Keynes’ Partial Revolution: The Roles of Professionalization and Political Legitimation

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1. Introduction

The political and methodological implications of Keynes’ theories have been a subject of great contention. For instance, Joan Robinson writes that both political and methodological conservatism inhibited the acceptance of Keynes’ more unorthodox views, including the role of uncertainty (Robinson 1964, pp.77-82). In contrast, Don Patinkin states that a number of post-Keynesians misinterpreted Keynes’ views so that his theories would coincide with their own methodological and/or political stances (Patinkin 1990, pp. 220-5, 235-7). For instance, Patinkin accuses G.L.S. Shackle of highlighting Keynesian uncertainty because of its compatibility with Shackle’s research program. He also states that Sidney Weintraub’s focus on Keynes’ view of the importance of wages in determining prices was motivated by this concept’s congruency with both Weintraub’s research and political agendas (Patinkin 1990, pp. 235-7). In this paper, the political and methodological implications of Keynes’ theoretical constructs will be shown to be consistent with the argument that acceptance or rejection has been based primarily on methodological considerations, not political ones.

Keynes’ contributions which have been accepted by the mainstream of the profession include the following: (1) the multiplier, (2) the consumption function, (3) savings as a function of income, (4) a justification for the effectiveness of activist fiscal and monetary policies, (5) investment as a function of the marginal efficiency of capital as well as the interest rate, (6) the speculative demand for money, (7) the determination of the interest rate by the supply of and demand for money, (8) unemployment equilibrium in the product market with disequilibrium in the labor market, (9) the depiction of agents as responding to nominal rather than real magnitudes, (10) the focus on aggregates and the short run, and (11) the determination of employment by aggregate demand and productive capacity rather than by labor demand and supply (Keynes 1936; Blaug 1984, p. 371; Blaug 1991, p. 178; Davidson 1984, pp. 563-72; Samuels 1986, pp. 5-6; Peterson 1987, pp. 66-7).

However, only post-Keynesians cite the importance of uncertainty and $p=f(w)$, i.e. the primacy of wages in determining prices when there is sufficient unemployment of resources, as important contributions made by Keynes. Joan Robinson even identifies them as the “two halves” of the Keynesian Revolution (Robinson 1980(b), p. 173). These concepts have been widely rejected despite their empirical validity (Lee 1984, pp. 1111-2; Sylos-Labini 1979, pp. 6-7; see Pernecky 1992 for a depiction of this partial eclipsing of Keynes’ revolution).

Political legitimation and professionalization are two of the most widely-discussed subjective motivations for theory choice. In the broadest usage, any social group could be considered to behave “politically” or “ideologically”, utilizing ideas to reinforce its interests. In this sense, political legitimation could be conflated with professionalization. But political legitimation will be utilized here to refer to the justification of political views to serve the interests of particular economic groups. It thus refers to ideology in the Marxist sense in its location of the specific source of bias. Professionalization will be used to mean the modification, acceptance, or rejection of a theory to satisfy methodological norms (Laudan 1977, pp. 58-63).

Many economists on the Left highlight the importance of political legitimation. They find that belief systems such as economics serve to accommodate the power structure, which in turn depends upon these belief systems (see, for instance, Marx 1977, pp. 174-5, 679; Marx and Engels 1977, pp. 64-8; Samuels 1984, pp. 66-7; Heilbroner 1986, pp. 144-6).

Others believe political factors may not have a significant influence on methodological or theoretical considerations. For instance, Peter Wiles notes

“... economic methods and even theories have a life of their own, independent of reality or even of political prejudice ... After all, how human! All coherent bodies of knowledge are someone’s vested interest; elementary (and undisputed) economic theory tells us that the cheapest way to get
money out of obsolete capital is to protect the market for its product. What has been learned will be taught.” (Wiles 1979-80, p. 168)

Peter Berger and Thomas Luckman state that this methodological conservatism may not be volitional. The mere habitual usage of a methodology grants it an objectified, “invariable” reality. The methodology is legitimated by justifying and integrating prevailing knowledge. What is unfamiliar is considered removed from the reality of scientific undertaking. In return, individuals derive self-identity from understanding and increasing this body of knowledge and by utilizing the conventional methodology (Berger and Luckmann 1966, pp. 5-9, 42-62, 87, 95). Both the orthodox theories and methodology are institutionalized.

