The so-called Keynesian Revolution which the publication of the General Theory (GT) brought with it, was not a revolution in some Cambridge in the sense of a "radical change of attitudes", but more one of a "circular motion of a body" or a "state of revolving". The outward appearance of reaction by both Robertson and Pigou to the GT was that of recognizing its major theoretical features and its policy implications in the work of earlier neoclassical writers, notably Alfred Marshall. The GT had merely revolved back to Marshall or at least it had evolved from the neoclassical school dominant in Cambridge in the first three decades of this century. That, in itself, is not a good excuse for being negative about the GT, in truth the virtue of the GT to most economists is its ability to fit the theoretical bones together to create a plausible and acceptable framework in which to discuss the macroeconomic evils of the day and to justify a particular economic policy action. It did not matter that the individual bones had been discovered before. As E. A. G. Robinson concluded, even if the ideas in the GT can all be traced back, Keynes provided a major advance in economics by: "building them into a new and consistent whole and secondly and, far more remarkably, by securing their essential acceptance by the great majority of all economists". (In R. Lekachman, 1964, p65). This paper looks for the major reason why both Robertson and Pigou chose to be critical of the GT.

The theme developed here is that their criticisms arose from a fundamentally different perspective of the nature of the capitalist system of production. This perspective differed between all three of our subjects and resulted in Pigou's critical comment being dissimilar from that of B. H. Robertson. In many respects Pigou's perspective was Marshallian in character; this was not so in the case of either Robertson or Keynes. For Keynes the economic system could come to rest at less than full employment and therefore economic policy could be justified in attempting to create full employment; for Pigou the system would always gravitate towards full employment and economic policy may be unnecessary. In contrast for Robertson, any form of full employment equilibrium was unsatisfiable and indeed undesirable. His dissatisfaction with the achievement of full employment was that it may well be at the expense of achieving economic progress.

*John Presley is Professor of Economics and Director of the Banking Centre at Longborough University. He is grateful to R. Lekachman and T. Cate for providing comments upon this paper. He also wishes to thank the Winnow Foundation and the British Academy for providing financial assistance for this research project.
Should Full Employment Be Attained? — D B Robertson on the General Theory

Robertson believed that the economist’s discussion of employment, price stability, cycles and, indeed, economic progress should be inseparably linked. It was misleading to view each in isolation; for Robertson, the GT divorced the achievement of full employment from that of economic progress and thereby failed to focus upon the employment question. This would not have been harmful provided the attainment of full employment and economic progress were mutually compatible. Robertson’s view of economic reality doubted that this is the case. In May 1930, in evidence to the Macmillan Committee, he argued: “a feature of modern industrial progress, partly aggregated by available causes and partly inevitable, is that it proceeds discontinuously: in leaps and by bounds.” (D B Robertson, 1930, p.33.) This had been a feature of Banking Policy and the Price Level (1920) (BPLP) where economic progress was characterized, in part, by “a quasi-rhythmic movement in the level of prices, the level of money profits, and in the level of unemployment” (1940 ed., p.6.) Fluctuations in employment, prices, and profitability may be either in harmony or inappropriate. Robertson believed that to eliminate all fluctuations may damage economic progress: “The remedy. . . may be more damaging than the disease” (Presley, 1973, p.29). Consequently economic fluctuations become an inevitable feature of economic progress. The reason is to be found not in the nature of capital itself. Progress in a free enterprise economy is dependent upon investment; investment is largely in the hands of private individuals. The indivisibility of investment, its longevity, its intractability affect to create an unavoidable cycle in expenditure on capital goods over time and the general economic instability which comes with it. In the interests of economic progress this may be desirable. The essence of good policy, according to Robertson, is to eliminate undesirable fluctuations: “to limit the turbulence without destroying the vitality.” (Robertson, 1933, pp.281-3.) This was not a recommendation for inactivity and clarity but an advocacy of a self-adjusting mechanism leading the economy to full employment. There were forces at work which exaggerated the cycle, producing inappropriate, undesirable fluctuations in prices and employment. The lag gestation period of investment, for example, might disguise the amount of investment currently underway and prompt businessmen to over-invest in a period of boom. It is for these reasons, and others, that Robertson concludes the GT is judged. (D B Robertson, 1940, p.160.) It is through the eyes of the Blundonian that the GT is judged. (D B Robertson, 1940.) The fundamental difference in the observed working of the economic system explains how Robertson perceived each individual building block in the GT. Robertson’s system is in dynamic rather than static; it moves with the natural forces of the economy. In fact, he states that the GT is in error, as individuals cannot be measured without the entire system. Robertson’s work is an important contribution to the understanding of economic fluctuations and the GT’s limitations. His analysis of the GT’s reliance on the concept of equilibrium and his criticism of the GT’s inability to account for changes in economic conditions have had a lasting impact on economic theory.

