

ARE WE ALL POST-KEYNESIANS?

GIULIO PALERMO*

*Department of Economics
University of Brescia*

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IT is not easy to identify the defining elements of post-Keynesian economics. One might even argue that from a strictly theoretical and methodological viewpoint, post-Keynesianism is not a 'school of thought' in the proper sense. *The Elgar Companion to Post Keynesian Economics* is an ambitious attempt to explain both the coherence and the heterogeneity of this theoretical approach to economics.

In his introduction to this thematic encyclopaedia, John E. King describes post-Keynesian economics as resting on the principle of effective demand and on the related idea that there exists no automatic mechanism capable of eliminating excess capacity and involuntary unemployment. These ideas, however, are also shared by the so-called bastard Keynesianism, methodologically closer to neoclassical economics. In fact, King continues, it was as a reaction to this attempt at neoclassical vulgarisation – which implied a substantial degeneration of John Maynard Keynes' conception – that post-Keynesian economics emerged as a distinct school of thought in the 1960's. The fundamental role of money, the inescapable uncertainty characterising economic activity and the importance of expectations (stressed in particular by so-called fundamentalist Keynesians) appeared then as distinctive elements, besides the principle of effective demand, characterising post-Keynesian economics.

However, even with this more precise characterisation, post-Keynesianism remains strictly interconnected with other heterodox schools. For instance, institutional and Austrian economics insist on money, uncertainty and expectations as fundamental elements of capitalism as well. King notices also that propositions elaborated by Sraffians and Kaleckians, often presented as potentially incompatible, in fact constitute distinct streams of what today is post-Keynesian thinking. And for other aspects, according to Geoffrey Harcourt (1987), Marxism, too, plays a decisive role in the birth of post-Keynesian economics, through its influence on Michal Kalecki and Joan Robinson. On a theoretical level, the role of money and the industrial

* palermo@eco.unibs.it

reserve army (which indicates that involuntary unemployment is an intrinsic condition in capitalism) are two remarkable examples of the relevance of Marxian theory for post-Keynesian thought.

As concerns policy, King explains that post-Keynesians show a general hostility towards neoliberalism and insist on the necessity of state intervention and active macroeconomic management. This position, of course, is compatible with different substantive theories. Post-Keynesian economics can then be understood as a broad label in which different theoretical and methodological approaches coexist, and stimuli from other economic schools are positively developed.

This book on post-Keynesian economics gives the reader a unique opportunity to understand the different lines of development of Keynes' original vision directly from some of the main exponents of this school of thought. The book is part of a more general project developed by Edward Elgar consisting in a series of selective encyclopaedias by schools of economic thought. *The Elgar Companion to Post Keynesian Economics* contains 80 entries by 83 authors, which reflect the diversity existing within this school of thought. The book, with its pedagogical and more technical entries, is appealing for both students and well-trained economists. Indeed, thanks to valuable efforts by the great majority of authors, even technical issues are made accessible to non-specialists while expert readers are directed towards other publications for more technical developments. However, I must also note that in some entries (though they may be few) too much is taken for granted. This is a shame, as readers interested in post-Keynesian economics have not necessarily read the works of Keynes and the other founders of this economic School. Obviously, dealing with constraints on the length of essays is difficult indeed in books of this kind. Yet when graphs, equations or theorems are discussed, it would be useful to have them present.

The articles of the book deal with some of the central issues of Keynes' theory, the post-Keynesian critique of neoclassical theories of capital, growth and distribution, the relations with other economic schools or theoretical approaches (such as neoclassical economics and its developments, the new Keynesian economics, the Austrian School, the institutional School, Sraffian economics, Kaleckian economics, Kaldorian economics and Joan Robinson's economics), questions of economic philosophy, methodology and research methods, and some of the most debated policy and political issues, which provide a rich and articulated picture of post-Keynesian economics.

In this essay, I will begin by reviewing the contribution of the book in reproducing the heterogeneity characterising post Keynesian economics. In section 1, I will discuss the theoretical convergence of post-Keynesianism and other heterodox approaches and, in section 2, I will focus on the main attempts to define the methodological traits underlying this convergence. The problem, in my view, is that the heterogeneity of post-Keynesian economics is largely the effect of some ambiguities in Keynes' theory itself. I will then reconsider the 'Keynesian revolution' and its challenge to neoclas-

sical economics on the grounds of economic theory in *section 3*, and methodology, in *section 4*. In *section 5*, given the importance of policy issues for post-Keynesianism, I will discuss the attitude of Post-Keynesians towards welfare economics and neoliberalism. Finally, I will make some observations on the difficulties in defining post Keynesian economics as a proper school of thought within the heterodox camp.

1. POST-KEYNESIANISM AND HETERODOX ECONOMICS

Thanks to the careful work of the editor, the fact that post-Keynesian economics is not strictly defined is the very strength of this book. Indeed, this encyclopaedia is much more than a useful reference book; it is also an organic work to be read in its entirety that clarifies the role played by post-Keynesian economics in the context of heterodox economics.

