

On Post Keynesian Economics and the Economics of Keynes: comment on Roger Backhouse¹

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Professor Roger Backhouse has given us a crisp and challenging historical reconstruction of Post Keynesian economics in its relation to Keynes' original contribution. The gist of his message is that Post Keynesian economics is basically misconceived in its claim to John Maynard Keynes's exclusive legacy, that Keynes' attitude to economic theory was much more tolerant and eclectic than it is often assumed (particularly in Post Keynesian circles), and that avoidance of dogmatism can serve as basic interpretive device in assessing Keynes' overall relationship to his interpreters. Roger Backhouse's paper concludes with a plea for what he calls 'a richer Keynesian economics' (p.19), which he describes as an attempt not 'to be faithful to the theoretical framework of the *General Theory*' but as to develop 'the central intuitions about capitalist economies that Keynes was trying to capture with his theory' (p. 19).

In my comment I will ask the following questions: (i) which view of historical reconstruction is followed in Roger Backhouse's account (history of economic thought *or* history of economic analysis?); (ii) to what extent Roger's interpretation of Keynes and Post Keynesian economics is linked to his view of historical reconstruction; (iii) to what extent a different take on the historiography of economic ideas may lead to a different interpretation of Keynes' heritage and of the relative position of the Post Keynesian view relative to the 'neoclassical synthesis' and the approaches followed by the 'New Keynesians'.

¹ This comment is written for the Keynes Seminar in Robinson College, Cambridge, on 24 May 2011

Post Keynesian economics between history of economic thought and history of economic analysis

There is a well known distinction, going back to Joseph Alois Schumpeter (Schumpeter, 1954), between two different approaches to the history of economic ideas, and each has given rise to a different sub-field, or even sub-discipline: *history of economic thought* and *history of economic analysis*². The former is associated with a focus of interest on the content of economic theories rather their formal structure, the relationship between economic thinking and its historical context, and the relationship between economic ideas and the intellectual influences acting on them. The latter is primarily concerned with the internal history of the discipline, the axiomatic structure of theory and its development in uni-linear (or multi-linear) fashion from less to more sophisticated formulations. The two approaches may lead to radically different views of scientific revolutions in economics. *History of economic thought* tends to see theory 'in context' so that multiple and not always mutually compatible influences come into play. In this case, and somehow paradoxically, a fundamental continuity of developments is often assumed and ruptures come to be seen as a consequence of external history rather than as a result of internal dynamics. On the other hand, *history of economic analysis* tends to recognize continuities *within* any given research line but discontinuities *across* different research lines and intellectual traditions. In other words, the relative autonomy of the discipline is acknowledged and ruptures (scientific revolutions) are seen as emerging from switches taking the discipline from one research line to another. In view of the above distinction, Roger's take on Post Keynesian Economics and the interpretations of Keynes seems to be closer to the approach of the history of economic thought (as described above) in its careful avoidance of what we may call 'theoretical

² The distinction is discussed by Schumpeter in his *History of Economic Analysis* (Schumpeter, 1954). There he describes the history of economic analysis as 'the history of the intellectual efforts that men have made in order to *understand* economic phenomena or, which comes to the same thing, the history of the analytic or scientific aspects of economic thought' (Schumpeter, 1954, p. 3). In his *History* Schumpeter also argued that 'analytical effort is of necessity preceded by a preanalytic cognitive act that supplies the raw material for the analytic effort' (Schumpeter, 1954, p. 41).

reductionism' and in its emphasis on the possibility of a 'textually grounded' plurality of interpretations. As such, Roger Backhouse's call for a 'richer Keynesian economics' is primarily a call for an approach to the history of economic thought in which 'the concept of legitimacy and illegitimacy' of any given interpretation should for most purposes be discarded (p. 19). The heuristics associated with this point of view is stated as follows: 'In thinking about Keynesian economics, the issue is not whether [the interpreters] are being faithful to the theoretical framework of *The General Theory*, for by this criterion Keynes himself was ceasing, by the admission he made to Robinson, to be a Keynesian. The real issue is whether they are developing the central intuitions about capitalist economies that Keynes was trying to capture with his theory' (p.19). Plurality of interpretations is almost a constitutive aspect of an approach to the history of economic thought that assigns primary importance to what Schumpeter calls 'pre-analytical vision', that is, to the general conceptual framework underlying the formulation of more specific theories and analytical tools. Roger Backhouse seems to privilege this point of view in his reconstruction of the relationship between Post Keynesian economics and the economics of Keynes. The issue here is not coherence between Keynes's analytical framework and Post Keynesian economics, since according to Backhouse the economics of Keynes *was not fixed to any precise identification of 'theory'*: 'He [Keynes] was dogmatic in his assertion that economic theory must recognize the fact of mass unemployment, and the inherent instability of capitalism, but that was not enough to define a theory. Bloomsbury 18). In other words, Keynes's *General Theory* and his subsequent contributions to economic theory show a unifying vision of capitalism and its prospect but cannot be taken as a coherent exposition of a unified set of theoretical principles. This point of view has the remarkable consequence that manifold and seemingly contrasting interpretations of Keynes's work are worth considering. It is argued that the Cambridge Post-Keynesians, John Hicks and the proponents of the neo-classical synthesis, and the "New Keynesians" are right in their different ways of developing Keynes's work along a plurality of directions. Arguably, 'intuition' concerning the broad picture of a dynamic capitalist economy is almost always dependent on notions of inherent instability and the latter is considered to be compatible with a variety of theoretical formulations of core theory. What is most

