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**THE IMPACT OF THE GENERAL THEORY IN JAPAN**

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"On the way to his office, Ato Saemon (Samurai of 18th century in Japan) lost 10 mon of coins into the river. He sent for 10 torches that cost 50 mon and searched for the lost money. Somebody laughed at him saying that he spent more than the loss. Ato replied "The critics do not know the nature of the affairs. Neither do they have sympathy for common people. For, the money in the river would be lost forever, but if it is salvaged, the 10 mon along with 50 mon will circulate through the hands of merchants. My loss will be their gain". [Takelhikri (ca. 1371-2)]

The General Theory has changed the pictures of economic cosmos of many economists. There have been counter revolutions to the Keynesian economics. However, regardless whether an economist classifies himself as a Keynesian, a Monetarist, or a Rationalist, I believe that he or she can hardly deny the role of Keynesian ideas that at least broadened the scope of his or her thinking. Japanese economists and policy makers are no exception. It seems appropriate here, in observance of the 50th anniversary of the publication of The General Theory, to trace the impact of The General Theory in Japan.

**Transmission of Keynesian Ideas**

When The General Theory appeared in Britain in 1936 Japan was under the militaristic government that would lead her eventually to the disasters of World War II. In spite of that, the introduction of The General Theory to Japanese academic and general audiences was surprisingly fast. Nakayama, who became one of the most influential scholars in economics after the war, allegedly used the book as a text for his undergraduate seminar at Hitotsubashi University the same year. The discussions in that seminar were published in 1939.2 Keynes' The Treatise on Money, had already been translated by Misaburo Kito in 6 volumes2 during 1932 to 34 and The General Theory itself was translated by Tsukuo Shionoya and published by the Oriental Economist4 in December 1941. The first 7,000 copies were soon sold, and were followed by an additional 2,000 copies, attesting to the keen attitude in Japan towards importing and adapting of new ideas.

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The war followed shortly and the Japanese had to wait for the extensive introduction to the substance of The General Theory until after the war. Shortly afterward, the textbook version of The General Theory was issued, and the IS-LM interpretation of Keynesian economics associated with Hicks prevailed. The Keynesian economics, flow into occupied Japan through the United States.

The introduction and translation of the following books are among many attempts to learn the new Economics from the United States: (D.D. Dillon, The Economics of John Maynard Keynes Prentice Hall 1948, translated by Y. Okamoto) R.L. Klein, Keynesian Revolution Macmillan, 1947, translated by H. Shinohara and K. Miyazawa (in 1952), S.E. Harris ed. The New Economics: Keynes' Influence on Theory and Public Policy, (Knopf, 1947), translated by the Research Department of the Bank of Japan 1945-50, and P.A. Samuelson, Economics: An Introductory Analysis (McGraw Hill 1948, translated by S. Tsuru, 1977 Iwanami). They all emphasized the theory of income determination rather than the theory of liquidity preference. In a few years, the Keynesian economics through American academics became to be known as the most essential part of what was called "modern economics", a term symbolizing the Japanese economic circle as I shall explain later.

I would like to call the attention of the reader to the following facts that lay behind the process of introducing Keynesian economics into postwar Japan. First, it reflected the quest of intellectuals for new stimuli in the aftermath of the wartime absence of international communication. Many scholars found the library of the American Cultural Center (or CIE) to be an oasis. Secondly, Keynesian thinking may have been encouraged by the fact that the Japanese audience was not all well acquainted with neoclassical economics. Serious attempts to study the mathematical structure of Marshallian general equilibrium theory were already made. However, the more pragmatic aspect of partial equilibrium price theory had not been popularized in prewar Japan. The education on the neoclassical economics was in fact, delayed until long after the Marshallian introduction to the Keynesian theory. Thirdly, Marキan economics arrived in Japan during the postwar period. Before the war, Marxian economics replaced classical economics in the German historical school and attracted the interest of economic students until it was suppressed by the militaristic government. At present, there is some peaceful "cohabitation" of Marキan economists and economists reflecting Anglo-American influences. Marxian economics is considered to be the science of understanding the historical development of a capitalistic society modern economics as a science that is able to predict human behavior and to engineer or manipulate economic equations. In this respect, it was natural that technocrats in economic bureaucracy welcomed the operational nature of the Keynesian economics, though Marキan economists often criticized Keynesian economics because of its engineering and operational nature. Their argument is that human behavior can be influenced by an individual's past history, and expectations about the future economic policy, and that it cannot be mechanically predicted or manipulated.

