

Note on Keynesianism

by Ekkehart Schlicht

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Diskussion

Note on Keynesianism*

by

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In a most illuminating paper, CODDINGTON [1976] has drawn a very apt distinction between three varieties of Keynesianism: the fundamentalist, the hydraulic, and the reconstituted reductionist approaches. His conclusion, however, that each of these approaches has its own merits, seems to me to be much too appeasing, and this might blur some important issues.

In the authoritative article "The General Theory of Employment", Keynes points out two (rather than one) major differences between orthodox theory and the thinking of his own: Firstly, the treatment of uncertainty (discussed by Coddington), and secondly, the "need for a theory of the supply and demand of output as a whole" as different from a theory of microeconomic supply and demand¹. Keynes has stressed consistently that aggregate relationships will be qualitatively different from the corresponding microeconomic relationships since the relevant *ceteris paribus* assumptions which hold true with respect to microeconomic phenomena cease to be valid on the aggregate level².

In this sense, Keynes is an "anti-reductionist", but in this sense only, he is not a holist. He does not maintain that aggregate relationships cannot be deduced from microeconomic relationships, quite on the contrary: he takes great pains to demonstrate how the macroeconomic phenomena are related to microeconomic relationships. It can be shown that Keynes' view of the aggregation problem is the same as the one proposed by May later on³. In particular, he views macroeconomic relationships as requiring subequilibria within the aggregates⁴.

* The reader is kindly requested to pardon the somewhat apodictic character of the following remarks which are intended to state a point of view on Keynes' "General Theory" while leaving the burden of the evidence to the references given in the footnotes rather than furnishing proof in detail. A more convincing statement of arguments would certainly require a consideration of Keynes' theory in its particular contents – a venture which is far beyond the present compass.

¹ KEYNES [1973], Part II, p. 119, 123.

² KEYNES [1936], p. 293 f., 259, 178 f.; KEYNES [1973] Part I, p. 538, 541, 550 f., 559; see also the first ideas from which the General Theory sprang: KEYNES [1973] Part I, p. 408–411.

³ SCHLICHT [1977], Ch. 2 and Appendix A; MAY [1947], p. 58–63.

⁴ KEYNES [1973] Part I, p. 281 f., 43 n., 90 f., 96, 45; KEYNES [1936], p. 270 ff.

From this it can be seen that it is wrong to interpret Keynes in disequilibrium terms: He is an equilibrium theorist⁵. Neither is it in conformity with Keynes' writings to transfer the argument of aggregate demand and supply from the aggregate to the microeconomic level since this neglects the qualitative difference between macroeconomic and microeconomic laws which Keynes explicitly tries to capture by these notions. With regard to both features, the reconstituted reductionism of Clower and Leijonhufvud seems to be contrary, rather than supplementary, to Keynes.

Although Keynes is an anti-reductionist (in the sense explained above) he is not a fundamentalist in the sense of disregarding the aggregation problem and ignoring structural changes⁶. The contradictions between the fundamentalists and Keynes which Coddington mentions, are not the contradictions of Keynes⁷.

With regard to hydraulic Keynesianism, Keynes has rejected the hypothesis of stable macroeconomic relationships – this has been, in fact, the main reason for his critique of econometrics in the Keynes-Tinbergen debate and elsewhere⁸. As it seems to me, his reasons have been twofold: Firstly, his view of the rôle of uncertainty which has been described by Shackle congenially; and secondly, his view that macroeconomic relationships are subject to microeconomic circumstance and are context-dependent (i.e. any particular change will affect, in general, not only all the variables but also all the functions in the macroeconomic system)⁹. In addition, he has commented on a similar characterisation as the one attributed by Coddington to the hydraulics (that aggregate relationships “are independent of relative prices and the composition of demand and output”) by giving some references to the General Theory purporting the opposite, and by complaining to Pigou: “what on the earth is one to do? One feels rather fool writing repeated rejoinders to these papers.”¹⁰

In conclusion, and avoiding further detail, it seems that the fundamentalists and the hydraulicists have stressed two different aspects of Keynes thinking largely correctly but overstressed certain aspects which gave rise to the contradictions between these views. Keynes himself avoided these contradictions by his more flexible and perhaps more subject-oriented way of thinking.