The discussion of capital theory and the Cambridge controversies illustrate the commonality with Sraffian economics. Piero Sraffa's 1925 and 1926 papers contained a radical attack on the Marshallian method of partial equilibrium and helped develop 'the imperfect competition revolution', which constituted one of the great theoretical innovations of post-Keynesian economics. His 1960 book was a solid basis for a critique of neoclassical economics (although, as Ben Fine notices in the entry on *capital theory*, this critique does not invalidate the whole of neoclassical theory, but only the one-sector model) and a rehabilitation of classical political economy, which inspired important theoretical developments within post-Keynesian economics. As Harcourt explains in the discussion of the *Cambridge economic tradition*, Luigi Pasinetti's *Theoretical Essay on the Dynamics of the Wealth of the Nations* is one of the most systematic developments of aspects of classical and Keynesian theories. According to Gary Mongiovi, the author of the entry on *Sraffian economics*, in the 1970's Sraffian economics was mainly regarded not only as compatible with post-Keynesian economics, but also as a branch of it. Mongiovi recognises, however, that «by the end of the 1980s, [...] this view had largely given way to the presumption that the two frameworks are distinct and, in at least some respects, incompatible» (p. 318). According to the author, there exist genuine differences in perspective but "there is no necessary incompatibility on methodological grounds between the post Keynesian and the Sraffian frameworks; the two complement each other" (p. 321).

The entry on *agency*, by Edward McKenna and Diane Zannoni, is perhaps the best example of the attempt to develop affinities between post-Keynesianism and institutionalism. The authors discuss a wide range of themes that might be relevant for the development of a post-Keynesian theory of agency: the relations between agency and structure, the process of their reproduction and transformation, the rejection of both methodological individualism and methodological holism, the conception of the economy as an open system, the role of habits, routines and customs and the stabilising role of institutions and conventions in uncertain decision-making contexts. The analysis is further developed by Steven Pressman in his discussion of *in-*

stitutionalism. The author discusses four places in which institutions appear in post-Keynesian analysis: in the explanation of consumption behaviours of households, in the understanding of investment decisions of firms, in the explanation of the unique role of money in capitalist economies, and in the discussion of the relative stability of capitalism.

The relationship with Austrian economics has much evolved since the time of the open hostility of the 1930s between Keynes and Friedrich August von Hayek. The recurring themes of radical uncertainty, historical time, expectations and institutions, and the related criticisms of equilibrium method and closed systems of thought demonstrate a methodological convergence between these two economic schools: notwithstanding the still existing reluctance of Austrians to deal with mathematical concepts, it is clear that Austrian radical subjectivism implies non-ergodicity. The essay on the *Austrian school of economics* by Stephen Parsons focuses on the attempt, by each school, to incorporate uncertainty into their respective economic theories. Parsons discusses some important differences between Hayek and Paul Davidson, treated as spokespersons of the two schools. According to Davidson (1989, 468), «Austrian subjectivists cannot have it both ways – they cannot argue for the importance of time, uncertainty, and money, and simultaneously presume that plan or pattern coordination must exist and is waiting to be discovered». By following Hayek's objection to rationalism, however, Parsons maintains that the same argument can be turned against Davidson. If the economy is not at full employment and the government decides to intervene, it cannot rely on any policy framework that has proven to be effective in the past, since, in an uncertain and transmutable reality, the past cannot provide any reliable guide for the future. Parsons' conclusion is that an emphasis on uncertainty and historical time raises problems both for the Austrian (Kirznerian) assumption that market coordination can occur in the absence of governmental intervention, and for the post-Keynesian assumption that it can occur through government intervention. Notwithstanding these theoretical differences, according to Parson, the general conception of time, uncertainty, expectations and institutions suggest «that the possibility of forging links between Austrian economics and post Keynesian economics appears very promising ... [and] that any disagreement between the two schools are merely cases of 'disagreement between friends'» (p. 6).

In this ambitious work of systematisation of post-Keynesian economics within the heterodox camp, my sole remark is that perhaps the relations with Marxism might have been developed a bit more. Surely, Marxian themes often recur in the book: firstly, they emerge in the conception of the economy as a monetary one (and the related question of crisis and unemployment), a conception that, as Claudio Sardoni points out in his discussion of *Say's law*, is at the heart of both Karl Marx's and Keynes' theories; secondly, they play a decisive role in the axis of research developed by Kalecki and Joan Robinson (commented by Jan Toporowski and Cristina Marcuzzo, respectively). But it is curious that among the most important heterodox schools no specific entry is dedicated to Marxian economics or to the radical school. Of course,

this is not to suggest that it is possible to make links between Marxism and post-Keynesianism. Geoffrey Pilling (1986), for instance, strongly argues the contrary.¹ The point is that important attempts have been developed in this regard. Considering that King is an expert of Marx and radical economic thought, this 'omission' must be the result of a careful decision that would merit a clarification.

2. METHODOLOGICAL ADVANCES

Beside the developments of Keynes' ideas in the domain of economic theory and public policy, Post-Keynesians have tried to construct solid philosophical and methodological bases for these theoretical developments. These attempts are partly complementary and partly antagonistic.