In any case, the engineering nature of the Keynesian economics was welcomed by economists. In Japanese "economists", in practical institutions of economics outside academic institutions, such as central bankers, bankers, bureaucrats and free-lance journalists. Prime Minister Tanaka Ishihashi was influenced by the newly introduced Keynesian ideas and made an address to the lower house in 1946 just after the war, when he was a finance minister of the Yoshida cabinet, referring to Keynes... "the most important objective of fiscal policy is the attainment of full employment of all existing productive resources. Lord Keynes defined the genuine inflation as the inflation that would occur from excessive demand under the utilization of capital. We need not worry so much about the government budget deficits or monetary expansion."

In 1947, the first The Economic White Paper at that time called "The Report of Current Economic Situations" was published. Shigeto Tsuji, who had stayed at Harvard until he came back to Japan in a short-time exchange boat was the principal writer of the White Paper. Naturally one can also find here the influence of Keynesian economics. The influence of macroeconomic framework along American Keynesians became even stronger in later editions of the Economic White Paper.

The Impact of the Keynesian Economics on Japanese Academics

After the introduction of several textbooks and monographs by Keynesian economists in the United States, Japanese academic economists grew eager and quick to digest the theoretical implications of the Keynesian economics. When I was an undergraduate at the University of Tokyo in the late 1950s, the IS-LM framework was very popular among students. When I went to the Economics Institute at the University of Colorado, Boulder, in 1952 for a summer orientation program for newly coming foreign graduate students, I was surprised to find that the AS-AD framework with variable price level was a crucial topic of macroeconomic theory. It did not take long, of course, before the latter framework was introduced to Japan. Then the discussion of the Phillips curve came in, again, through its American adaptation by Samuelson and Solow. The process of introduction and adaptation of foreign ideas was smooth and in a sense efficient. As Martin Bronit once cartonized, Japanese economists were more skilled in the "transmission, translation, application and refinement" rather than "looking and learning" for themselves.

There were, of course, some independent economic researchers stimulated by Keynesian economics. Earlier work of Michio Morishita, for example, Shinnosuke Ketsu no Hondo Biron (A Theory of Business Fluctuations in the Capitalistic Economy) Sobusha 1955, was motivated by the works of Keynes if I am not mistaken. The microeconomic foundation of the Keynesian economics was introduced along the line of Okun and Leijonhufvud. Takeshi Negishi developed a theory of explaining rigid wages as well as unemployment, based on a theory of a perceived demand curve that has a kink. Katsumi Ishi made a heroic attempt to invert in a Copernican way the whole structure of macroeconomic theory, claiming that the rigidity or stickiness of wages and prices is not a nuisance, but a safe-guard for the capitalist economy from a sudden fall into a "classical" depression of a cumulative process of deflation. Hiroshi Uzawa has been under the influence of Robinsonian
thinking of post-Keynesian economics in England, and has also pursued the analysis of disequilibrium dynamics. Under his influence, Kiyoshi Osaka related macrodynamics to the mechanics of inventory accumulation. Takatoshi Ito developed the analysis of estimation method in a disequilibrium model as well as a new definition of stochastic rationing equilibrium. It is hard to characterize Japanese economic thinking as clearly as one can characterize some of the French macroeconomists as the French school based on fixed-price framework. However, the above description indicates that the heritage of The General Theory has been instrumental in encouraging Japanese economists to engage in productive researches in disequilibrium dynamics.

The econometric methodology to estimate and simulate large econometric models was also introduced. Government offices like the Economic Planning Agency as well as the Bank of Japan, research institutes like the Japan Economic Research Center, and a few universities developed a larger scale econometric models. Recent series of Economic White Papers have often been based on the analysis and simulations of econometric models developed by the Economic Planning Agency.

