John Maynard Keynes wrote *The General Theory* (1936) in order to show that Say's Law, where (aggregate) supply created its own (aggregate) demand, was not applicable to a monetary, production economy. In a Say's Law world, the aggregate demand function would be coincident with the aggregate supply function so that 'effective demand, instead of having a unique equilibrium value, in an infinite range of values all equally admissible; and the amount of employment is indeterminate except in so far as the marginal disutility of labour sets an upper limit' (Keynes, 1936, p. 26). In other words, Say's Law assumes there is no barrier to the economy obtaining, in the long run, a full employment output level.

Keynes claimed that Say's Law 'is not the true law relating the aggregate demand and supply functions' (ibid.) and hence the 'true' relationship between the aggregate demand and the aggregate supply functions 'remains to be written and without which all discussions concerning the volume of aggregate employment are futile' (ibid.).

For Keynes, unlike the 'neoclassical synthesis Keynesians', both aggregate supply and aggregate demand functions played equally important roles in determining the equilibrium level of employment. As Keynes (1973) pointed out in a letter to D. H. Robertson, however, his aggregate supply function was 'simply the age-old supply function'. Keynes's revolutionary analysis stemmed from his belief that in a monetary economy, the aggregate demand function differed from, and was not coincident with, the aggregate supply function.

Keynes argued that the aggregate supply function could be readily derived from ordinary Marshallian microsupply functions (1936, pp. 44–5) and that, therefore, the properties of the aggregate supply function 'involved few considerations which are not already familiar' (ibid., p. 89). Keynes believed that 'it was the part played by the aggregate demand function which has been overlooked' (ibid.). Hence, though Keynes briefly described the aggregate supply function (ibid., pp. 25, 44–5) and its inverse, the employment function (ibid., pp. 89, 280–1), the bulk of *The General Theory* was devoted to developing the characteristics of aggregate demand while the aggregate supply function was given short shrift and treated perfunctorily.

Consequently, the 'Keynesian Revolution' analytical structure (which

Samuelson dubbed ‘neoclassical synthesis Keynesianism’) which was developed by Hicks (1937) in England and American economists such as Klein (1947) and Modigliani (1944) only emphasized the novelty of the aggregate demand-side of Keynes’s economic system. In losing sight of Keynes’s well-known ‘age-old’ aggregate supply function, the Keynesian Revolution went off at half-cock and lost its foundations in Marshallian microeconomics.

In the 1954–7 period, in the *Economic Journal*, there was a flurry of activity attempting to rediscover the basis of Keynes’s aggregate supply function. This discussion culminated in Weintraub’s classic article (1957) which Clower, in personal correspondence (dated 1 November 1957), characterized as ‘a beautifully clear statement of what Keynes “should have meant” if we suppose that he was a rational being’.

Unfortunately, the leaders of the Keynesian Revolution at the time did not adopt the Weintraub approach. Instead, they continued to use their ‘neoclassical synthesis Keynesian’ structure which did not possess a strong enough aggregate supply foundation to permit it to provide a cogent analysis to deal with the stagflation of the 1970s. Accordingly, this popular brand of ‘bastard Keynesianism’ (to use Joan Robinson’s descriptive phrase) – a hybrid of Walrasian microfoundations and Keynes’s macro-analysis – lost its appeal as it failed to be able to account for supply-side problems such as money-wage inflation and the monopoly power of oil-producing countries who foisted oil (raw material) price shocks on Western nations during the 1970s. Consequently, ‘bastard Keynesianism’ was replaced in many academic circles and popular texts by monetarist and pre-Keynesian ‘Supply-Side’ philosophies. (Despite its name, the so-called Supply-Side school of economics did not incorporate Keynes’s aggregate supply function into its system.)

‘Keynesianism’ failed because the most prestigious ‘bastard Keynesians’ had developed a variant of Keynes’s analytical structure which had lost sight of his aggregate supply function. Had the derivation of Keynes’s aggregate supply function concept been properly incorporated into the popular brand of Keynesianism that prevailed in the 1960s and 1970s, Keynesian analysis would still have dominated academic and popular economic discussions.

The following description of the derivation of the aggregate supply function has its origins in Keynes’s *General Theory* (1936) as elucidated by Weintraub (1957) and further developed by Davidson (1962) and Davidson and Smolensky (1964).

The aggregate supply function relates the aggregate number of workers ($N$) that profit-maximizing entrepreneurs would want to hire for each possible level of expected sales proceeds ($Z$) – given the money-wage rate, technology, the degree of competition (or monopoly), and the degree of