Post-Keynesian philosophers are united in adopting an open-system approach. Within this approach, however, three main perspectives can be identified: critical realism, a 'Babylonian' perspective and an 'encompassing' approach, associated with Tony Lawson, Sheila Dow and Davidson, respectively. These perspectives have important differences and implications for research methods. One of the most debated issues concerns the role of econometric methods. As described by Paul Downward in his essay on *econometrics*, Lawson and Davidson cast serious doubts on the validity of econometric inference, whereas Dow accepts the utility of econometric inquiry.

Critical realism has developed a deep philosophical criticism of all attempts to find event regularities by econometric inferences. As Andrew Brown explains, in economic theory these attempts are mainly developed by neoclassical economics, which has its roots in the philosophical system of positivism and which presupposes an ontology in which reality comprises the constant conjunction of atomistic events in a closed system. In this conception, theoretical explanations pass through the search of event regularities and econometrics plays an important role in finding and testing these regularities. According to critical realism, however, the social world is an open system. In the critical realist ontology, reality is stratified into three distinct domains. These are the domain of actual events, the domain of empirical experience and sense impressions, and the deep domain, where causal relations are located. To explain a phenomenon, in this conception, is to

1. PILLING 1986, ch. 1 criticises Keynes and post Keynesian economics from a Marxist perspective and maintains "that it is not possible to construct bridges between the political economy of Marx and that of Keynes, as envisaged by Robinson and others". His analysis focuses on the different methodologies and general conceptions of Marx and Keynes, on their choice of economic categories and on their different conceptions of capital as a social relation in one case and as a variety of things in the other (which also shows the distance between Marx and Sraffa). By criticising Joan Robinson, PILLING (1986, chap. 2) claims that "it was precisely a view of capitalism as a definite mode of production, arising under definite historical conditions, which was missing in Keynes". As far as the relationship between Keynes and the classical tradition is concerned, contrary to Jan Kregel and others, Pilling's (1986, chap. 3) position is "that at a fundamental level these two traditions have little in common and that Keynesian economics is, in the last resort, a continuation, under twentieth-century conditions to be sure, of the vulgar tradition in political economy".

move from the actual-empirical domains to the deep one, i.e. to find the causal mechanisms that govern the event or state of affair under analysis (this scientific process is called 'retroduction'). The fact that the same mechanism might influence different phenomena and that the same phenomenon might be governed by a plurality of mechanisms makes econometric inference inherently problematic.

Davidson's scepticism about the use of econometric tools is a consequence of his criticism of the axiom of ergodicity. Stephen Dunn's paper on *non-ergodicity* explains the reasons why under non-ergodic conditions econometric inference makes little sense. The distinction between ergodic and non-ergodic processes also clarifies the post-Keynesian view of time and uncertainty. Murray Glickman's discussion of *uncertainty* shows that on the ergodic assumption, history ultimately does not matter since the passage of time does not affect the joint probability laws governing stochastic processes. In a world of creative, crucial decision-making à la George L. S. Shackle, however, there is no reason to assume the existence of ergodic processes: decision makers operate in an environment of fundamental uncertainty in which forecasts cannot be derived from past data and in which their own decision will affect future economic configurations even in the long run. As further discussed by John Henry and in his essays on *time in economic theory* and Donald Katzner in his essay on *equilibrium and non-equilibrium*, neoclassical economics allows no place for time, understood as an historical, unidirectional process. In a stationary state, novelty can occur but does not affect the values of variables under analysis. The notion of time invoked in this case is that of 'logical time'. In contrast, historical time implies irreversibility and path dependency. As Davidson (1991, 32) puts it, "economic decisions are made by human beings facing an uncertain and unpredictable future while they are moving away from a fixed and irreversible past".

The *Babylonian mode of thought* is directly commented by Sheila Dow. Like critical realists, Dow stresses the organic nature of society. In her approach, however, evidence can be validly provided by a variety of sources, of which econometrics is one. In mathematics, Babylonian thought is contrasted with the Euclidean approach: the former involves a range of starting points for arguments, and thus a multiple derivability of physical laws; the latter deduces all arguments from a given set of axioms. More generally, a Euclidean mode of thought is a closed system in which a single, formal, general system is built starting from given axioms. In a closed system all variables are pre-specified as exogenous or endogenous. Euclidean thought is also characterised by atomism: the theoretical system is built on the basis of the smallest units, which are independent of one another and of the system of which they are part. In neoclassical economics these units are rational economic men. On the contrary, in a Babylonian mode of thought reality is segmented in order to construct a range of partial analyses, based on different chains of reasoning. These chains of reasoning might rely on arguments of different natures; one might rely on statistical analysis and another on historical research. The same economic variable might be exogenous in

one chain of reasoning focusing on one segment of reality, and endogenous in another chain focusing on a different segment of reality. Some strands of argument may refer to individuals and others to aggregates such as groups or social classes, since causal forces may act in either direction.