Needless to say, the monetarist counter revolution and the macroeconomic rationalist's revolution have been introduced in Japan as well. Chiaki Nishiyama, a Chicago graduate, has been for a long time been a proponent of monetarism, and has published (with Kokichi Asakura) a monumental study of the monetary history of Japan, comparable to the works by Friedman and Schwartz in this country. Hirokata Kato is active in the research along this line as well.10 Econometric models along the St. Louis Federal Reserve models were introduced and discussed mainly not by academic circles but by "economists", particularly those in the central bank. Seiji Shimbo of the Economic Planning Agency and many Bank of Japan economists contributed to the introduction and popularization of new waves of macroeconomics under the rational expectations hypothesis. Aside from a few exceptions11 the mainstream of academic economists were indoctrinated by the Keynesian policy of activism so that discussions of more fashionable ideas were popular around the central bank and not in academic circles.

**Keynesian Policy Prescriptions and Actual Economic Policies**

As I explained above, the Keynesian macroeconomic framework was understood and digested well among economists who were working in the government, research institutions, and central banks. Different doctrines like monetarism or macro rational expectations hypothesis were also introduced, but there is no question that the Keynesian macroeconomic model was understood well and often used as a frame of reference to formulating and evaluating macroeconomic policies. The question is, however, whether the Keynesian prescription of economic policies was really adopted in Japan. Indeed, the famous address by Ishibashi cited above was motivated by the ideas in The General Theory of sustaining effective demand by fiscal and monetary policies. Also the golden decade of the 1960s during which the Japanese economy recorded a remarkable high rate of growth was sustained by the Income Doubling Plan that was at least supported by the growth oriented thinking shared by many Japanese as well as American post-Keynesian economists. In addition to this purely economic objectives, Prime Minister Hayato Ikeda wanted the Japanese to focus their attention on economic issues rather than political issues regarding the American-Japanese alliance, which actually had led to the fall of the Kishi government by massive demonstrations. When Ikeda announced his plan in 1960 that he would double the national income, it sounded merely like wishful thinking to many people. In any event, the target was more than fulfilled. Real per capita GNP almost tripled between 1960 and 1973.

Thus if we define the Keynesian policy in a broad sense, as any monetary and fiscal policies generally used to achieve aggregate demand management, then the Japanese economic policy was, is, and will be certainly under the Keynesian influence.22 Yukio Noguchi argues,23 that if we define the Keynesian policy in a narrower sense, that is, as an activist policy that emphasizes fiscal policy aiming at domestic equilibrium, then there have not been so many instances in which one could say the Keynesian policy was actually implemented. According to him, the government budget functioned primarily as an automatic stabilizer. Thus the Keynesian policy in its broader sense was in effect,24 however, until 1965, the general account of the Japanese government was bound by the principle of the balanced budget, a rule implemented by the "Dodge line"... an advisory recommendation by Joseph Dodge, a banker from Detroit who visited occupied Japan at the request of President Truman.

What was possible as discretionary fiscal policy was either to shift the pattern of determined government expenditures to an earlier or later part of the fiscal year, or to postpone planned government expenditures beyond the fiscal year. Thus, according to Noguchi, the Keynesian policy prescription of activist fiscal policy was substantially limited by the institutional arrangement until 1965.

After 1965, the principle of the balanced budget was waived by various legislation, and there has been a substantial accumulation of public debt. In 1965, some part of the budget deficit that arose from the unexpected reduction in tax revenue was supplemented by new issues of public debt. This was, according to Noguchi, not so much for activist fiscal policy as for financing unexpected deficits.

Then after 1970, the Japanese government started to worry about the accumulating current account surplus in the balance of payments. Even though the internal equilibrium was attained, fiscal as well as monetary policy was used to stimulate the economy in order to avoid the revaluation of the yen. This is clearly shown in Fig. I where the real rate of govern-
ment fixed investment expenditures is plotted with that of GNP. The avoidance of the exchange rate realignment was the foremost policy objective. Many Japanese officials thought that Japan was an honor student in the Bretton Woods regime because Japan had never diverted its exchange rate from 360 yen per dollar since the rate had been set in 1949. This monetary policy was continued through the 1972 fiscal year. It was effective, probably too effective because it had triggered domestic inflation and the first oil crisis hit Japan. Discretionary fiscal policy was taken in the reverse direction during 1973 and 1974 after the first oil crisis. The real public expenditure in the public sector for capital formation decreased sharply in fiscal year 1973. In the 1977 and 1978 fiscal years, the balance of budget deteriorated, and the real expenditures on capital formation in the public sector increased. These policies are again not primarily aimed at the domestic balance, but at the recovery of the balance in the current account balance. They were effective more for this external objective, but not primarily for reflating the domestic economy. The so-called locomotive argument for fiscal coordination motivated these expansionary policies.

