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‘Dr Kalecki’ on Mr Keynes

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This chapter presents Kalecki’s interpretation of the \textit{General Theory}, contained in his review of the book from 1936. The most striking feature of this interpretation is that, despite criticizing a great deal of Keynes’s analysis, particularly regarding the determinants of investment, Kalecki was highly impressed by Keynes’s theory showing the effect of changes in investment on global employment, income and production levels. Kalecki’s review and restatement of the key ideas of the \textit{General Theory} is superior to the original due to a clearer and more concise account of the causes of changes in investment and their influence on the short-run equilibrium position, taking into consideration the distribution of income between capitalists and workers. But the review also criticized Keynes’s methodology and does not even mention key elements of his analysis (notably his monetary and financial analysis).

Kalecki’s review of the \textit{General Theory} was published in the third quarter of 1936 in Polish in the journal \textit{Ekonomista} (\textit{Economist}) and was humbly entitled ‘Some remarks on Keynes’s theory’ (‘Parę Uwag o Teorii Keynesa’). The fact that it was not available in English until 1982 (translated by Targetti and Kinda-Hass) may be one of the key reasons why Kalecki’s ‘version’ of the effective demand theory did not initially gain as much recognition as it deserved, given the acclaimed superiority of his findings over Keynes’s.

Kalecki himself emphasized the precedence of his conclusions on the role of investment and demand on several occasions. In the introduction to his 1971 \textit{Selected Essays on the Dynamics of the Capitalist Economy} he stated that the three papers written in 1933, 1934 and 1935 (‘Outline of a theory of the business cycle’, ‘On Foreign Trade and “Domestic Exports”’ and ‘The Mechanism of the Business Cycle’, respectively) contain the ‘essentials’ of the \textit{General Theory} (Kalecki, 1971, p. vii). Furthermore,
Kalecki remarks in a couple of footnotes to his 1936 review that his earlier ideas regarding the causality running from investment to savings rather than the opposite are ‘analogous’ to the implication contained in the *General Theory* (Kalecki, 1936/1990, p. 228). According to G.C. Harcourt, Kalecki’s review is conclusive evidence for his independent derivation of the key propositions of Keynes’s work, albeit through different reasoning (Harcourt, 2006, p. 21). Kalecki began the paper with words of high appreciation of Keynes’s book, describing that book as: ‘without any doubt, a turning-point in the history of economics’, although Kalecki himself was far from being an expert in the history of economic thought (Kalecki, 1936, p. 223).

In his interpretation Kalecki distinguished between two parts of Keynes’s theory: firstly, the determination of a short-term equilibrium with a given level of investment and given ‘production apparatus’; and secondly, the determination of the level of investment (1936, p. 223). While he expressed his overall satisfaction with the way in which Keynes handles the first issue, Kalecki was more critical of the ‘serious deficiencies’ characterizing Keynes’s analysis of the determinants of investment.

Despite a certain similarity between their conclusions, Kalecki and Keynes followed fundamentally different assumptions due to methodological differences. For the purposes of exposition, Kalecki temporarily adopted certain underlying assumptions of Keynes, analysing a closed economy with no government over a short period. Further, Kalecki maintained Keynes’s proposition regarding the existence of a reserve army of the unemployed workers, although he remained sceptical about the use of wage unit as a basic unit of measurement. Nevertheless, he retained this premise for expositional purposes.

In addition, Kalecki used the assumption typical of his own analysis, namely that workers do not save because living standards only allow them to consume whatever they earn, and that the economy is operating at less than full capacity. Contrary to the assumption of perfect competition in the *General Theory*, he considered the general case of imperfect competition, without assuming any particular market structure.

Kalecki interpreted the first part of Keynes’s proposition through an analysis of distribution. He identified the short-period equilibrium output for a representative, vertically integrated firm by reference to a marginal value-added curve, in which marginal value-added is the marginal product of labour times the price of that product. Having established that the short-run equilibrium (B in Figure 7.1) is determined by the intersection of the marginal value-added curve (MVA) with the