Thomas Kuhn notes the incommensurability between theories and methodologies in competing paradigms. Opposing paradigms are not seen as “bad science” but as unscientific (Kuhn 1970, pp. 267-8). Another philosopher of science, Larry Laudan, notes the importance of political issues, but cites the pressure to abide by methodological norms as, “... perhaps the single major source for most of the controversies in the history of science, and for the generation of many of the most acute conceptual problems with which scientists have had to cope” (Laudan 1977, p. 58). The methodological and political implications of both the largely-accepted and widely-rejected ideas of Keynes provide clues to the relative importance of professionalization versus politics in Keynesian macroeconomics.

2. Political Legitimation and the Rejection of \( P = f(W) \) and Uncertainty

The extent of government intervention supported by Keynes has been a subject of great controversy (see, for instance, Galbraith 1987, p. 23; Arestis 1990, pp. 238-44; O’Donnell 1989, pp. 286-324; Lekachman 1985, pp. 32-5; Hutchinson 1981, p. 123.) There tends to be agreement that the policy implications of Keynesian theory include: (1) activist fiscal and, to a lesser extent, monetary policies, (2) government responsibility for much investment, and (3) a progressive income tax (Keynes 1936, pp. 378-9). But how important has political legitimation been to the acceptance or rejection of specific theoretical constructs? The accepted Keynesian contributions could justify anywhere from a relatively small to a very extensive degree of government intervention. Thus, the adopted parts of Keynes’ theories are consistent with the political view that at least some increased government intervention was needed; but ideas that could have politically radical implications have been widely accepted.

The rejected ideas of \( P = f(W) \) and uncertainty have important political implications. First, \( P = f(W) \) means that wage-cutting will be ineffective in reducing unemployment. Nominal wage reductions would have an insufficient effect on the real wage, and would also reduce nominal income (Keynes 1936, pp. 13, 18, 265-6, 257-81). It also implies that wage-cutting can be an effective anti-inflationary tool. This conservative anti-inflationary policy may have been manifested in the opposition by the Reagan and Thatcher governments to unions, for example. Furthermore, \( P = f(W) \) implies that an incomes policy consisting of wage and price controls to deal with wage-push inflation would be effective (Kenyon 1979, p. 44). Although this may seem to be an extreme policy, wage and price controls have been instituted, even by U.S. administrations. On the radical side of the political spectrum, while \( P = f(W) \) has similarities with the labor theory of value, Keynes views on the importance of wages in determining prices differ greatly from this Marxian idea (Robinson 1964, p. 45).

The political implications of uncertainty are no more radical than the widely-adopted theoretical contributions of Keynes. The need for government intervention in the form of activist fiscal and monetary policies, a progressive income tax, and public involvement in investment are all implied by both uncertainty and the accepted constructs. Furthermore, as with the accepted Keynesian ideas, uncertainty requires the government to intervene without implying the extent of intervention. Thus, because both the widely-accepted and generally-rejected ideas of Keynes imply a degree of government intervention that could be advocated by groups across the political spectrum, especially in the mainstream, other motivations for theory choice must have been important.

3. Professionalization and the Rejection of \( P = f(W) \) and Uncertainty

One can look to professionalization for an explanation of why the widely-rejected constructs have been ignored. Acceptance of \( P = f(W) \) would lessen the applicability of marginalist methods. Reduced importance would be given to the use of calculus in modeling price and output determination.

The implications of uncertainty for the prevailing methodology are even more extreme. Uncertainty may have been ignored by most
economists for several reasons. First, mainstream economists believe that agents cannot act rationally in a world of uncertainty. For instance, Robert Lucas states that, "In cases of uncertainty, economic reasoning will be of no value" (Lucas 1981b, pp. 223-4).

For Keynes, majority opinion and recent experience must be relied upon in decision making (Keynes 1936, pp. 213-5; Lawson 1985, pp. 916-7). Thus, economic decisions are still "rational", though not in the neoclassical sense. As Tony Lawson writes, "For Keynes, it seems, economic behavior is rational if, given the knowledge that is available, there are good reasons underlying the adopted behavior" (Lawson 1985, p. 918). But the basis for these expectations can be "precarious" and thus subject to "sudden and violent" change (Keynes 1936, p. 315).