The relationships among the approaches of Lawson, Davidson and Dow are complex. As already mentioned, they share a conception of the economy as an open system. Some authors have made the case for a deeper compatibility among them, but even the three leading figures of these approaches do not seem willing to leave their philosophical and methodological differences behind. In any case, all of their methodological characterisations of post-Keynesian economics contribute to finding unity among the heterogeneous theories that compose this economic school. Davidson has played a central role in the development of the post-Keynesian School as editor (together with his teacher Sidney Weintraub until 1983, when the latter died) of the *Journal of Post Keynesian Economics*, and today is doubtless one of the leading figure of post-Keynesianism both on a theoretical and a methodological level. For her part, however, Dow suggests that Babylonian thought might be a way by which post-Keynesian economics can be identified from a methodological viewpoint. finally, Lawson maintains that most key post-Keynesian elements, such as opposition to mainstream, emphasis on method, focus on uncertainty and history, upholding of genuine human choice, and allowance of competitive substantive perspectives, can be rendered intelligible by critical realism and suggests that the heterogeneity characterising post-Keynesian economics can be made coherent if grasped as being essentially a critical realist project.

All of this demonstrates that the philosophical debate within post-Keynesian economics is still open and that other steps forward are necessary. The search for a coherent philosophical and methodological unity, however, is itself an important advance in the definition of post-Keynesian economics as a School of thought.

3. MR KEYNES AND THE CLASSICS

In the 1930's, when the *General Theory* appeared, Keynes' theory constituted a radical challenge to the dominant view, based on Say's law, according to which there cannot be any obstacle to economic growth deriving from an insufficient level of aggregate demand. Keynes' fundamental teaching was that, in capitalism, there exists no automatic mechanism that ensures that the level of output is compatible with that which sustains full employment. This conclusion flows directly from the principle of effective demand, which Keynes himself considered as his crucial theoretical innovation. Contrary to neoclassical theory, which focuses on the price mechanism as the prime object of enquiry, Keynes shifted his attention on the mechanisms of determination of national income. In this sense, Keynes' contribution constituted a radical challenge to orthodox economics. Brought to its extreme consequences, the assumption that adjustments take place via quantities

and not via prices implied a rejection of the whole neoclassical theory of value.

Keynes' interventionism had little to do with the search for an efficient allocation of resources. Instead, the role of the state was, first of all, to manage the overall level of aggregate demand. In this light, Keynes suggested that forms of socialisation of investment and devices of co-operation between public authorities and private initiative might be the means to pursue full employment. Neoclassical welfare economics, based on the perfect competition model, had no role to play in this policy framework.²

This is not to say that Keynes' policy prescriptions were revolutionary in substance. On the contrary, Terence W. Hutchison (1968) shows that most economists in England, whatever their theoretical perspective, were opposed to wage cutting as a remedy for unemployment. Even Alfred C. Pigou, Keynes' main target according to many historians of economic thought, declared himself in favour of compensatory public spending and policies that we would today call Keynesian. Mark Blaug (1985, 671-676) proposes a detailed reconstruction of the dominant economic opinions before Keynes' *General Theory*, in which he shows that, in the 1930s, orthodox economists had no difficulty in explaining the persistence of unemployment. It was also clear that government budget surpluses in both the United States and Britain had deflationary effects and that monetary policy between 1929 and 1932 was more often tight than easy. From a Marxist viewpoint, Pilling (1986, ch. 2) pushes the argument further by claiming that "the tenets of the old liberal neoclassical economics, and the corollary of these tenets, *laissez-faire* as an economic doctrine, were under considerable challenge before *The General Theory* appeared". Joseph Schumpeter (1963, 761) summarises the trend in economic theory by noticing that "on the whole, the business class still had its way throughout the period, at least up to the beginning of this century ... but its severe confidence in the virtues of *laissez-faire* was gone and its good conscience was going". In other words, there was no lack of explanations for the causes of the Great Depression. The point is that these explanations were all 'ad hoc' and did not put into question the full-employment implications of orthodox theory. *The General Theory* was not revolutionary for its policy implications, but for its coherent systematisation of policy issues.³

However, partly for tactical reasons, partly because of deeper theoretical

2. There is no consensus on the role of general equilibrium and perfect competition in Keynes' theory. According to Leijonhufvud 1976, 86-87, "the pre-Keynesian 'neoclassicism' from which Keynes sought to break away was not neo-Walrasian. ... The analytical criticism and theoretical polemics in Keynes' *General Theory* were directed against the Marshallian school in which he had been trained". Blaug 1976 openly disagrees with Leijonhufvud and maintains instead that Keynes leaned heavily on the concepts of general equilibrium, perfect competition and comparative statics.

3. According to BLAUG 1976, 163, «the tendency of economists to join the rank of the Keynesians in increasing numbers after 1936 was therefore perfectly rational; it was a switch from a 'degenerating' to a 'progressive' research programme, which had little to do with contentious issues of public policy».

convictions, Keynes did not propose his theory in open contrast to what he called the classical theory. In the *General Theory*, KEYNES (1936, 378) affirmed that “if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point onwards”. This suggests that Keynes did not consider the ‘classical theory’ as simply wrong. Instead, he believed himself to have put forward a more general theory, of which the classical theory was a particular case (occurring when, for some reason, the level of aggregate demand happens to be compatible with full employment). In this sense, Keynes rehabilitated the idea that the price mechanism is an efficient means of allocation of resources (even though it is insufficient to determine an adequate level of aggregate demand) and, in this, he rehabilitated orthodox economics.