In sum, the Keynesian policy in the narrow sense was not feasible until 1945. Before and after the first oil crisis, and later during 1973 to 1978, fiscal stimuli were used in a discretionary fashion. But they were used to adjust the external balance rather than the domestic demand gap except for the period after the first oil crisis. In this sense, Horiguchi argues that truly Keynesian fiscal policy was seldom employed in Japan. The fact remains, though, that activist policies were in fact invoked, either as a means to attain external balance or as a means to recover from the adverse supply shock from a higher price of oil.

Let us now ask how activist Japanese monetary policy has been. Until August 1971, when the New Economic Policy was announced by Prime Minister Shinzo Abe, the 360 yen-per-dollar exchange parity was kept constant, and monetary policy was conducted in such a way to limit the loss of international reserves under the fixed exchange rates. As Kato showed, monetary policy reacted to the current account of the balance of payments. As soon as the current account went into deficit, a contractionary monetary policy was adopted. This stop-go policy enabled the price level in Japan to follow a relatively stable path. Accordingly, there was little room for discretionary monetary policy aimed at purely domestic objectives during the time that Japan was frequently threatened by the balance of payments deficits.

However, after 1969, the current account of the balance of payments showed a different trend. In order to avoid revaluation of the yen, which was wrongly thought to be the first policy objective, monetary policy was geared into an expansionary one. This, just as in the case of fiscal policy, discretionary money supply was invoked in order to attain external rather than internal balance. Fig. 2 indicates the extreme degree
Fig. 3 indicates the Phillips curve of Japan, plotting the rate of wage increase with the unemployment rate. Some Keynesian economists might consider, by looking at this curve, that the Phillips curve is still alive in Japan. More eclectically, I think the Japanese experience can be explained by the expectation augmented Phillips curve developed by Friedman and Phelps.26

First of all, the unemployment in Japan has been quite low and its variation has been very small. This supports the general impression that the employment situation has generally been favorable. It does not mean, however, that we are completely free from the Keynesian problem of involuntary unemployment and excess capacity. The Japanese definition of "completely unemployed workers" is rather rigorous. They are defined in such a way that those workers who search for jobs during the month but not during the last week of the month, i.e., the testing period, are not classified as unemployed. In addition to this statistical difference, the Japanese labor market has characteristics keeping the level and the variation of unemployment rates quite low. Labor participation rate, particularly that of the female population has been quite flexible. After the first oil crisis many female workers returned home because of the discouraged-worker effect. Also working hours moved more flexibility and Japanese firms are regarded, at least until quite recently, to be slow to lay off workers under recessions.

These slow movements in the unemployment rate have made the Okun's Coefficient quite large. It ranges, instead of 3 to 3 in the United States, from 28 to 12, even though there seems to be a downward trend.27 The output cost behind recession is much greater than the steepness of the Phillips curve. If we multiply the responsiveness of unemployment by a factor of 6 or so, then the trade off between output fluctuation and wage increases is not so different from that in many western countries.

Thus the need for demand management certainly exists, provided that demand management can in fact exploit some trade-offs between the output gap and inflation.

With these remarks in mind, I will trace historically the characteristics of the Phillips diagram in Japan. After the rapid inflation of the post-war reconstruction period, and after the boom caused by the Korean war, strong inflationary expectations prevailed. They calmed down fairly quickly, shifting the short-run Phillips curve swiftly downward. Therefore the Phillips curve traces a vertical line around 1963 to 1958. At the same time, an abundant supply of labor from rural areas still existed, so that the curve was located to the right. Then came a period of rapid growth and rapid technical progress (1959-65). With relatively stable prices due to monetary policy aimed at keeping the exchange rate constant, price expectations were stabilized. One can observe, therefore, a hyperbolic (short-run) Phillips curve similar to the one Phillips originally discovered. Next came a period of excess liquidity that was created by the above mentioned discretionary fiscal and monetary policy to resist the pressure for appreciation of the yen. Combined with the first oil crisis, this created a galloping inflation. Inflationary expectations were also fueled and the short-run Phillips curve shifted upward leaving the shape of the Phillips curve approximately on a vertical line until 1974.

