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The General Theory: a neglected work?!

Mark Hayes

Robinson College, Cambridge

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Five Propositions of *The General Theory*

- Equilibrium
- Competition
- Money
- Expectation
- Liquidity

1. Equilibrium

Employment is in continuous 'daily' equilibrium corresponding to the point of effective demand.

Equilibrium does not mean that all available labour and capital-goods are employed and that factor markets clear.

Equilibrium does not mean that expectations are fulfilled.

2. Competition

Competition in supply and demand is the motive force which holds the system in equilibrium.

Agents take prices in each market to be independent of their own actions.

The degree of competition is not the same as the degree of monopoly.

3. Money

Equilibrium reflects spending decisions by employers, investors and consumers, and not the optimal allocation of factors of production.

Money is integral to production and income is intrinsically monetary.

The wage-unit is not an equilibrium value.

4. Expectation

Decisions to produce, consume and invest are based on expectation.

Effective demand corresponds to the state of expectation at any time.

The long and short term are not the same as the long and short equilibrium periods.

The future is unknown and long-term expectations are fundamentally uncertain.

5. Liquidity

Liquidity means more than convertibility and includes invariance of value to changes in the state of expectation.

Assets possess this property in different degrees, so that money is more liquid than bonds, and both are more liquid than equities.

Five Propositions

- *Continuous* equilibrium
- *Perfect* competition
- *Flexible* prices
- '*Rational*' short-term expectations, but long-term expectation quite a different matter
- Liquidity means *more than convertibility*

Relationship to Classical doctrines

- Flexible labour markets
- Flexible exchange rates
- Financial liberalisation
  - o Free movement of financial capital
  - o Prudential regulation

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