuscript received on June 20th, 2017; accepted on August 16th, 2017.

\* This paper was presented at a conference celebrating the 80th anniversary of the publication of Keynes' (1936) *The General Theory of Employment, Interest and Money*, and the 75th anniversary of the inauguration of *Investigación Económica*, held at the Universidad Nacional Autónoma de México (UNAM) in Mexico City on December 5th, 2016.

**a** Senior Economic Policy Adviser, AFL-CIO (USA).  
Correspondence: mail@thomaspalley.com

© 2017 Universidad Nacional Autónoma de México, Facultad de Economía. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

a las ideas keynesianas parece fluctuar con las condiciones, y las actuales conducen al resurgimiento de la revolución keynesiana. Sin embargo, un renacimiento tendrá que superar al renovado monopolio clásico.

**Palabras claves:** Keynes, *Teoría General*, revolución Keynesiana, economía Clásica, contrarrevolución clásica.

**Clasificación JEL:** B1, B2, E0, E12.

## INTRODUCTION

2016 marked the 80th anniversary of the publication of Keynes' (1936) *The General Theory of Employment, Interest and Money*, which founded modern macroeconomics. As evidenced by its continued real world relevance and the continued intellectual ferment it provokes, *The General Theory* is one of the great books in economics.

This paper reflects on the history and enduring relevance of Keynes' economics. In many regards, Keynes' *General Theory* should be viewed as the economics analogue of Charles Darwin's (1859) *On the Origin of the Species by Means of Natural Selection*<sup>1</sup>. Darwin advanced a theory of natural selection that is bedrock of the theory of evolution, and the theory of evolution is in turn the bedrock of biology. In *The General Theory*, Keynes advanced a theory of demand determined output, and that theory should be the bedrock theory of macroeconomics.

Darwin's *Origin of the Species* was the first step in evolutionary biology, and there have been major advances since then. So too, Keynes' *General Theory* should be seen as the first step in Keynesian economics and not the last and final word. Keynes unleashed a devastating critique of classical macroeconomics and introduced a grand new replacement schema which defines macroeconomics. However, there were also things Keynes got wrong and many things Keynes omitted. Additionally, Keynes was committed to neoclassical micro-foundations for macroeconomics. Such foundations are consistent with Keynesian economics, but so too are other micro-foundations —and I would argue those other micro-foundations provide a better basis for Keynesian economics.

The success of the Keynesian revolution triggered a counter-revolution that restored the classical tradition and now enforces a renewed classical monopoly. That monopoly has provided the intellectual foundations for neoliberalism which has produced economic and political conditions that echo the 1930s.

---

1 My thanks to Matias Vernengo for this analogy.

Download English Version:

<https://daneshyari.com/en/article/7355875>

Download Persian Version:

<https://daneshyari.com/article/7355875>

[Daneshyari.com](https://daneshyari.com)