This potentially contradictory position opened the way for a number of attempts of theoretical reconciliation between Keynes and neoclassical orthodoxy. The IS-LM model, the introduction of rigidities and imperfections in the general equilibrium framework and the distinction of short-term and long-term models suggested that Keynes and neoclassicism are perfectly compatible. This view was surely not discouraged by the author of the *General Theory*, who reacted to John Hicks’ (1937) much celebrated paper “Mr Keynes and the classics” by affirming that he “found it very interesting and really [had] next to nothing to say by way of criticism” (quoted in Blaug 1976, 161-2). Instead of superseding neoclassical theory, Keynes’ contribution ended up by extending it. The consequence was the opposite of what Keynes believed: in this new interpretation, Keynes’ *General Theory* was no longer general at all and became instead a particular case (valid only in the short-run and under the assumptions of market imperfections) of a more general (neoclassical) model.

Obviously, this reconciliation between Keynes and ‘the classics’ could not be free from policy implications. Once affirmed that Keynes’ theory is valid only in the short-run and that unemployment depends on rigidities (usually located within the labour market itself), Keynes’ advocacy of state intervention became just a particular response to a particular form of unemployment. But the general prescription was still based on the old conviction that *laissez faire* is the best thing to do (particular Keynesian cases apart). All this poses a problem for attempts to characterise post-Keynesian economics by contrasting it with neoclassical economics. Although post Keynesians strongly criticise all neoclassical ‘perversions’ of Keynes’ original vision, the origin of the problem is probably in Keynes’ theory itself.

4. THE KEYNESIAN SCIENTIFIC REVOLUTION

The relations between Keynes and neoclassical economics can be further clarified by considering some significant attempts to interpret the Keynesian revolution as a scientific revolution according to the canons of philosophy of science.

Alfred W. Coats (1969) maintains that the Keynesian revolution represents a paradigm-change in the sense of Thomas Kuhn's (1962) *Structure of Scientific Revolutions*. According to the author, before the publication of the *General Theory*, "economics [had] been dominated throughout its history by a single paradigm – the theory of economic equilibrium via the market mechanism" (Coats 1969, 292-3).⁴ Although the passage from classical political economy to neoclassical economics is often presented as a major theoretical revolution, it also involved important elements of continuity: the idea that prices are the prime object of inquiry, the role of the market as the main regulating mechanism of the economy, the idea that the market is self-regulating and that competition is the device through which it works. The Keynesian revolution questioned all these elements.

Axel Leijonhufvud (1976) is sceptical about the possibility of interpreting the main 'revolutions' occurring in the history of economics according to Kuhn's scheme. The fact that terms such as 'the marginalist revolution', 'the imperfect competition revolution', or 'the Keynesian revolution' were coined well before the work of Kuhn and that Kuhn himself did not make any reference to these revolutions suggests that "there are no strong reasons to presume that our revolutions are of the Kuhnian class" (Leijonhufvud 1976, 68). From a theoretical perspective, the problem is that Kuhn's revolutions displace pre-existing orthodoxies permanently and definitively, which is not the case in economic theory. In this respect, the author prefers to follow, at least in part, the *Methodology of Scientific Research Programmes* of Imre Lakatos (1977), which admits "the possibility of reviving a programme temporarily eclipsed by competition and the 'rationality' of keeping degenerating research programmes alive" (Leijonhufvud 1976, 85). With regard to our attempt to characterise the Keynesian revolution, however, Leijonhufvud's position is not far from that of Coats. In particular, he maintains that the birth of Keynesianism as a school of thought involves above all a common vision, in Schumpeter's sense, according to which the system does not usually work according to the mechanisms assumed by classical political economy since the time of Adam Smith. To clarify this change, Leijonhufvud (1976, 87) introduces the term 'coordination of economic activities'. In the classical vision, the presupposition is that the market system is largely self-regulatory and self-organizing. The scientific problem lies in explaining the mechanisms that govern this apparently counterintuitive phenomenon. This raises scientific questions such as: how is it possible that decentralised activities can be so reasonably coordinated? How can a decentralised system work so well? Keynes' vision was rather different. Keynes did not consider coordination failures as exceptions, and his attempt was precisely to explain the causes and remedies of these generalised failures. Keynes' scientific questions were thus of the kind: how can the system fail to coordinate economic activities

4. In a following work on the relations between economics and psychology, COATS 1976, 44 follows Lakatos' methodology and affirms that the latter "is assuredly more promising than T. S. Kuhn's suggestive 'structure of scientific revolutions', which was too rigid and monolithic in its original form, and in subsequent versions seriously lacking in precision and specificity".

to such a great extent? How can a centralised intervention improve this lack of coordination? What economic policy might be the most adequate to this end? This change of perspective was the essence of the Keynesian revolution for Leijonhufvud.