This essentially dynamic view of the capitalist system of production, in which fluctuation is naturally desirable, was shared with Keynes in the mid-1920s. In BPLP Robertson had presented his thesis of inevitable and desirable fluctuation and Keynes responded positively to it. Robertson was able to write: “I have had so many discussions with Mr. J M Keynes on the subject matters of chapters V and VI and have rewritten them so drastically at his suggestion, that I think neither of us now know how much of the ideas therein contained is his and how much is mine.” (Robertson, 1926, p.5.) That Keynes accepted the fundamental arguments of BPLP is confirmed by correspondence. Keynes wrote: “I like this latest version even though God knows I( it is concise).” (J M Keynes, 1973a, p.30.) He regarded chapter V as “splendid - most new and important. I think it is substantially right and at least I have no material criticisms. It is the kernel and real essence of the book.” (J M Keynes, 1973a, p.40.)

By the beginning of the 1930s Keynes was no longer able to accept Robertson’s thesis. He believed that the UK economy had descended to a “resting place below full employment”. (J M Keynes, 1944.) What is more, it was capable of resting there for a considerable period of time without there being any movement either to recovery or further collapse. (J M Keynes, 1944, p.304.) In contrast, Robertson believed that recovery would come once the economy had been hit by the cycle after all is inevitable given the nature of investment. But he was not classical in the sense that he saw an automatic movement to full employment. Such a movement was neither achievable nor desirable. While Keynes was prepared to advocate and design policies for achieving full employment Robertson was not. He was nevertheless equally as interventionist as Keynes and an advocate of public works policies from the time of his Study of Industrial Fluctuations (1919) onwards; but Robertsonism policy did not strive for full employment, merely to eliminate inappropriate unemployment and eradicate extremes of cyclical fluctuation.

Contrast this with Keynes, the optimist, who, according to Robertson, had a much simpler view of economic reality: “to him the expansion is a . . . process of transition from one stable equilibrium to another, from a stable equilibrium at a low level which should never have been allowed to exist to a stable equilibrium at a much higher level; and he sees no reason why that higher level should not be the 'normal' level in what he regards as the only respectable sense of that word, namely the level at which there is virtually full employment of all the human and material resources of the community.” (D B Robertson, 1940, p.160.) It is through the eyes of the Blundonian that the GT is judged. (D B Robertson, 1940.) The fundamental difference in the observed working of the economic system explains how Robertson perceived each individual building block in the GT. Robertson’s system is in dynamic which never comes to rest; the nature of investment is the key to the smoothness of economic progress and the attainment at full employment. Robertson’s conclusion in this respect made continuous disequilibrium and cyclical variation the order of the day.

This fundamental difference allowed Keynes to use comparative statics, focusing attention upon equilibrium analysis. He had departed from the period analysis, the 'step by step' approach which he had employed with Robertson in working out BPLP. Robertson’s critical concern upon the building blocks of the GT, the consumption function, the multiplier, the theory of investment and the liquidity preference theory of interest, was essentially the result of applying his dynamic approach to the static economic environment analysed by Keynes.
Let me choose one example to illustrate this, that of the multiplier. Keynes wrote of: "the logical theory of the multiplier which holds good continuously, without time lags at all moments of time". (J M Keynes, 1936, p. 126.) To Keynes the multiplier was a part of static analysis, there were no time lags between receiving additional income and spending it and between additional spending and the income it generated. He was preoccupied with the comparison of equilibria, without analysing the process of change from one equilibrium to the next. This was not good enough for Robertson. It was the process of change which was the most important subject for scrutiny, for the economy was forever in disequilibrium.

Robertson's major criticisms of the static multiplier took the form of a dynamic interpretation of events following a rise in autonomous expenditure. It was a counter-argument to Keynes' attack on the forced saving doctrine which had been a feature of both their work, in a sophisticated form, in the mid 1920s. So long as autonomous expenditure instantaneously created the voluntary saving to finance it, there would be no need for forced saving. Much of the complex analysis of BPEP was therefore thrown out. Robertson himself admitted that without a period of transition from one equilibrium to the next "we can declare the problem of the process of investment to be self-solving". (D H Robertson, 1966, p41.) But once time lags were introduced the equality of saving and investment via the multiplier was more problematic. In 1926 Robertson had argued that there would be a lag between receiving income and spending it. This period's income determined the next period's expenditure. In his dynamic interpretation of the multiplier however Robertson did not utilise the lag between saving and additional output, until earlier the long gestation period of investment played a crucial role in his portrayal of the trade cycle. He did nevertheless point out that the elasticity of supply may not be infinite and that consequently prices did not increase immediately. Under these conditions Robertson believed that the multiplier was: "a somewhat treacherous guide to policy once we leave conditions of extreme depression". (D H Robertson, 1934, p11.) If voluntary saving was not instantaneously created to finance the surge in investment then clearly an alternative source of finance, albeit interim, was necessary. This took Robertson back to the process of automatic induced "lacking", the variation on the forced saving theme, introduced with Keynes' assistance in 1926.

