Monetarists and Keynesians

THEIR CONTRIBUTION TO MONETARY
THEORY

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To the memory of my father
E. J. MORGAN

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Preface and Introduction

This book developed from a course of lectures, given first at Middlesex Polytechnic and more recently at The Polytechnic of Central London, which attempted to introduce undergraduates to monetary theory in the light of the continuing debate over the meaning of the Keynesian revolution.

The message underlying this book is that Keynes, in *The General Theory of Employment, Interest and Money*, revolutionised economic theory and developed a realistic theory of accumulation in a modern, money-using capitalist economy. Keynes's theory focused on the problems of uncertainty, expectations, wealth, interest and money in *disequilibrium* situations and it is argued that this theoretical approach is far better equipped for solving current economic problems than that offered by either modern-day Keynesians or Monetarists. In fact, the debate between Monetarists and Keynesians is a difficult one to resolve, precisely because both approaches are firmly based on *equilibrium* theory. Specifically their theoretical foundations are those of the Walrasian general equilibrium system and it is this system that underlies the *IS/LM* model within which the analysis of both schools is formulated. However, the *IS/LM* model is inappropriate for illustrating Keynes's theoretical innovations because it largely assumes away the problems of uncertainty and expectations which bedevil capitalist systems and with which Keynes was grappling.

It will be obvious to the reader that this interpretation of Keynes owes much to the writings of Axel Leijonhufvud and in fact one of my aims in writing this book has been to place students in a better position to read and understand both Keynes's original work (now published in full by the Royal Economic Society) and Leijonhufvud's now classic doctoral thesis *On Keynesian Economics and the Economics of Keynes* (described by Harry Johnson as a 'monumentally scholarly study').

However, this book probably would not have been written without the valuable insights into monetary theory provided by my former

teacher at the London School of Economics, Mr Laurence Harris. I would also like to acknowledge my debt to Professor David W. Pearce for being infinitely patient with an awkward author, to my students who have read and criticised the manuscript through numerous revisions and to Christine Morgan for some valuable advice in the preparation of the final chapters. Responsibility for errors of omission and commission of course remain with the author.

June 1977

BRIAN MORGAN