John Hicks (1976) also suggests that scientific revolutions in the social sciences have a largely different significance compared to revolutions in the natural sciences. The problem is that social reality is not permanent or repeatable as natural reality. Changes in systems of thought in the social sciences are often caused by the need to accommodate new facts that come into existence in the course of history. Economic theories are necessarily partial and selective in the sense that they shed light on some aspects of reality by leaving the rest in the dark. Often it is because of external events that the focus of economists shifts from one type of representation to another. These shifts, however, are never definitive, and 'old' scientific questions can arise again in 'new' circumstances. In the case of the Keynesian revolution, Hicks stresses the particular economic circumstances of the 1930's. According to the author, Keynes' contribution belongs essentially to the domain of monetary economics. The necessity of stabilising the system by means of policy instruments is a consequence of his monetary conception of capitalism. This view was not original; indeed, it was held also by Ralph G. Hawtrey (1919), to which Keynes' (1930) *Treatise* was largely directed. The main difference was that Keynes had a more up to date perception of the industrial system, according to which the long term interest rate was the crucial financial variable, not the short term rate, as assumed by Hawtrey. The difficulty in controlling the long rate was the main reason why Keynes "moved away from monetary methods to the 'fiscal' methods which have later been so largely associated with his name" (Hicks 1976, 217). It was this historical circumstance that made him shift towards 'fiscalism'. At other times, however, "one can ... be fairly sure, from a general knowledge of his work, that he would have reacted differently" (Hicks 1976, 217). Hicks' conclusion is that Keynes' teaching is not in his particular prescriptions of policy, but in his historical conception of capitalism instability, which implies that policy instruments must be adapted to the changing conditions of the time.

Blaug's position is articulated. Although critical of Kuhn's methodology, he affirms: "if economics provides any examples at all of Kuhnian 'scientific revolutions', the favourite example seems to be the Keynesian revolution" (Blaug 1976, 160). The author suggests, however, that it is Lakatos' methodology that better applies to the history of economics. Within such a methodological framework, his characterisation of the Keynesian research program is straightforward. Keynes' really novel aspects are to be found 1) in the tendency to work with aggregates (departing from the ancient principle of methodological individualism); 2) in the adoption of a short period context (abandoning the method of long period equilibrium of classical political economy); 3) in the assumption that adjustments come mainly through changes in output rather than in prices (revolutionising one of the main scientific questions of political economy); and 4) in the explicit consi-

deration of the possibility of destabilising expectations due to his original conception of pervasive uncertainty (which made rational economic calculation impossible). His conclusion is that “there is hardly any doubt, . . . , that Keynesian economics marked the appearance of a new scientific research programme in the history of economics” (Blaug 1976, 162).

5. WELFARE ECONOMICS, ECONOMIC POLICY AND NEOLIBERALISM

Let me now go back to the ambiguous relationship between Keynes and the classics by focusing on the aspect that has become a major point of contrast between them: the issue of economic policy. Neoclassical economics has developed a sophisticated normative apparatus based on the notion of Pareto efficiency, which is perfectly in line with its liberal vision. Keynesian policy prescriptions are developed on a different conceptual framework, based on macroeconomic considerations, in which Pareto efficiency is not really an issue. Keynes’ interventionism flows from his original interpretation of the way capitalism works. The problem is that this change of perspective in the field of positive economics has not been accompanied by a systematic criticism of the principles of welfare economics and by the development of alternative moral principles.

Although Pareto efficiency is not a neutral concept, its advocates have claimed that it is ‘objective’ because its underlying value judgements are widely shared. Pareto efficiency presupposes three value judgements: 1) that every individual is the best judge of his own well being; 2) that social welfare must be defined only in terms of the welfare of individuals; 3) that individual welfares cannot be compared. Let me say a few words on the supposed neutrality of these value judgements.

That every individual is the best judge of his own well being is a value judgement that seems easy to accept. Things, however, are not so simple. The debates on abortion and euthanasia, and the right or prohibition to use different kinds of drugs are examples of the moral problems involved in this value judgment. The principle that social welfare must be defined only in terms of the welfare of individuals rules out any possibility of discussing objective needs and universal rights, and is incompatible with any holistic conception of society. Compulsory education, prohibition of buying and selling human organs (even when this increases the utilities of both sellers and buyers), limits on the duration of the working day (even when it is the worker that demands more work) are all violations of this principle. It is all but evident, however, that their abolition would meet with widespread consent. That individual welfares cannot be compared is a principle that better suits the interests of a rich man than those of a poor one, those of a healthy person than those of a sick one. There is nothing neutral or objective in all of this. These are simply the values of ethical individualism, which are an integral part of the ‘classical-liberal’ vision.⁵

5. For a critical discussion of the passage from positive to normative analysis in neoclassical economics, see Hausman and McPherson 1996.