remarkable in Roger Backhouse's reconstruction is that *lack of theory* rather than theory is considered to be fundamental to Keynes's view . Theoretical eclecticism is the hallmark of Keynes's approach, and variety of analytical formulations is at the root of Roger Backhouse's argument. More generally, *insofar as no single coherent theory is to be found in The General Theory, contrasting analytical formulations are thought to be acceptable*. To sum up, the unifying criterion behind 'the economics of Keynes' is to be found in Keynes's *pre-analytical vision* of the capitalist economy (see above), and in the policy principles associated with that vision.

Progress, anti-progress and the 'limits' of theory

We may ask whether a different approach to the history of economic ideas as a discipline or sub-field might lead to a different interpretation of the relationship of Post Keynesian economics to the economics of Keynes. In this connection, the specific heuristics of the history of economic analysis, as defined by Schumpeter and others, might serve some useful purpose. For what Schumpeter was primarily concerned with was the possibility of disentangling from within the complex traditions of economic thinking some guiding principles that could be used as *organizing criteria* in identifying the route(s) taken by the formation and evolution of theories. In other words, Schumpeter was calling attention to the specific *analytical element* in the development of theory: he thought that economic reasoning, however imperfectly expressed, has a kind of internal cogency that makes it possible to reconstruct it in terms of propositions formally derived from one another even if the actual context of discovery of those propositions might have been entirely unlike. There are different ways of approaching the history of economic analysis so defined. One approach is to take a broad Whig conception of the evolution of economic ideas and to look at economics in terms of a 'progressive science' . As Christopher Bliss argues: 'a science, defined rather broadly, has an inherent progressive tendency, and ...economics satisfies the conditions required of a science in this sense. It does not follow from the argument that science in general, or economics in particular, cannot go through periods of stagnation, during which there is a slow rate of progress, or

none at all' (see Bliss, 1986, p. 368). Another approach is to see economics as a discipline likely to undergo changes of directions that are not clearly identifiable progresses in the conventional sense. As John Hicks wrote: 'when we look at the history of economics, we find that it does not fit into the scientific pattern... Economics ... is prone to revolutions; but they are mostly, I believe, of a different character. They do not fit into the patterns which has just been described. They are not clear advances in the scientific sense' (Hicks, 1975, pp. 319-20). In particular, Hicks argues that, in the case of economics, 'there is, there can be, no economic theory which will do for us everything we want all the time' (Hicks, 1975, p. 320). As a result, a 'revolution in economics' is likely to be a change in the concentration of attention that might illuminate the right things at the right time without necessarily implied that previous conceptual frameworks have become obsolete and should be discarded for good. (see also Hutchison, 1978, p. 287). Last but not least it is possible to argue that the *both* 'progress' and 'anti-progress' (to use Bliss's words) can be recognized in the evolution of economics, insofar as one can identify *both* cumulative improvement along any given line of research *and* switches of emphasis from one set of thematic concepts and hypotheses when economists are moving to different lines of research. What is central in the latter interpretation is whether those research lines (or, more generally, intellectual traditions) have at least a moderate degree of persistence or not. If there is indeed some persistence over relevant time periods, it may be useful to ask whether that resilience points to the existence of *fundamental structural characteristics* of the economic system under investigation (that is, to characteristics that are likely to persist as the economy moves from one set of historical conditions to another; see, in this connection, Quadrio Curzio and Scazzieri, 1986, pp. 377-81; Baranzini and Scazzieri, 1986, pp.1-5 and pp. 65-68). John Hicks and Luigi Pasinetti (among other economists) call attention to the co-existence in economics of two fundamentally different sets of premises, which they associate respectively with the exchange and production research lines (respectively called by Hicks 'Catallactics' and 'Political Economy'; see Hicks, 1975; Pasinetti, 1965, 2007). Neither economist argues for the absolute prevalence of one research line over the other, even if Hicks is more explicit about the fact that *both* intellectual traditions have merits *as long as they bring their respective 'limits' to awareness*, that is, as long

as economists are aware that 'a theory which illumines the right things at one time may illumine the wrong things at another' (Hicks, 1975, p. 320). I shall argue below that the point of view of the history of economic analysis is of immediate relevance in the interpretation and assessment of the Keynesian 'revolution' and of the different intellectual strands making up the Keynesian heritage.

