Introduction

Sheila C. Dow and John Hillard

The first Keynes, Knowledge and Uncertainty conference was held in Leeds in 1993 under the aegis of the Post Keynesian Economics Study Group. The purpose of that conference was to gather together a distinguished international collection of authors to build on the impressive foundation of Keynes scholarship which had built up over the previous ten years. Not all were themselves Keynes scholars – some brought new insights from new developments in the philosophy of the physical sciences, and from post-modernism and rhetoric studies. The aim was to provide a forum for an exchange of ideas along the lines of taking forward the insights of Keynes, which were now better understood, in the development of methodology, theory and policy for the 1990s and beyond. The proceedings of this conference were published by Edward Elgar in 1995, under the title of *Keynes, Knowledge and Uncertainty*.

The second Keynes, Knowledge and Uncertainty conference took place in Leeds in 1996, again under the aegis of the Post Keynesian Economics Study Group. Its aim was to build on the work of the first conference, taking ideas forward still. This theme is encapsulated in the title for the conference volumes, *Beyond Keynes*. The majority of chapters in the *Keynes, Knowledge and Uncertainty* volume had focused on the methodological implications of Keynes's philosophy, spelling out in particular the implications of adopting a non-dualistic, open-system mode of theorizing. But two chapters in particular (by Skidelsky and Fitzgibbons) reminded us of the ultimate goal, which is to provide useful policy advice. In the present volumes, the emphasis has shifted on from methodology. While some chapters still focus on methodology, they are tied into wider discussions in other chapters about developments in theory, empirical work and policy questions.

Post Keynesian economics is most developed at the macroeconomic level, yet the orthodox agenda has brought to the fore a concern with understanding macroeconomic outcomes in terms of individual behaviour. The theoretical chapters in both volumes deal, in one way or another, with microfoundations. In the first volume, the theoretical chapters focus on specifying the form that microeconomics should take when account is taken of the knowledge requirements of firms in a competitive environment

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and the requirements for markets to function. The motivation is realist, in the sense that the microeconomics incorporates those features of behaviour and convention without which markets could not function. This is the parallel, within the theory of the firm, of Post Keynesian macroeconomics, which emphasizes money on the grounds that capitalist economies could not function without it.

Uncertain knowledge raises particular methodological questions about the nature and role of econometrics. All address the role for, and scope of, econometrics, which is controversial from a realist perspective. There is a consensus that econometrics is a useful descriptive tool for identifying stylized facts on which theory may focus (more than a tool for discriminating between theories). But differences of opinion are evident on the relative merits of particular approaches to econometrics, and the extent of its usefulness.

The theoretical chapters in the second volume focus on the relationship between the microeconomic and macroeconomic levels. Again the motivation is realist. Some of the chapters carry forward the analysis of uncertainty and its implications for individual behaviour as it underpins macroeconomic behaviour, building on Keynes's philosophy. Other chapters extend the application further by applying Post Keynesian theory to policy questions, notably in the international arena.

Volume II starts from the ground established in Volume I concerning decision making under uncertainty. The first group of chapters addresses the microfoundations of macroeconomics. *Athol Fitzgibbons* opens by contrasting the rationality/irrationality dual of Walrasian macro models with perfect foresight, on the one hand, with the rational intent under uncertainty of Keynesian economics, on the other. The former entails precise relationships between variables, but the latter addresses the prior question of the judgment required of decision makers in choosing a suitable model for prediction; this judgment is intertwined with value judgments. *Piero Mini* continues this theme, contrasting Keynes's whole man with rationalist man. He too considers Keynes's macroeconomics in terms of microfoundations. Mini argues that Keynes's inability to engage with imperfect competition theory is evidence of his different cast of mind in his value theory; rather than relying on rationality and full knowledge, Keynes incorporated psychology, history and institutions in order to explain behaviour under uncertainty. Mini provides further evidence from a wide range of Keynes's writings, often on practical subjects, belying the charge often made that Keynes lacked microfoundations, or that his microfoundations were neoclassical.

Malcolm Sawyer and *Nina Shapiro* take up the question of Keynes's views on imperfect competition. They argue that, starting from Keynes's focus on uncertainty and the potential for insufficient aggregate demand, it

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is inappropriate to consider this issue in an equilibrium framework. It is demonstrated that Keynes's framework colours the analysis of perfect competition, showing how the uncertainty of such a potentially volatile market environment discourages investment and consumer expenditure. The more stable environment of imperfect competition could even support prices at a lower level.

Victoria Chick approaches microfoundations for Keynes through Kalecki's critique of Keynes's theory of investment. Her purpose is to expose the distinction between Walrasian microfoundations which are formally consistent with macroeonomics, via the device of the auctioneer, and alternative microfoundations which necessarily entail compromise. Focusing on Keynes's presumption that firms incorporate expectations about macro effects of investment on the supply price of capital, and yet not the positive macro effect on expected returns of an expansion brought on by investment, Chick offers a carefully reasoned defence of Keynes's choice of compromise. This provides an excellent case study in analysis of the exercise of judgment.

John King approaches the issue of the relationship between Post Keynesian macroeconomics and microeconomics in terms of labour theory. He attributes the lack of attention to labour theory to disagreement on the marginal productivity issue (as we see with investment theory in Victoria Chick's chapter) and to the focus on macro issues. But his chapter draws our attention to a highly suggestive, but neglected, seam of Post Keynesian writing on the subject, on trade union wage policy, company wage policy, wage bargaining, labour supply, the non-union firm, wage differentials, the allocation of labour and economic inequality, as well as the more conventional macro questions. In the process, King sets an agenda for work on building up a distinctive Post Keynesian labour economics.

