

## THE KEYNES EFFECT AND THE CAPITAL MARKET: A METHODOLOGICAL NOTE

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ANY survey of the literature in money or income theory for the meaning and significance of the Keynes effect yields a variety of interpretations and conclusions.<sup>1</sup> Originally, J. M. Keynes, in the *General Theory*, spelled out a process by which wage-price deflation could possibly assist in achieving full employment through the interest rate and its effect on net investment,<sup>2</sup> and Hicks once interpreted this effect as part of the real balance effect.<sup>3</sup> Often, however, followers of Keynes, in zealous attempts to dismiss this Neoclassical approach, invoked the liquidity trap, and/or the interest-inelasticity of investment and consumption. On the other hand, some modern Neoclassicists have scored Keynes' methodology for neglecting the real balance effect in all markets or have viewed Keynes' concession to possible deflationary benefits with suspicion.<sup>4</sup> More recently, economists have begun to re-view the market structures found in *all* Keynes' literature to determine if his alternative market methodologies would ever permit deflationary benefits through all markets. Tobin, for example, and most recently, Leijonhufvud, have taken to task the standard vision of Keynes' model, and the latter has capitalized his arguments *in nuce*

<sup>1</sup> See, e.g.: Gardner Ackley, "The Wealth-Saving Relationship," *Journal of Political Economy*, 59, April 1954, pp. 154-61; Mark Blaug, *Economic Theory in Retrospect* (Homewood: Richard D. Irwin, 1962), p. 569; Alvin Hansen, *A Guide to Keynes* (New York: McGraw-Hill, 1953), pp. 179 and 182; Richard Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959), p. 533; Don Patinkin, *Money, Interest and Prices*, 2nd ed. (New York: Harper and Row, 1965), p. 635; B. Pesek and T. Saving, *Money, Wealth and Economic Theory* (New York: Macmillan, 1967), pp. 1-38.

<sup>2</sup> J. Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace and World, 1936), p. 253. See also pp. 232, 263-64, 266-67, 298, 308.

<sup>3</sup> J. R. Hicks, "A Rehabilitation of 'Classical' Economics," *Economic Journal*, 67, June 1957, p. 281n; See also, F. Milne, "Keynes, Harrod and the Fixprice Method," *The Economic Record*, XXXXVIII, June 1972, p. 241.

<sup>4</sup> See, e.g., Don Patinkin, *ibid.*, and O. O. Allsbrook, Jr. and C. D. Delorme, Jr., "Keynes and the Real Balance Effect: Revisited," *Manchester School of Economics and Social Studies*, XXXVIII, September 1970, pp. 259-261.