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Patinkin on Anticipations of Keynes

Hans Brems

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Patinkin on Anticipations of Keynes

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Patinkin on Anticipations of Keynes

By Hans Brems

ABSTRACT

Patinkin has found a definition of Keynes's "central message" so narrow that Keynes can be said to have had no precursors at all. The "central message" is defined as a static equilibrium of output--often illustrated by the 45⁰-line diagram--in which output less than equilibrium will lead to inventory depletion and output greater than equilibrium to inventory accumulation. Kahn, Kalecki, Lindahl, Lundberg, and Ohlin saw dynamic feedbacks between demand and output, unfolding along a time axis. But they never telescoped such feedbacks into a static equilibrium on an output axis, hence will not qualify as precursors of Keynes. A more balanced history of thought might have recorded a victory parade of dynamics since 1936 suggesting that indeed Kahn, the Swedes, and Kalecki were not precursors of Keynes; they went him one better!

PATINKIN ON ANTICIPATIONS OF KEYNES

BY HANS BREMS

Anticipations of the General Theory? And other essays on Keynes. By Don Patinkin. Chicago: University of Chicago Press, 1982. Pp. xxiv + 283. \$25.00

Definition of Keynes's central message. A definition of a pioneer's contribution may be found which is so narrow that the pioneer had no precursors at all. Patinkin has found it: the "central message" of Keynes's General Theory was a static equilibrium of output--often illustrated by the 45⁰-line diagram--in which output less than equilibrium will lead to inventory depletion, and output greater than equilibrium will lead to inventory accumulation.

To demonstrate that this was all there was to it, Patinkin had to come to grips, and did, with two possible objections.

First, Keynes's own formulation of his message was badly garbled. He defined his equilibrium as the intersection between an "aggregate

supply function" defined, in turn, as an "aggregate supply price," on the one hand, and an "aggregate demand function" defined as "expected proceeds," on the other. The word "price" was confusing, and the intersection was said to somehow maximize expected profits. In part II of the volume Patinkin decides to ignore such garbling, both on logical grounds and because much of it came in as last-minute proof corrections. The reviewer agrees.

Second, the 45° -line diagram confines itself to the goods market. But as any IS-LM diagram teaches us, Keynes had two equilibrium conditions. The first was that supply of and demand for goods were equal, and the IS curve is the locus of all interest-output combinations satisfying that condition. The second equilibrium condition was that supply of and demand for money were equal, and the LM curve is the locus of all interest-output combinations satisfying that condition. Can the LM curve be ignored?

Patinkin's (9) answer is simple: liquidity preference "had already been presented in the *Treatise*. ... This leaves the theory of effective demand as the distinctive analytical contribution of the *General Theory*."

But losing the LM curve means losing the interaction between the real and the money sphere. Keynes himself often lost it when he compartmentalized his system and said that his rate of interest equili-

brated the supply of and the demand for money, whereas output equi-
brated savings and investment. No one has demonstrated more clearly
than Patinkin (1976: 99) himself that such a tidy compartmentalization
misunderstands the nature of general equilibrium and that Keynes's
tradition was Marshallian partial rather than Walrasian general equi-
librium. But in his present volume Patinkin has dropped the subject.

Patinkin's definition applied. With such a narrow definition
of Keynes's "central message," who might qualify as precursors of
Keynes?

Kahn (1931) had a feedback between demand and output: let
consumption be C , government expenditure G , and output Y . Let the
propensity consume be c and let consumption be lagged: $C(t) =$
 $cY(t - 1)$. At time t , current government expenditure is then gene-
rating the income G , government expenditure of period $t - 1$ is
generating the income cG , ... , and government expenditure of the
period $t - n$ is generating the income $c^n G$. The sum of income gene-
rated of all the n years of government expenditure is the geometrical
progression $(1 + c + \dots + c^n)G$. But such a sum is a dynamic multiplier
not qualifying as a precursor of Keynes; only its limit $G/(1 - c)$
for n rising without bounds will do--and had to wait for Keynes (1936).
Exit Kahn!

Ohlin (1934) used output as a variable and had not one but two

feedbacks between demand and output: his propensity to consume would link consumption to the *level* of output and thus establish a consumption feedback, and his accelerator would link investment to the *growth* of output and thus establish an investment feedback. Both feedbacks unfolded in a cumulative process along a time axis as a succession of disequilibria: expectations and plans were forever being revised in the light of new experience. None of this, then, will qualify Ohlin as a precursor of Keynes; only a static equilibrium will do--and had to wait for Keynes (1936). Exit Ohlin!

Lags rather than an accelerator made Kalecki's (1935) model inherently dynamic. It used differential equations and in its title such words as "macrodynamics" and "business cycles." No static equilibrium here either. Exit Kalecki!

Is Patinkin's application consistent? Patinkin (79) is aware of being in a "distinct minority" and mentions his disagreements with Joan Robinson, Klein, and Shackle. He could have added Ohlin himself. Steiger (1981: 212) puts Ohlin on record as calling Patinkin (1978) "a good joke indeed".

The simple reason for such disagreement is that what Patinkin (1978) discussed was whether or not his candidates used output as a variable. He had not yet adopted his current definition of "central message," indeed when it was offered to him by Brems (1978: 419) he turned it down on the same page.

Remnants of the old definition are still found in the present volume discussing at length whether to Lindahl (44-46) and Ohlin (52-56) price or output or whether to Kalecki (68-70) investment or output was the primary variable. Such discussions are now beside the point. Had Patinkin stuck to his own current definition of "central message," all that he had needed to say was that neither Kahn, nor Kalecki, nor Lindahl, nor Lundberg, nor Ohlin ever used a static equilibrium of output. All of them saw feedbacks between demand and output alright, but no such feedback was ever telescoped into a static equilibrium along an output axis.

Particularly inconsistent is Patinkin's (56) statement that "Lundberg ... 1937 ... does indeed contain the essence of the General Theory." On Patinkin's own current definition Lundberg doesn't. Lundberg wrote the difference equations and solved them recursively for a pure multiplier and for four cases of interaction between a multiplier and an accelerator. This was brilliant work--the most refined the Stockholm School ever produced. But it remained dynamic, no static Keynesian equilibrium here. Exit Lundberg!

The victory parade of dynamics. Of course Patinkin is entitled to his definition and entitled to use it to reject all precursors and politely dismiss them with his remark that their merits, if any, do not belong in the present volume. But is it good history of thought?

Perhaps Patinkin does believe that statics is superior to dynamics. On page 78 Kalecki is said to have paid a price, and "part of that price was to come so close to the General Theory and yet not achieve it." A more balanced history of thought might instead have recorded the fact that the march into dynamics, so brilliantly started by the rejected precursors, was not at all slowed down by the publication of General Theory. On the contrary, non-Swedish accelerators joined the march with Harrod's *Trade Cycle* (1936), Keynes's own *Eugenics Review* article (1937), and Samuelson's "Interactions" (1939). New and different derivatives with respect to time joined the march with the nonaugmented Phillips Curve (1958), the augmented one (1967), and the full government budget constraint (1969). The march became a victory parade entitling the rest of us to say that indeed Kahn, the Swedes, and Kalecki were not precursors of Keynes; they went him one better!

Based on careful detective work, the present book sheds valuable light on the evolution of General Theory in Keynes's own mind and in his discussion with colleagues. A leisurely style with many digressions makes for pleasant reading. The only historical inaccuracy noticed by the reviewer has nothing to do with Keynes: neither West nor Malthus should be credited with the discovery of diminishing returns. They were discovered 48 years earlier by Turgot.

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