Keynes Was a Keynesian

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The State of Interpretation of Keynes
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A half dozen papers together with formal comments and an introduction have been assembled to help establish the state of interpretation of Keynes. The contributors to this volume are ideologically like-minded but geographically diverse (Australia, Brazil, Canada, Great Britain, Italy, and the United States are represented). Their book, whose title belies a certain narrowness of focus, is not for everyone; it reflects the concerns of one particular Keynesian school, best described, in my judgment, as Post Keynesian fundamentalism.

Academics who continue to be amused and intrigued with the still-growing literature on the economics of John Maynard Keynes have had to learn to distinguish among the several different schools that draw inspiration from the master. Hyphenated or adjectival Keynesianism includes, for instance, both Neo-Keynesianism, which is based on an assumed wage and price stickiness, and New Keynesianism which attempts to explain the stickiness. Neo- and New Keynesianism share certain methodological presuppositions with Neo- and New Classicism but do not share in the judgment that markets are generally self-equilibrating. Interpreters who prefer to blend Keynes's ideas with those of the old classical school, which featured a cost-based production theory, have adopted "post" as their adjective of choice. Readers of this literature have been asked to maintain a distinction between Post Keynesianism and Post-Keynesianism—a distinction as subtle as

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the difference in labeling.[1] But whatever the particular labeling, most interpreters have come to see as virtual opposites *Keynesian Economics and the Economics of Keynes*, as contrasted in the title of Axel Leijonhufvud's 1968 book.

Murray Rothbard used to proclaim gleefully that "Keynes was a Keynesian."[2] He took great pleasure in the irony that by so proclaiming he set himself apart from most all modern interpreters. Keynes favored monetary manipulation and fiscal activism, deficit finance and income redistribution, all for the purpose of spending our way out of depression. When his attention turned from short-run policy to long-run reform, his enthusiasm for these stop-gap measures gave way to his anticipations of a future utopia—and to schemes for ensuring and hastening its arrival. The inherent uncertainty of the future, in his view, gave centralized decision making a clear advantage over the decentralization that characterizes market economies. Keynes advocated the "socialization of investment" and the "euthanasia of the rentier." The rate of interest, which "rewards no genuine sacrifice," could and should be driven to zero, at which point capital would cease to be scarce and the distribution of income would be more equitable. In a matter of two generations, the economic problem of scarcity can be solved, such that our grandchildren can occupy themselves with questions of aesthetics rather than questions of economics.[3] This is the uninterpreted Keynes.

Post Keynesians emphasize Keynes's vision of utopia and the associated reform proposals almost to the exclusion of his diagnosis of depression and prescription of short-run demand-management

[1]Paul Davidson defines the unhyphenated Post Keynesians very broadly and then identifies a classically oriented subset, to which he awards the hyphen. Further, he prefers to call Post-Keynesians Neo-Keynesians, a label I have used for the Keynesian component of the Keynesian-Neoclassical Synthesis found in modern textbooks. See Davidson, "Post Keynesian Economics: Solving the Crisis in Economic Theory" in Daniel Bell and Irving Kristol, eds., *The Crisis in Economic Theory* (New York: Basic Books, 1981), pp. 151–73.

[2]"That Keynes was a Keynesian—of the much derided Keynesian system provided by Hicks, Hansen, Samuelson, and Modigliani—is the only explanation that makes any sense of Keynesian economics." Murray N. Rothbard, "Keynes, the Man" in Mark Skousen, ed., *Dissent on Keynes: A Critical Appraisal of Keynesian Economics* (New York: Praeger Publishers, 1992), p. 196.

[3]Quoted phrases are from John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1936), p. 376–78. For assessments of the utopian Keynes, see Joseph T. Salerno, "The Development of Keynes's Economics: From Marshall to Millennialism," *Review of Austrian Economics* 6, no. 1, (1992): 3–64, and Roger W. Garrison, "Keynesian Splenetics: From Social Philosophy to Macroeconomics," *Critical Review* 6, no. 4 (1993): 471–92.