The Keynesian 'revolution' and the Keynesian heritage: where do we stand now?

Different approaches to the history of economic ideas have different implications as to the interpretation of the Keynesian 'revolution' and of its heritage. The *history of economic thought perspective* calls attention to the role of Keynes's 'pre-analytical' vision and the policy implications of that vision. This point of view is prominent in Roger Backhouse's paper and ultimately motivates his statement that the worth of Keynes's economics is to be found in his vision of capitalism, in his identification of an effective heuristics for the diagnosis of economic problems under historically specific conditions, and in his pursuit of a policy framework aimed at the preservation of liberal values under the circumstances that the crisis of the capitalist economy in his time had brought about. What that point of view *does not* emphasize is the existence of a precise relationship (if there is one) between Keynes's vision and the specific analytical tools Keynes used in order to support that vision and persuade economists and policy makers. The *history of economic analysis perspective* calls attention to the existence of research lines developed through a cumulative, and sometimes multi-lineal, process within economic theory and giving rise to different combinations depending on the historical context. The latter point of view highlights the manifold *theoretical influences* at work in Keynes's contributions and may contribute to interpreting the seemingly opposite routes taken by economists broadly sympathetic to his vision of capitalism. Keynes' s formation as an economist shows a considerable eclecticism insofar as the Marshallian character of his environment blends with intellectual influences from other disciplines (such as philosophy, mathematics, logic and history) and with important influences *from within the discipline* that are to a large extent independent of Marshall's contribution. One important case in point is the attention Keynes paid to the structural theory of the business cycle, particularly in the formulation given to it by D.H. Robertson in

Banking Policy and the Price Level (Robertson, 1926) on foundations laid by Robertson himself many years before in *Study of Industrial Fluctuation* (Robertson, 1915). It is noteworthy that the analytical structure of Keynes's *Treatise on Money* is built precisely on Robertson's distinction between consumption goods and investment goods and on the *sequential causal linkages associated with that distinction*. Another (and closely related) instance is provided by Keynes's attention for the *structure of interest rates in a production economy* and for the implications of that structure for what concerns Wicksell's relationship between natural and monetary rates of interest (Keynes, *General Theory*, Chapter XVII). Last but not least, Keynes's philosophical criticism of what he called the hypothesis of 'atomic uniformity' of natural laws ('a change of the total state being compounded of a number of separate changes each of which is solely due to a separate portion of the preceding state', *A Treatise of Probability*, p. 276-7) makes him critical of the utilization of the atomic hypothesis in economic theory and brings him close to certain formulations of classical political economy (as Keynes writes in the preface to the French edition of the *General Theory*: 'I have called my theory a *general* theory. I mean by this that I am chiefly concerned with the behaviour of the economic system as a whole - with aggregate incomes, aggregate profits, aggregate output, aggregate employment, aggregate investment, aggregate saving... And I argue that important mistakes have been made through extending to the system as a whole conclusions which have been correctly arrived at in respect of a part of it taken in isolation', Keynes (1939, 1973), p. xxxii).

The complex web of theoretical influences at work behind Keynes' economics goes hand in hand with his open-ended attitude with respect to the specific formulations of his work, an attitude clearly expressed in the passage of his 1937 article for *The Quarterly Journal of Economics* quoted by Roger Backhouse³:

'I am more attached to the comparatively simple fundamental ideas which underlie my theory than to the particular forms in which I have embodied them, and I have no desire that the latter should be crystallized at the present stage of the debate. If the

³ It is noteworthy that Keynes wrote this passage as a response to four contributions addressing the content and methodology of *The General Theory* (respectively from Wassily Leontief, Dennis Holme Robertson, Frank Taussig, and Jacob Viner), which had appeared in the November 1936 issue of *QJE*.

simple basic ideas can become familiar and acceptable, time and experience and the collaboration of a number of minds will discover the best way of expressing them'

(Keynes, 'The General Theory of Employment', *The Quarterly Journal of Economics*, 1937, CW, vol.XIV, pp. 111-12, as quoted on p. 13 of Backhouse's paper).

However, Keynes' s eclecticism and pragmatically oriented view may not be the only explanation for the subsequent developments of Post Keynesian economics and the other strands of literature which he inspired. For Keynes's work is rooted in a *plurality* of theoretical and philosophical traditions. It is not surprising that the differences between those traditions came to surface after a while and for a long time seemed to be the characterizing feature of Keynesian economics. It remains to be seen whether the urge of a new impulse from theory to policy could trigger a 'richer Keynesian economics' not only effective with regard to practice but also capable of producing a yet unattained and fully general set of theoretical principles.

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