Furthermore there was no guarantee as far as Robertson was concerned that the voluntary saving of the dynamic multiplier would as a rule be sufficient. It was back into financing the original investment taking place. Indeed it may well be taken to finance yet further investment stimulated by the increase in consumer demand of our multiplier process. Where was the accelerator in Keynes' theory?

It is interesting to note Keynes' response to the dynamic interpretation of the multiplier. (J M Keynes, 1937, pp 263-52.) He appears to concede that the increase in investment is the result of financing a dynamic environment. Finance is needed to cover the period from planning investment to its execution; "well in advance of the actual process of investment" (page 247-8) and this finance must come from the entrepreneurs' cash reserves or from the money market. Despite this, he does not make concessions to the forced saving thesis, although he is moving towards Robertson's argument.

A second line of attack upon the multiplier, again reflecting Robertson's dynamic approach, was the inability to accept that the propensity to spend would be stable for very long. This again is not trivial matter. As countless textbooks have informed us, a stable propensity to spend out of income yields a stable multiplier value and enhances the predictability of fiscal policy designed to influence consumption. Take away this stability, add to it the time lags inherent in the working through of fiscal policy, and fiscal policy becomes a much more difficult policy to handle effectively.

Robertson did not dispute that a strong relationship existed between consumption and income. He himself had argued so before 1936. There were however other factors which had a significant influence upon consumption. Not least, he believed that the rate of interest was important. He also thought that the multiplier process itself might bring a redistribution of income between those with low and high propensities to spend. In 1941 he was prepared to argue that spending was dependent upon the individual's level of wealth; "especially perhaps on the proportions of capital wealth which is ready to hand and easy to spend". (p12)

Later, writing in 1953, Robertson was able to assess his reaction to the GT in these words: "You (Professor T Wilson) say I have found it difficult to appreciate the revolution in thought which followed the publication of the GT. No I haven't! I have disliked and mildly ridiculed the phrase 'Keynesian Revolution'. because I think it signifies that the innovations in the GT constituted a bigger advance in thought than what had gone before and I confess I find that unlikely. At the end of the day it was his rhetoric and his novel mystique which carried the day is indisputable! The truth is that they spread error as well as truth. In other words, not only did Keynes fail to acknowledge what had gone before, but many aspects of his work which had not been before represented erroneous argument rather than the economic truth". (Letter from Robertson to T Wilson, 21 October 1953.)

Certainly he was compelled to defend Marshall and Pigou and others in the neoclassical school, but he was not unappreciative of them. As Keynes himself pointed out, it was Robertson, together with R B Cartwright, who had led Keynes away from the neoclassical school. (J M Keynes, p. 203.) By 1956 Robertson was as far from Marshall as was Keynes. But while Robertson was always meticulous in highlighting the roots from whence his own thought and beliefs had evolved, Keynes was not prepared to do so, he sought to "shock and heighten controversy" (E S Hobson in Lectuations, 1964, p98) and he realised that he could not do this by always "retreating to his mother's womb." (Letter to Robertson.)

In many respects Keynes was surprised and disappointed by Robertson's negative reaction to the GT. He was prepared to write in December 1936: "I do feel that there is not a great deal that is fundamental which divides us - even less than perhaps you think. For I agree with a greater proportion of what you say than you give me credit for". (J M Keynes, 1973b, p91). To a large extent this was true. They were at one in emphasizing the importance of investment, in recognising the need for government intervention in
the absence of a self-adjusting mechanism; they both were strong advocates of fiscal policy in the form of public works spending programmes and indeed even on theoretical issues they were perhaps closer to each other than either of them was to the neoclassical school. Perhaps, as Professor Wilson argued, it was the enlightenment of his own views which made it difficult for Professor Robertson to appreciate the resolution in thought which followed the publication of the GT. (T Wilson, 1952, p620.)