policies. In fact, standard textbook Keynesianism, whose graphics and equations make the case for monetary and fiscal activism, are repeatedly described in the Davis volume as "bastardized Keynesianism" (Joan Robinson's term) so as to provide an appropriate contrast with the more radical Keynesianism adopted by the volume's contributors. If Post Keynesians did nothing but embrace these utopian aspects of Keynes, they would more accurately be described as Keynesian fundamentalists. But they do more. They add to the chronic demand deficiencies featured in Keynes's *General Theory* the ideas about supply first articulated by the classical economists and subsequently exhumed by Piero Sraffa just before the Keynesian Revolution. Sraffa's *Production of Commodities by Means of Commodities*, written during the 1930s though not published until 1960, is offered as the supply-side counterpart to Keynes's demand-side theorizing. Michael Lawlor's contribution, "The Own-Rates Framework as an Interpretation of the *General Theory*: A Suggestion for Complicating the Keynesian Theory of Money," identifies Sraffa's (ill-tempered) review of Hayek's *Prices and Production* as the foundation underlying this new approach to monetary theory adopted by Keynes. As a duo, however, Sraffa and Keynes give us an unlikely and ill-fitting rendition of supply and demand.

Post Keynesians typically—but not in the volume under review—suggest still more complications: a dual market structure consisting of both competitive and oligopolistic firms, mark-up pricing (practiced by the oligopolists) to finance new investment, and Marxian class conflict. The Davis volume avoids what would otherwise appear to be a hopeless grab bag of ideas by focusing on Keynes—his vision, philosophy, methods, analyses, and tactics. One of the formal comments (Allin Cottrell's) even includes a warning against perceiving Keynes as "a closet post Keynesian, harboring all kinds of heresies but suppressing them for the sake of perceived polemical advantage!" Another comment (Robert Prasch's) questions the idea that Sraffian supply fits well with Keynesian demand. Had Keynes thought it did fit well, why did he not say so? Why did he say, instead (in his often quoted letter to George Bernard Shaw), that "when my book has been duly assimilated and mixed with politics and feelings and passions, . . . the Ricardian foundations of Marxism will be knocked away"? Prasch is persuasive that what Keynes believed would be "knocked away," here, was Sraffa. If the grab-bag features of Post Keynesianism are left undiscussed while the relevance of Sraffa is in some doubt, then the term Post Keynesian fundamentalism seems appropriate. Further, the volume's editor, if not all the contributors, may not be so tightly bound to the "Post," in which case we would be back to the uninterpreted utopian Keynes.

It is one thing to proclaim that Keynes was a Keynesian, (again) as Rothbard so often did; it is quite another to treat Keynes's vision as a relevant or fruitful reflection of economic reality. But *The State of Interpretation of Keynes* will strike the reader as something of a stocktaking; the papers constitute background reports that form the basis for updating the Post Keynesians' research agenda. As explained in the editor's introduction, Keynes's ideas deserve—and now may get—a fresh hearing. The particular occasion for this stocktaking together with the particular focus of several of the papers is both curious and revealing.

There are two circumstances that have combined to put the original Keynes back in the limelight. First, there is the crumbling of bastardized Keynesianism with its graphical apparatus and algebraic expression of government-spending multipliers and tax multipliers and all that. Neoclassical modes of thought have long restricted the thinking of mainstream economists and have made Keynesian economics look very unKeynesian. Recent trends, according to Davis, have been in the direction of flouting the strictures imposed by formal Neoclassicism and exploring a number of issues, including those of power and entrepreneurship. Methodological permissiveness may allow economists to look beyond the formalized income-expenditure relationships and get a fresh view of the *General Theory*. Second, Keynes's ideas seem to Davis to have a certain relevance in Keynes's time and in ours—a relevance that may have been lacking during most of the post World War II period. The decades-long capitalist-communist stalemate separated two periods characterized by political pluralism, relative disorder, and internationally based uncertainties. So the time is right, once again, to focus on the expectations that govern the economic process in the face of uncertainty and to think about the institutional arrangements most conducive to a healthy economy.

Davis finds similarities in the 1930s and the 1990s in terms of global political turbulence. He fails, however, to give due weight to the key difference between these two periods. In the 1930s the world was moving rapidly in the direction of centralization; in the 1990s it is undergoing substantial decentralization. Ironically, the perceived similarities of circumstances then and now cause Davis and several other contributors to this volume to rethink the meaning of Keynes's call for "a somewhat comprehensive socialization of investment."[4] A healthier reading of world history might have caused these scholars to rethink the meaning of Ludwig von Mises's claim of the "impossibility of economic calculation under socialism."[5] In fact, the very concepts that Davis hopes to see back in play, such as the concepts of power and entrepreneurship, help to bolster Mises's case for decentralized decision making.