As BLAUG (1980) notices, it is indisputable that there is a theoretical jump from methodological individualism to ethical individualism: it is one thing to say that economic processes and states of affairs must be explained starting from the individual, and another thing altogether to adopt the three value judgments commented above in the definition of social desirability. Methodological and ethical individualism, however, form a coherent whole in the classical-liberal vision (which directly leads to political individualism, i.e. to the prescription that individual economic freedom must be the main objective of political interventions) as soon as one recognises that they are both consequences of a common conception of reality in which individuals are the only real entities and collective phenomena are only hypothetical abstractions (ontological individualism). If normative prescriptions based on the Pareto principle make any sense, it is only within this conception, a conception that presupposes individualism on both positive and normative grounds.

Paradoxically, Keynesians seem to be less interested in problems of moral philosophy than neoclassicists. At least the latter explicitly define what is good and what is bad for society. Keynesians instead insist on interventionism but consider social desirability a trivial issue. Here, of course, we must clearly distinguish post-Keynesianism from other developments of Keynesian thought, such as the new Keynesian economics. The latter explicitly accepts the methodology of neoclassical economics and, with it, also accepts its underlying vision and value judgements. According to New Keynesians, dis-coordination problems are identified with market failures, in the neoclassical sense, and need punctual interventions aimed at re-establishing Pareto efficiency. The notion of Pareto efficiency is a-critically adopted as if it were the only conceivable guide for economic policy. This is perhaps the clearest evidence of the academic and cultural hegemony of the liberal vision, which has imposed its values well beyond the liberal camp.

Within post-Keynesian economics, the principles of neo-liberalism have encountered a stronger resistance. But the difficulty in finding any unity in a post-Keynesian approach to economic policy is that the concepts of efficiency and optimality, and the related concepts of distortions and market failures, have not been completely eradicated by the normative discourse. These concepts have very precise meanings in the neoclassical framework, based on individualism, subjectivism and the liberal doctrine, but still need precise definitions out of such a context. When Post-Keynesians discuss unemployment, inflation, unequal distribution, instability or slow growth, it seems that these issues are self-evident problems that do not deserve any moral justification. Yet consider unemployment, which is the economic problem *par excellence* of Keynesianism. Unemployment can be undesirable for very different reasons: because it implies bad conditions of life for unemployed persons, because it weakens the workers movement, because it implies a waste of human resources, because it puts in danger the stability of the system.⁶ It goes without

6. Of course, with other value judgements, unemployment can also be innocuous or even

saying that the proper remedy depends on the reason why unemployment is considered problematic. For instance, if reduction of unemployment is to be attained by cutting wages, it is not obvious at all that workers will get stronger, nor that will they have a more decent life.

Also in this case the problem can be traced back to Keynes' only partial rejection of economic orthodoxy. In fact, his rejection of *laissez-faire* was a pragmatic one and was not intended to question the individualist motive.

Whilst, therefore, the enlargement of the functions of government ... would seem to a nineteenth-century publicist or a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative.

(Keynes 1936, 380)

With this same pragmatic approach KEYNES (1936, 264) also discussed the issue of real wages: "a movement by employers to revise money-wage bargains downward will be much more strongly resisted than a gradual and automatic lowering of real wages as a result of rising prices". Keynes' problem, in this passage, is not to find acceptable criteria of income distribution, but just to find a 'painless' way to cut real wages. Without an open discussion of the principles of social desirability, the risk is that a pragmatic approach to economic policy can at best rescue the capitalist system from its recurrent crisis. In doing so, however, it just enforces the values of individualism on which capitalism is based.

According to the last report by the International Labour Office, 2.8 billion people were employed globally in 2003, more than ever before. Half of them, however, earned less than the equivalent of two dollars a day, which corresponds to the poverty line according to international organisations (ILO 2005). The problem is neither that the system might be unstable (as Keynes teaches, crises start when the other part of the population, the owners of economic resources, do not buy enough), nor that it might be inefficient (poverty and efficiency are perfectly compatible). The problem is that 1.4 billion people, even working, are trapped in grinding poverty. But without an explicit definition of social desirability, such a problem cannot even be addressed.

6. ARE WE ALL POST-KEYNESIANS?

Let me now come back to the book that has inspired the present essay. My impression is that in the attempt to lend coherence to the richness of this school of thought, too much emphasis is put on elements of convergence between heterodox approaches. At the same time, theoretical contrasts are developed mainly with respect to neoclassical orthodoxy, with no systematic discussion of the influence that neoclassical economics and Keynesian

desirable. In an ultra-liberal conception, unemployment is harmless because, by definition, it is voluntary. For a Kaleckian capitalist it might even be good to the extent that it lowers the cost of labour.

economics have had on each other. Perhaps this is the effect of neoclassical hegemony, which pushes all sorts of heterodoxies to form a common front against its dominance. As in politics, opposing parties search for their unity more in disagreement with the ruling coalition than in the development of a common political programme. The problem is that these strategies rarely work in politics and make no sense in scientific research. Almost half a century after its birth, post-Keynesian economics remains a very appealing approach to economic theory. Yet it seems to still be in search of its identity – theoretically, methodologically and ideologically, alike.