The second group of chapters offers challenging new ideas on uncertainty and its implications. *Alessandro Vercelli* explores the interaction between rationality and learning. He clarifies the relationship between the two by setting up a classificatory framework in terms of the different modalities of uncertainty and different concepts of rationality and learning, and demonstrating the strict correspondence between them. He argues that only a theory of economic behaviour under 'hard' uncertainty, which assumes 'designing' rationality and allows for time irreversibility, may account satisfactorily for strategic learning and thereby provide a comprehensive account of rationality. This argument is shown to be consistent with the conception of rationality and learning embedded in Keynes's liquidity preference theory.

Most of the chapters in these two volumes are explicitly realist, with a focus on organicism and uncertainty, and some have identified the philo-

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sophical foundations with critical realism. *Man-Seop Park* and *Serap Kayatekin* consider alternative philosophical foundations for a realist Post Keynesian analysis in the work of Derrida. They explore the different notions of organic unity used in Keynes studies and their relation to uncertainty. Derrida's philosophy is explained as providing an alternative notion of organic unity and thus an alternative basis for analysing uncertainty and societal interaction. Derrida's perspective is distinguished from other, more extreme, forms of postmodernism; while normally counterposed to realism, Derrida's approach is therefore seen to lead in the same direction.

Also challenging some of the basis of other chapters, this time the focus on uncertainty, *Michael Howard* and *R.C. Kumar* examine the libertarian belief in the voluntary contract allowed by free market forces as providing a preferable alternative to violent conflict. Unlike other chapters which emphasize the destructive effect on neoclassical theory of incorporating uncertainty, it is argued here that it is the possibility of private ('asymmetric') information which most clearly limits the scope of the market and underpins the justification of state intervention in order to discourage violent conflict as an alternative means of achieving ends. Indeed, the authors argue on the basis of rational choice theory that a pure system of voluntary contract is unsustainable, because it destroys those features of society, such as trust, which liberals hold most dear.

Another area in which there is a difference of opinion about the significance of uncertainty is endogenous monetary theory, the subject of *Giuseppe Fontana*'s chapter. Within endogenous money theory there is the accommodationist approach, which sees banks fully accommodating demand for credit, and the structuralist approach, which sees the supply of credit constrained by bank behaviour, incorporating the theory of liquidity preference, and thus uncertainty. Identifying the first approach with money flows and the second with stocks, Fontana uses the monetary circuit framework in an attempt at synthesizing the two.

Anna Carabelli introduces a new slant on our understanding of the philosophical basis for Keynes's theory of speculation, as well as offering a solution to the impasse in which the Bayesian theory of speculation finds itself. Keynes's lecture notes of 1910 reveal a theory of speculation well grounded in his theory of probability, which anticipates what is conventionally understood to be a novel theory of speculation in the *General Theory*. His theory is cognitive, contrasting the knowledge base of speculators with the ignorance of gamblers. It already sets out the distinction between diversity of opinion and consensus opinion, the 'beauty contest' type of characterization of speculative behaviour, and the potential for 'false news' to have real consequences.

In the third group of chapters, we see applications of Post Keynesian

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philosophy and theory to pressing policy questions in the international arena. *Jesper Jespersen* considers the Maastricht Treaty as a case study of the relation between economic theory, economic policy and social welfare. The increasing economic openness within Europe in the post-war years accompanied an increase in the welfare state. But the Maastricht Treaty imposed conditions of financial stability on members which have challenged social welfare considerations, in terms of fiscal restraint, unemployment, income distribution and environmental concerns.

Paul Davidson turns his analysis of financial markets under uncertainty to the issue of foreign exchange speculation, and considers public policy measures to limit its damaging effects on economic activity. He argues against the Tobin tax on foreign exchange transactions because it would discourage trade and would be regressive with respect to small portfolio managers, without being able to prevent a large-scale crisis. Instead, he draws attention to the Marshall Plan's beneficial effect both on Europe and on the USA (in contrast to the reparation payments approach of the Versailles Treaty). Building on Keynes's original plan for a Clearing Union, Davidson carefully sets out a blueprint for a global system of governance which would severely limit speculation. *Philip Arestis* and *Malcolm Sawyer*, on the other hand, make the case for the Tobin tax. In contrast to the stabiliszing role for speculation in monetarist models, they point to the capacity for destabilizing speculation to affect 'real fundamentals'. In addition, the revenue raised by the tax could be significant. Further, it is argued that the tax would reduce the potential for crises by reducing the volume of transactions, and by reducing the incidence of serious exchange rate misalignments, which are in many cases the cause of exchange rate crisis.

William Milberg draws attention to Keynes's thinking on trade theory. Not only does this deserve more attention in its own right, but also Milberg shows how the theory of effective demand which Keynes developed in his trade theory presaged the *General Theory*. Keynes argued for tariff protection in the case of unemployment; it was the interest rate, not wage and price adjustment, which would correct a trade imbalance. Since a trade deficit would cause interest rates to rise, curing unemployment required finding some other cure for the trade deficit. Milberg also draws attention to the similar argument made by Marx.

Finally, before launching into these chapters, we would like to express our sincere appreciation for the support given to the conference and the production of these volumes by Edward Elgar Publishing Ltd, and in particular for the patience and understanding of Dymphna Evans.

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