The most important manifestation of behavior under uncertainty is the volatility of investment (Keynes 1936, pp. 147-63). Long-period expectations formed under uncertainty are an example of seemingly irrational behavior which cannot be theoretically modelled. As Alexander and Sheila Dow note, "One is left with the inescapable conclusion that 'animal spirits' have been regarded simply as another slightly embarrassing example of Keynes' purple passages, to be excluded from scientific enquiry" (Dow and Dow 1985, pp. 52-3). Furthermore, Keynes' theory of investment has been misinterpreted by neoclassical economists, and assimilated; the marginal efficiency of capital has been considered to be tantamount to the marginal productivity of capital. Meanwhile, the importance of uncertainty for long-period expectations has been lost (Leroy 1983, p. 347). However, post-Keynesians have developed models of investment behavior which incorporate Keynesian uncertainty.

According to the mainstream view, uncertainty not only destroys rationality but forbids all types of formalism. Mark Blaug states that uncertainty, "... involves the abandonment, not only of equilibrium theorizing, but also of model-building of all kinds ... Once we give full scope to the role of uncertain expectations, we give up the idea of providing any determinate model of how the economy functions at the aggregate level... [T]he destructive emphasis on incalculable uncertainty is undoubtedly one of the themes Keynes had in mind." (Blaug 1978, pp. 682-3)

Physical science methods are seen as being essential in modelling economic activity. If uncertainty excludes mathematics, then it is considered to be an unimportant or even nonexistent characteristic of the economy.

But uncertainty can be formalized using Keynes' approach. Jan Kregel describes how Keynes assumes constant though imperfect long-period expectations about investment, and realized short-period expectations about revenues, to explicate the role of effective demand. Keynes relaxes the assumption of constant long-period expectations to show the impact that the uncertainty which surrounds investment can have on effective demand. He further relaxes the assumption of realized short-period expectations to consider equilibrium positions away from the point of effective demand. He also models shifting long-period expectations which are interdependent with unrealized short-period expectations (Kregel 1976, pp. 211-5). A number of aggregate supply/aggregate demand models which incorporate uncertainty along these lines have been developed by post-Keynesians (E. Roy Weintraub 1979, p. 41; Chick 1983, pp. 82-131; Dutt and Amadeo 1990, pp. 22-31). Problems in formalizing interdependent short and long-period expectations remain, but the ceteris paribus assumption still allows for formal models which demonstrate the importance of significant uncertainty (Dutt 1991-92, pp. 213-7).

Keynes' view of equilibrium pertains to a state in which agents have no motive to change their behavior given the imperfect information they possess (Kregel 1976, p. 221-2). Furthermore, when expectations are depicted as being constant so that equilibrium is achieved, such a state is not viewed by Keynes as a state at which the economy would remain long. As Alan Cuddington notes, Keynes' use of the equilibrium state is not traditional.

"What is important is to see that, just as one does not expect to quell a riot by taking a photograph of it, neither did Keynes' makeshift use of the equilibrium concept involve the expectation that he could freeze the economy in a particular state."

(Cuddington 1976, p. 1270)

G. L. S. Shackle writes,

"At each curtain rise the General Theory shows us, not the dramatic moment of inevitable action, but a tableau of posed figures. It is only after the curtain has descended again that we hear the clatter of violent scene-shifting." (Shackle 1967, p. 182)

Thus, although shifts in exogenous variables would be frequent, a notion of equilibrium can still be useful in formal models which incorporate uncertainty. Equilibrium values can also represent...
points toward which the economy tends - although it may not achieve these equilibrium values (Dutt and Amadeo 1990, p. 120). Hence, the use of rationality and equilibrium under significant uncertainty would seriously alter economic modeling, but formalization is possible.