The differing vision of economic reality was at the heart of Robertson's negative approach to the GT, a vision which he believed Keynes shared in the mid-1920s. What may have hurt Robertson most about the GT was Keynes' failure to acknowledge the debt owed to his and his failure to pursue the analysis of BEPL. As E A G Robinson has remarked of the GT:
"much of the essentials derived originally, I have always felt, from Dennis Robertson's seminal thinking in Banking Policy and the Price Level, the first clear distinction known to Cambridge between the act of saving and the act of investing". (E A G Robinson in Laski44.48.) But Keynes was unable to pursue Robertson's theoretical approach; to have done so would have involved too much of a break with the evolutionarily rather than revolutionary, approach to the world as he saw it. Having written the GT, Keynes wanted to influence a wide audience; he sought to change the minds of politicians on important policy issues. Without doubt he was successful in this. To have adopted Robertson's detailed and clumsy analysis would have only lost Keynes this audience.

Robertson was the 'perfect academic' (Harcourt, 1984, p132), he was thorough in all respects, but this did not win him many understanding readers. Keynes himself remarked of BEPL that it would have a very narrow audience. There is partial truth in Robertson's comment that "he (D H Robertson) wanted to be right in the minority of one and had no particular anxiety to see his particular solutions of problems adopted and applied by governments". (Harcourt, 1984, p130.) Whereas Keynes was always trying to identify a practical problem, to work out what he thought were the intellectual and practical issues... and then he wanted to go ahead and persuade people and to secure action". (Harcourt, 1984, p132). This perhaps places Robertson and Keynes at extremes in terms of the desire to influence policy decisions. Robertson too, I believe, wanted also to have such an influence on policy makers, but, as Higgins has suggested, he wanted to do so through "analysis in the greatest possible depth". (Harcourt, 1984, p139.) Certainly over his career he gave evidence to several Royal Commissions both in the UK and elsewhere. He published articles in the popular press and gave radio broadcasts; towards the end of his career he was also one of the three wise men of the Cohen Council on Prices, Productivity and Incomes.

Pigou - The Neoclassical Response

A C Pigou's negative reaction to the GT is somewhat more easily understandable than that of D H Robertson. Pigou's Theory of Unemployment (1933) was the focus of Keynes' attack upon the classical approach to the relationship between wages and employment. According to Keynes: "Pigou's book was the only detailed account of the classical theory of employment which exists". (J M Keynes, p9.) His criticism of Pigou's book had already been rehearsed within the Macmillan Committee in 1930. Pigou argued on the question of unemployment: "You cannot shift people out of coal to some other occupation because there is no vacancy for them at the present rate of wages, so that unless you alter not only the distribution but also the wage rates, you may not do any good in curing unemployment". (A C Pigou, 1933, p600-616.) He believed that a reduction in wages would create vacancies. Keynes responded vigorously to this line of reasoning by emphasizing the effect of a fall in real wages upon effective demand. While he accepted that a fall in the real wages may stimulate export demand and increase employment in export industries, he also believed that the fall in purchasing power associated with the decline in real wages may more than offset the export and bring on balance less employment.

In Pigou's review article of the GT (1936), he jumped to the defence of the neoclassical economists and himself. The GT was a 'matrix of sarcastic comment upon other people'. (1936, p15.) But again, with as Robertson's defence of the neoclassicals, this merely covered a fundamental difference between Pigou and Keynes on the nature of the economic system. Keynes believed that Say's Law -- supply creates its own demand -- was still implicitly the writings of Pigou: "it still underlies the whole classical theory, which would collapse without it. Contemporary economists, who might hesitate to agree with Mill, do not hesitate to accept conclusions which require Mill's doctrine (all sellers are buyers) as their premise. The conviction, which runs, for example, through almost all Professor Pigou's work, that money makes no real difference except fractionally and that the theory of production and unemployment can be worked out [like Mill's] as being based on real changes with money introduced perfunctorily in a later chapter, is the modern version of the classical tradition". (J M Keynes, 1936, p20-21.)

If competitive forces are allowed to work the private enterprise economy will be self-adjusting; there will be a natural tendency to full employment equilibrium through adjustments in the wage level. Keynes criticized Pigou for failing even to mention effective demand (page 38) and its importance in bringing equilibrium. In the appendix to chapter 18 of the GT Pigou to write in his Theory of Unemployment takes such critical comment from Keynes, their two positions are summarised: "thus Professor Pigou believes that in the long run unemployment can be cured by wage adjustments; whereas I maintain that the real wage (subject only to a minimum set by the marginal disutility of unemployment) is not primarily determined by wage adjustments (though these may have repercussions) but by the other forces of the system, some of which (in particular the relation between the schedule of the marginal efficiency of capital and the rate of interest) Professor Pigou has failed, if I am right, to include in his formal scheme". (J M Keynes, 1936, p208.)