The Sraffian critique of neoclassicism has surely much in common with Keynes' theory. But as we have seen, the *General Theory* was not intended to discard the neoclassical model, but simply to generalise it. In its theoretical development, Sraffianism takes a very different path with respect to post-Keynesianism. The Sraffian model is a closed one. This is the consequence of the scientific question posed, which has to do with distribution and conditions of reproduction of the economy. Money and effective demand are not necessarily incompatible with the model, but it is the study of the real economy and production that is the essence of Sraffian economics. Coherently with the classical political economy, prices (of production) are an essential aspect of the inquiry. The method adopted is that of the long period equilibrium, in which there is no room for radical uncertainty and non-ergodicity, and which does not presuppose any historical conception of capitalism instability. Post-Keynesians, such as Davidson, are sceptical about scientific enquiries developed by Sraffians and, as mentioned above, have tried to characterise post-Keynesian economics in terms of its original conception of time, uncertainty and expectations.

This characterisation suggests that affinities with Austrians might be more solid. However, under the surface deep theoretical differences remain. On a general level, the Austrian vision of the problem of coordination could not be more different from the Keynesian one: self-regulating markets are necessary and sufficient to coordinate economic activities; expectations are studied mainly within the presupposition that they are stabilising; instability is all but an intrinsic condition of capitalism; and even policy issues are far from being developed from a historical perspective (as *laissez faire* is the solution anyway). On a more specific level of analysis, Austrian economics is based on radical subjectivism and methodological individualism and is characterised by a strong anti-empiricism. One problem that emerges is that with these premises Austrians have developed a deep criticism of macroeconomic aggregates, which are at the basis of Keynesian analysis. Second, Austrian individualism is not merely a methodological choice; it reflects an ideological vision and a political position, which form a coherent whole with Austrian economic theory.⁷ Without a deeper characterisation of post-

7. I am not saying that the Austrian theory is coherent, but simply that its ideology, economics and politics are mutually compatible. My criticism of Austrian neoliberalism is developed in Palermo 2004 and Gloria-Palermo and PALERMO 2005.

Keynesian economics, the risk is that the difference between the two schools is reduced to acceptance or rejection of the principle of effective demand. I doubt, however, that modern Austrians would accept such a characterisation. After all, Austrians are more united in their ultra-liberal vision than in their conception of time, uncertainty and expectations.⁸

The question of methodological individualism also regards the relationship with neoclassical economics. As a matter of fact, the Austrian criticism of macroeconomics does not spare its old ally of the marginalist revolution either. In particular, the neoclassical synthesis, in its response to Keynesianism, has deviated from the original individualist programme and has accepted the scientific validity of macroeconomic aggregates. The paradox is that, in their attempt to distance themselves from all neoclassical degenerations of Keynesian economics, Post-Keynesians have seriously downplayed one of the great scientific successes of the Keynesian revolution: the ability to impose its theoretical categories to mainstream economics. As Pilling (1986, ch. 1) notices, «it is not Keynesianism which has made unwarranted concessions to the neoclassical orthodoxy but quite the reverse, the neoclassicists, by embracing the sort of macro-aggregates which Keynesianism implied, have seriously compromised their principles».

If institutionalism and post-Keynesianism appear to be more compatible it is only to the extent that both of them adopt sufficiently general definitions of their research programs, in terms of cumulative causation, systemic vision, institutional factors and historical conception of capitalism. At first sight these formal commonalities might suggest that it is very easy to build bridges between these economic traditions. Without more precise definitions of both institutional economics and post-Keynesian economics, however, these bridges risk being constructed on foundations that are methodologically too weak.

Finally, Keynesianism is associated with the necessity of state intervention. Yet also in this respect, it is not clear to what extent the variegated positions of Post-Keynesians on actual policy issues are theoretically consistent. The entries of the dictionary with a political character, such as *competition*, *globalisation*, *third way*, *Tobin tax*, *transition economies* and *socialism* are sufficient to give evidence of the different positions coexisting within this school of thought. Of course, given the heterogeneity of post-Keynesian economics, one cannot surely expect a unified position on issues that are at the centre

8. Israel Kirzner and Murray Rothbard, two leading exponents of this school of thought, have very different theoretical conceptions: the former has a conception of equilibrium, uncertainty and time that resemble very much the neoclassical one; the latter faithfully follows Ludwig von Mises' praxeological method and develops a conception of uncertainty and time in open polemics with Kirzner. Both of them, however, are united in strenuously defending the free market and *laissez faire*. According to SANDYE GLORIA-PALERMO 1999, Ludwig Lachmann, the most rigorous follower of the founder of the Austrian school, Carl Menger, and one of the few Austrians to develop the case of destabilising expectations, is often considered a dissenter, precisely because his open conception of the economy does not lead to liberal conclusions.

of the political debate at many levels, from political parties to the *no-global* movement. Post-Keynesians are actively involved in these debates and their scientific inquiry is one of the most important academic contributions to the discussion on the principles of another possible world. The problem is that, too often, even within post-Keynesian economics, capitalism is taken as given and neoliberalism is criticised precisely in the name of efficiency and stability, and on the implicit acceptance of neoliberal value judgements.

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