The theoretical usage of uncertainty also implies a fundamentally new methodology. This implication is evident in Keynes' methodological statements as well as in his practiced method. For instance, consistent with Keynes' use of equilibrium described above, he states that,

"The object of our analysis is not to provide ourselves with a machine, or a method of blind manipulation, which will furnish an infallible answer, but to provide ourselves with an organised and orderly method of thinking out particular problems; and, after we have reached a provisional conclusion by isolating the complicating factors one by one, we then have to go back on ourselves and allow, as well as we can, for the probable interactions of the factors amongst themselves." (Keynes 1936, p. 297)

And elsewhere he writes,

"The object of a model is to segregate the semi-permanent or relatively constant factors from those which are transitory or fluctuating so as to develop a logical way of thinking about the latter, and of understanding the time sequences to which they give rise in particular cases." (Keynes 1984, p. 301)

Keynes treats these "relatively constant factors" as exogenous within a particular historical and social setting (Littleboy and Mehta 1985, p. 66). For instance, during his analysis of the propensity to consume, he holds constant,

"... those psychological characteristics of human nature and those social practices and institutions which though not unalterable, are unlikely to undergo a material change over a short period of time except in abnormal or revolutionary circumstances." (Lawson 1985, p. 924)

Uncertainty also elevates the importance of qualitative variables, such as the psychological factors surrounding investment decisions noted earlier. Consistent with his view that a mathematical probability distribution should not be imposed on agents in a model, Keynes feels that most important economic variables are not quantifiable (O'Donnell 1990, p. 34). He is not hostile toward deductive reasoning and the use of mathematics (Pheby 1985, p. 100). But his use of formalism in the General Theory is minimal; mathematics, when used, is only for clarification (Klant 1985, pp. 81-2). Keynes believes that a heavy reliance on mathematics would make the economist lose sight of the ultimate objective of explaining reality (Keynes 1936, p. 290; O'Donnell 1990, p. 40).

The use of uncertainty arises out of the more realistic conception of the economy in historical rather than logical time (Robinson 1980(a), p. 48). It reflects the primary concern for explanation; it is induced from the actual economic environment and provides an example of Keynes' stress on generalization from experience as opposed to logic. This concern is exemplified in Keynes' extensive use of data in the General Theory. (Klant, 1985, pp. 81-2; Jensen 1988, p. 30).

This regard for realism in theories provides the basis for Keynes' rejection of classical economics. "[T]he characteristics of the special case assumed by the classical theory happen not to be those of the economicsociety in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience". (Keynes 1936, p. 3)

And elsewhere in the General Theory,

"Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world." (Keynes 1936, p. 378)

Hence, this methodology is related to the emphasis on models which would offer policy solutions to real world problems. Post-Keynesians highlight this relationship between methodology and policy. Philip Arestis notes,

"Economic policies of the post-Keynesian type are predicated upon concrete situations where historical experiences and sociological characteristics are of immense importance. In this sense, post-Keynesian economics is viewed as a school of thought that emphasizes realism." (Arestis 1990, p. 224; also see Lawson 1988, pp. 60-1)

Joan Robinson and Francis Cripps write,

"Empirical economics should not be antitheoretical. But it should make theory an end product, a set of working generalizations which further research may show to be misconceived in important respects and which may in any case become
irrelevant as problems and social institutions change. Such an approach is a natural development of the work of Keynes, who was ready to be proved wrong by events or new facts because he wanted to use economics to find solutions to real-life problems.” (Robinson and Cripps 1979, p. 143)

Keynes’ theoretical contribution of uncertainty necessitates a radical methodological departure from the mainstream. This methodological status quo espouses instrumentalism. It focuses on prediction and disregards the importance of explanation. It allows for violently unrealistic assumptions and highly abstract models (Caldwell 1982, p. 52; Eichner 1985b, pp. 7, 230-2). When mainstream theoretical modeling is combined with a lack of falsification, economics becomes rationalistic; it is more akin to a branch of mathematics than a science (Rosenberg 1983, p. 31; Arough 1987, pp. 414-5).

Thus, although most economists profess both their ability and desire to separate the normative elements from the positive, a large degree of subjectivity in theory and paradigm choice has existed (Tarascio and Caldwell 1979, pp. 983-98). The rejected portions of Keynes’ theory, as well as their methodological implications, have seemed incomprehensible and unscientific to the orthodoxy; their essential meaning has been widely ignored, and they have been misinterpreted (Perwecky 1992, pp. 126-131; Robinson 1964, pp. 77-84).