As with almost every other aspect of Keynes's writing, the phrase "socialization of investment" is in for some interpreting. What did Keynes have in mind? While no one believes that he was thinking of outright state ownership of the means of production, other possible meanings involve further questions that neither Keynes nor his followers have adequately addressed. It is clear in his discussion following the call for socialized investment that Keynes is concerned with the "volume" and not the "direction" of employment. Keynes argues as if the government—or rather, "forces outside the classical scheme of thought"[6]—could control the volume without affecting any other aspect of the market economy. What sort of powers would government have to wield to be able to exert such a force? And how would the quality of entrepreneurial decisions be affected if entrepreneurs had to anticipate the use—and possible misuse—of such powers? There are no answers to these questions that put socialization in a favorable light. The simple fact is that the conceptually distinct aspects of "volume" and "direction" as applied to employment or output are governed by a single set of market forces. Joan Robinson, who recognized the actual unity of these market forces but favored a more wholesale form of socialization, chided Keynes for even wanting to control volume without controlling direction. Direction, in her view, needed some controlling, too.[7]

In an alternative interpretation, one discussed in Hans Jensen's contribution, "forces outside the classical scheme" are not exerted by the state *per se* but rather by semi-public bodies. Keynes seemed to have envisioned large, privately owned firms

[4]Keynes, *General Theory*, p. 378.

[5]Ludwig von Mises, *Human Action: A Treatise on Economics*, 3rd rev. ed. (Chicago: Henry Regnery Company, 1966), p. 698.

[6]Keynes, *General Theory*, p. 378.

[7]Joan Robinson, "What Has Become of the Keynesian Revolution?" in Milo Keynes, ed., *Essays on John Maynard Keynes* (Cambridge: Cambridge University Press, 1975), pp. 123–31.

with public-spirited managers. Readers of Keynes or of the Davis volume can only wonder what kind of power the state needs in order to maintain a public-spiritedness among these managers—and, again, what this kind of power might do to the entrepreneurial spirit among them and others. A discussion by Robert Dimand offers still another interpretation of the socialization of investment. Several years before the *General Theory*, Keynes had proposed a National Investment Board that would give the government some control over the volume of investment. An NIB, though, sounds suspiciously like a peacetime version of the United States' War Industries Board of the World War I era. Rothbard is noted for identifying the WIB as an important precursor of the subsequent New Deal policies that came to be closely identified with so-called bastardized Keynesianism.[8]

The Post Keynesians seem to be seriously concerned about what, exactly, Keynes may have had in mind. Many of the contributors, and especially Davis himself in his discussion of "Keynes's Philosophical Thinking," employ a what-did-he-know-and-when-did-he-know-it strategy in their attempts to sort things out. Davis also warns against a careless mixing of Keynes's philosophy and economics: Ideas are not easily transplanted whole across decades and disciplines. The alternative that none of the contributors considered is the simplest one—though not the most satisfying for those who consider Keynes the fountainhead of economic wisdom: Keynes himself did not know what he meant. Keynes did not know what the appropriate supply-side counterpart to his theory was. He did not think through the implications—or recognize the virtual impossibility—of a zero rate of interest. He did not know how, exactly, a comprehensive socialization of investment could be implemented. Neither, we might add, did the more radical socialists have any clear ideas on the particulars of the economic mechanisms in a socialist state. These and similar answers to many other questions seem to be the most plausible basis for understanding the *General Theory*.

The viability of Keynesian economics, bastardized or otherwise, may be as hotly contested now as it was in Keynes's own time. And the Post Keynesian interpreters, with or without the

[8]Murray N. Rothbard, "War Collectivism of World War I," in Ronald Radosh and Murray N. Rothbard, eds., *A New History of Leviathan: Essays on the Rise of the American Corporate State* (New York: E. P. Dutton, 1972), pp. 66–110.

hyphen, may never discover just what, exactly, Keynes meant. But as interpretations continue to proliferate, this collection of papers provides its readers a close encounter with the original Keynes. The experience may cause them to doubt whether Keynesianism in any of its guises can provide a healthy understanding of economic reality or a suitable guide to prescribing policy or proposing reform.