It took a while to calm down the inflationary expectations in spite of the discretionary and contradictory macroeconomic policies (1974-78). After 1973 or so, I observe a fraction of stabilized short-run Phillips curve, showing the possibility of trade-off under stabilized inflationary expectations. Some others may say that this is just a shift in the natural rate of unemployment.
Thus opinions may be divided concerning the existence of a short-termm Phillips curve with some elasticity, and accordingly the existence of the short-run trade-off and they may be divided even more concerning the feasibility of exploiting the trade-off. In my opinion, the lesson from the greater experiment of political business cycle after the advent of the Reagan-Thatcher (and possibly Kohl-Nakasone) policies with over-constrained monetary policy was that the world is not so favorably made as some of the new classical economists imagined. It takes time to calme down inflationary expectations, and even if expectations were stabilized, it takes time to overcome the inertia of price or wage rigidity.

There are some statistical attempts to test the effects of anticipated and unanticipated money supply in Japan. Figs... using quarterly data, maintains that anticipated money does not matter. Studies... using more recent data indicate that although unanticipated money is more powerful in explaining output behavior, anticipated money also matters. Takuslil20 took into account the institutional feature of the spring labor offensives, and formulated a model in which nominal wages are determined on the basis of information available at the spring offensive. The neutrality hypothesis tested in his model is that anticipated money influences output for only three quarters. Finally, Park10 derived the result that the neutrality hypothesis of the Barro type cannot be rejected if one carefully corrects the biases arising from seasonal adjustment. Thus, many results are dependent on the particular methodology used in the analysis. One cannot help feeling that a methodology yielding a particular result is robust in the sense that it will be likely to produce similar results in other countries. An ample opportunity for future research still remains.

Concluding Remarks

We have seen that the economics of Keynes as well as the Keynesian economics were quite quickly introduced, interepreted and accepted in Japan. The absorption of the Keynesian ideas was much faster and smoother than the ideas related to various types of countercycles. The general theory influenced much the theory and econometric model building of Japanese economists. As a result, the area of disequilibrium dynamics is one of the few fields where Japanese theoreticians are quite active.

The analytical framework of The General Theory was accepted as a frame of reference for policy makers. The implementation of fiscal and monetary activist policies were constrained either by the principle of the balanced budget until 1985 and by the observance of fixed exchange rates until the late 1960s. After the late 60s, activist fiscal and monetary policies were adopted. Their aims were to keep the external balance rather than the domestic balance except for the remedies to calm down the inflationary flames after the first oil crisis. Finally, the Japanese macroeconomic performance particularly in the past few years, seems to indicate that the aggressive economic activity does not show the property of perfect classical or now classical world. Further studies are needed to determine to what extent the Keynesian idea is helpful in explaining the Japanese macroeconomic behavior. Comparative studies of macroeconomic performance will certainly lead to answer the question whether the relevance of the Keynesian and other macroeconomic models is only limited to the national economies from which these theories developed by the process of abstraction, or if they possess some more universal applicability.

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FOOTNOTES


For example, W. Leontief's "The Structure of the American Economy," (1941) was introduced to Japan before the outbreak of the war. This was studied for the purpose of planning the war-time mobilization of resources. The impact of new ideas was seemingly limited to Tokyo or Osaka. Professor Bronfenbrenner told me that he did not find any trace of Keynesian ideas in Fukuoka in Kyushu island in 1945.

Kei Shihata, one of the rare original economists of the period reported that Keynes' circulars stated when they were circulated, "whenever a new book is announced, five or six letters come from Japan asking for its translation right. This happens only in Japan."

Takuma Yasui, Chosaku-shi (Collected works) Vol. 1, Sobunsha 1970, contains his work since 1933.