I do not wish to reconstruct the long debate between Keynes and Pigou which preceded the publication of the GT. This has been more than adequately covered elsewhere (see for example D Collard in D P O'Brien, J R Presley, 1981, pp122-6 and Riaza 1986). Suffice it to say on the important issue of wage adjustments and employment Pigou maintained his position: even with an increase in spending "wage earners would still have a choice between policies that promote respectively higher real wages plus less unemployment and lower real wages plus more employment." (A C Pigou, 1936, p151.)
Despite the fact that Pigou acknowledged in his criticism of the GT (see later), he remained at odds with Keynes over the ability of the economic system to adjust automatically in the long run to full employment. The debate took on a curious twist. By the early 1940s, Pigou was quite prepared to elaborate how wage reductions would boost effective demand and promote full employment. This is most obvious in the "Pigou effect" introduced in his Employment and Equilibrium (1941). This book was stimulated by the GT. In the preface Pigou writes: "Whatever may be thought of the volume of his [Keynes'] criticisms upon other people or other solutions which he himself offered, the author of that book rendered a very great service to economics by asking important questions" (1941, p.1). The essential characteristic of the book was that it showed, given wage flexibility, that there would be a tendency to move to full employment; that is, under employment equilibrium was simply not possible unless money wages were fixed. Pigou was able to maintain his view of economic reality by utilizing the 'Pigou effect' to allow wage reductions to raise aggregate demand whenever unemployment existed and hence generate full employment equilibrium.

Because of this remaining fundamental difference between Keynes and Pigou I believe that Pigou's reassessment of the GT in 1950 has been somewhat overplayed. (A C Pigou, 1950.) E A G Robinson, for example, writes: "Shortly before the end of his life he (Pigou) came to see more clearly the essentials of Keynes's arguments and, asking permission to give a public lecture, he said with great generosity that he had come with the passage of time to feel that he had failed earlier to appreciate some of the important things that Keynes was trying to say. It was the very noble act of a man who put truth before vanity and another's reputation before his own". In truth Pigou still failed to appreciate the full force of Keynes' arguments in the GT. The importance of effective demand was accepted by Pigou in 1950 as a 'extremely successful germinal idea', but the tone of Pigou's lectures was not that of a new disciple of Keynes. In particular he remained critical of comparative statics and believed that Keynes had failed to fully develop the role of expectations in his thesis. He concluded on the GT: "These are serious limitations - limitations of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper to remind ourselves when attempts are made of which it is specially proper 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Footnotes


[3] I am greatly indebted to Professor Hans Jæger for clearing my thoughts on this section in his comments upon my paper: 'Keynes and Robertson: Three Phases of Collaboration' at the History of Economics Conference, George Mason University, 1985.

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Keynes's Lectures, 1932-1935: Notes of a Representative Student
A Prelude: Notes for the Easter Term 1932

T.K. Ryne

Introduction

I am preparing a synthetic set of Keynes's lectures at Cambridge of the years 1932 to the year of the publication of The General Theory. The notes are based on those taken by his students and range all the way from Lionel Turbitt's comprehensive notes for the four years to those taken by a physics student Marvin Fallgatter in 1933. The problems involved in constructing a synthetic set of Keynes's lectures based on these notes are many and complex. Some idea of the problems, which will be fully documented later, can be seen from what might be called a pilot study.

Keynes's 1931 Michaelmas Term lectures were postponed until the Easter Term 1932. We have fragments of his own notes for the first two lectures and an important 'manifesto' from Richard Kahn and Joan and Austin Robinson about the second lecture which generated considerable discussion. I intend in this paper to use these notes, the 'manifesto' and the discussion which resulted as illustrations of the content, and difficulties with the interpretation, of Keynes's lectures. It will be remembered that his thoughts were developing rapidly during this period so that the observations which can be made about the Eastern Term 1932 lectures do not always apply to the subsequent ones. The presence of three members of the 'Circus' at Keynes's lectures and their written observations on the second should add particularly to our knowledge of the problems which students had in the interpretation of what Keynes had to say. I do not, in this paper, refer to any of the discussions Keynes had with Robertson.

Keynes's lectures in Easter were entitled 'The Pure Theory of Money'. Keynes had discussions about them with Dennis Robertson and Richard Kahn [CW. XLI. 294-301, not 244 as stated later on 376; CW. XXIX. 70]. He reported to Lydia that, at his first lecture of 22 April, 'Richard Kahn, Piero Sraffa and Joan Robinson were there to "spy" on him.' [CW. XXIX. 70].

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