⁵ BLISS [1975], p. 204, 210.

⁶ KEYNES [1936], p. 43 n., 90 f., 96, 45, 281 f.; KEYNES [1973] Part II, p. 270–277.

⁷ CODDINGTON [1976], p. 1262.

⁸ see KEYNES [1936], p. 285 f., 289–294, 298–303, 306–321, 332; KEYNES [1973] Part I, p. 44, 297 f. As SHACKLE [1973], p. 518 puts it: “The curves, in Keynes' exposition, did not have to be quite stable. They could shift bodily in position, they could be deformed, but they must *exist*.” See also SCHLICHT [1977], Appendix B. It is remarkable that the issue has been touched neither by THEIL [1963] nor by PATINKIN [1976] in their evaluation of the Keynes-Tinbergen debate although Keynes considered this as his “point against Tinbergen” (KEYNES [1936], p. 299).

⁹ KEYNES [1936], p. 43 n., 247, 297; KEYNES [1973] Part II, p. 300, 309; SCHLICHT [1977], p. 104, 70–76.

¹⁰ CODDINGTON [1976], p. 1271; KEYNES [1973] Part II, p. 268–277, quotation p. 272.

Furthermore, Keynes has integrated microeconomic considerations into his thinking to a considerable extent, but it is to be doubted that the reconstituted reductionism discussed by Coddington can be considered as an adequate elaboration here. I think that Keynes has been right to hold that the microfoundations of macroeconomics have to be spelled out in equilibrium (or sub-equilibrium) terms – else we will not be able to reduce a high-dimensional system to lower dimensions. Note that the very notion of price is – according to Jevons' law – an equilibrium concept already! It seems that d'Alembert's principle has to be applied not only in physics but in economics, too¹¹.

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¹¹ SCHLICHT [1977], p. 63. The principle of d'Alembert states that any state can be viewed as an equilibrium state by introducing suitable forces.

Schlicht's "Note on Keynesianism": Rejoinder

by

Alan Coddington

London

Professor Schlicht is prepared to accept the categories that I use to distinguish three varieties of Keynesian economics (Fundamentalist, Hydraulic and Reconstituted Reductionist); his criticisms concern my treatment of the relationships between these varieties. His criticisms, however, concern these relationships within Keynes' own thought rather than, as in my article, within the general literature of Keynesian economics. My article was not concerned with what Keynes put into the *General Theory*, but with what the economics profession has got out of it. Naturally, Keynes' own thought is not irrelevant to such a concern, but its relevance is as a point of departure or source of inspiration rather than as the object of inquiry itself.

As I understand Schlicht's comment, he makes the following claims:

(i) that Keynes' concern with theory at the level of aggregation of output as a whole makes him an "anti-reductionist"; this claim is very guardedly made and it is conceded that Keynes was in fact a reductionist of sorts;

(ii) that Keynes was an equilibrium theorist, and that therefore the Clower-Leijonhufvud interpretation of Keynes is wrong; the grounds for this claim are not, however, clear to me, beyond the fact that it has something to do with aggregation;

(iii) that Keynes was not a fundamentalist, and that the conflict I discern between fundamentalism and other varieties of Keynesianism was not a problem for Keynes himself. Here we arrive at a genuine disagreement between Professor Schlicht and myself. For although I do not wish to claim that Keynes was *consistently* a fundamentalist, I do maintain that the fundamentalist strand in his thought is seriously at odds with other strands that I identify;

(iv) that Keynes was not a hydraulicist; his grounds for this are those made familiar to us by Professor Shackle, centring on questions of uncertainty.

Schlicht's conclusion is, in part, that Keynes did have some "microfoundations", although they could not be of the Clower-Leijonhufvud type ("reconstituted reductionism"), since they require an equilibrium construction. With this I have no quarrel. The other part of his conclusion is both more important for my own discussion and more opaque to me. As I understand it, Schlicht appears to be claiming that Keynes managed to hold together a theoretical system containing both fundamentalist and hydraulicist elements. While I agree that one can find both fundamentalist and hydraulicist elements within Keynes' works, it is a mistake to claim the Keynes ever succeeded in reconciling these elements with one another. Schlicht gives us no indication of *how* he