Ayushi Tachihara and Ryotaro Karnya, Keizai Seisakuku no Riron (Theory of Economic Policy, Keiso Shobo 1984) made a significant impact by introducing applied microeconomics.

In Bronfenbrenner doubts, however, whether Ishihidasi's inflationary policies were based on Keynes' ideas. See his "Four Positions of Japanese Finance", Journal of Political Economy, vol. 58, Aug. 1950, pp. 265-5.

10For example, Hisso Kumagi, et al., Bukka Antai to Shotoku Seisaku, (Price Stability and Income Policy), Keizai Kikaku Kyokai, 1946.


It is interesting to note that he published recently an expository book on The General Theory, Keizai no Yoko (A Reader's Companion to Keynes) Iwanami 1984.


20See various discussion papers published by the Bank of Japan, Institute for Monetary and Economic Studies, and particularly in Bank of Japan Monetary and Economic Studies conducted since 1983. Leaders of the research, Kinosita Ego and Yasuho Suzuki may not be classified monetarists, but they were much more flexible than some Keynesian academics and even sympathetic to monetarists or rationalists ideas. For example Suzuki's papers argue that the Japanese bank finance system in his Money and Banking in Contemporary Japan (Yale, 1961) was much influenced by the theory of banking developed by Tobin, but his recent book, Nihon Kinyuu Keizai Bun (Monetary Theory from Japanese Perspective) 1983, surveys new waves of macro rational expectations theories and summarizes recent empirical works by central bank economists.

21For example, Tetsuro Shinoki and Yasuhiro Mutoh, Soritetsu Kinsai to Monetary Rosenka (Rational Expectations and Monetary) Nihonkeizai 1981.

22Yoko Noguchi, "Nihon de Keizai Seisakuku no Okonowaseta ka (Have the Keynesian Policies Ever Been Adopted in Japan?)" Kikai Gendai Keizai, No. 52, Special Issues, 1983.

23Noguchi, op. cit.


The Pigou-Keynes Controversy About Involuntary Unemployment: A Half-Century Reinterpretation

Ingrid H. Riis

The fiftieth anniversary of The General Theory of Employment, Money and Interest is being observed amidst widespread concern in Europe and America about the magnitude of the problem of unemployment. It thus seems relevant to reexamine the concept of involuntary unemployment which figured so prominently in The General Theory, after its identification by AC Pigou almost two decades before the Great Depression (Pigou, 1914). The essential point of the distinction between voluntary and involuntary unemployment, even prior to the prominence to which Keynes' argument raised it, is that it underlies the growing awareness, between World War I and the 1930's, that unemployment is chiefly a problem inherent in the industrial system. Yet, the neoclassical synthesis proposed by Hicks (1937) and subsequently refined by Modigliani (1944) and Patinkin (1965) led back to the conventional conclusion that the price system can be relied on to clear markets, including that in which labor services are given employment. Though presented in a Keynesian framework, the essence of their argument was that, in the absence of "frictions" and "rigidities", there is no obstacle to the employment of persons who are willing to work at a reduced real wage. More recently, various "post-Welshman" reformulations (Grandmont and Laroque, 1976; Leijonhufvud, 1971; Meltzer, 1977) further eroded the status of the concept of involuntary unemployment by attributing short-run unemployment to uncertainties and failed expectations which temporarily impede the market mechanism. From the centenary conference held at Cambridge University in 1983 to assess the relevance of Keynes' ideas for the world today, did little to restore the concept of involuntary unemployment to the central importance given to it in The General Theory. It is something of an irony that a favorable reception was accorded (Kaldor, 1983, p. 15) to a recent "proof" of the impossibility of involuntary unemployment under constant returns to scale on the grounds that, under these conditions, the unemployed could go into business for themselves (Meltzer, 1982).

The failure on the part of conference participants to restore the concept of involuntary unemployment stems, first, from their return, with arguments both pro and con, to the misguided question of the centrality of downward inflexibility (or at least inertia) of normal wages to Keynes' argument. (Tobin, pp. 50-54; Kaldor, p. 35; Meltzer, p. 55; Samuelson, p. 116). More importantly, while decrying Keynes' casual treatment of the microeconomic aspects of market behavior, conference participants (Kaldor, 1983, p. 15).

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