Thus, the substitution of Keynes’ methodology for the prevailing one would be dramatic. Such a change would, of course, antiques many highly formal methods and theories. Paul Davidson believes that the Keynesian revolution was immediately aborted, and that it was ended due to methodological reasons: specifically, its lack of technical sophistication (Davidson 1984, p. 562). New rigorous models and methods could be introduced, but the actual relationships, which to a degree must be somewhat abstract, would be empirically grounded. Second, this methodological shift would require economists to learn a great deal about the history and institutions in their fields (Lawson 1985, p. 925). Keynes posits a model of what a good economist would be.

“The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy or pure science? An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher - in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man’s nature or his institutions must lie entirely outside his regard. He must be purposeful and interested in a simultaneous mood, as aloof and incorporeal as an artist, yet sometimes as near the earth as a politician.” (Keynes 1972, pp. 173-4)

Third, this new methodology would alter the types of barriers to entry into the profession (Eichner 1985b, p. 232; Coats 1986, pp. 113-4; Grubel and Boland 1986, pp. 435, 438; Samuels 1986, pp. 73). Fourth, while somewhat reducing the prestige of the profession offered by the application of certain physical science methods, greater prestige might be gained by an increase in relevancy. This increased relevancy would result from the great ability of realistic models to offer explanations and policy prescriptions (Pheby 1985, pp. 111-2; Ares 1990, p. 225). Greater realism in models would make the goal of prediction more attainable, as we Of course, such a methodological substitution would destroy the present system of incentives (Pheby 1985, pp. 111-2). The methodology associated with \( p = f(w) \) and uncertainty would require methodological revolution.

4. Conclusions

The argument that the methodological, not the political characteristics of Keynes’ theoretical constructs have been the primary motivation for partial eclipse of his revolution is consistent with the methodological and political implications of his ideas. The generally-accepted ideas could justify relatively small or large amount of government intervention. Uncertainty and the idea of \( p = f(w) \) have been rejected, but their political implications are, for the most part, no more radical than those which have been accepted by mainstream macroeconomists. Rather, these two reject contributions necessitate a radical change in the methodological status quo.

Such a methodological shift would be positive. Fortunately, increasing attention has been paid to methodological issues in economics. Still, we suspect a political crisis is needed to change 1
prevailing methodology (Dow 1981, p. 338). On the other hand, even the Great Depression could not force a methodological revolution. Keynes seems to have portended destructive stagnation, not only in the "unfettered" economy, but in the fettered study of economics as well, when he writes, "We have changed, by insensible degrees, our philosophy of economic life, our notions of what is reasonable and what is tolerable; and we have done this without changing our technique or our copybook maxims. Hence our tears and troubles." (Keynes 1973, p. 306).

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Notes

1. Laudan also identifies how theories constrain the methodology. See Laudan, 1984, p. 62. Laudan's "axiological" goals, such as formalism, will be conflated with methodological norms, as is standard in the economic methodology literature (Laudan 1984, pp. 24-6).1.

2. The institution of money and liquidity preference are other important manifestations of uncertainty. Money provides a store of wealth: a risk-free asset which people hold out of uncertainty over future asset prices. Keynes, "The General Theory of Employment," p. 216. Furthermore, money allows people to put off spending until they have more information, as well. (Shackle 1972, p. 200). Money also offers a unit of account for future payments in contracts (Davidson 1972, pp. 11-7; Moore 1979, pp. 123-4).

3. For instance, Alfred Eichner posits a theory in which cost-plus pricing is the satisficing rule used to generate internal financing for investment (Eichner 1983(a), pp. 28-74).

4. It is interesting to contrast these statements with those of mainstream economists, as typified by the following quote by new classical economist, Robert Lucas. "One of the functions of theoretical economics is to provide fully articulated, artificial economic systems that can serve as laboratories ... [O]n the general view of the nature of economic theory then, a 'theory' is not a collection of assertions about the behavior of the actual economy but rather an explicit set of instructions for building a parallel or analogue system - a mechanical imitation economy." (Lucas 1981a, p. 271)

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