Introduction

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The year 2011 marked 75 years since the publication of *The General Theory of Employment, Interest and Money*. It was published on 4 February 1936 in the middle of an economic depression, a time in which politicians were groping in the dark with little help from the field of economics. People were queuing to buy the book as soon as it was released, and expectations were high.

There are many similarities between then and now, including unemployment, low growth and mounting public debt. Unfortunately, nobody is talking about a new ‘General Theory’ being on the way, which gives us all the more reason to re-read and reconsider Keynes’s seminal book.

At the brink of the 21st century, a number of academic economists were asked which economist they considered to have had the greatest impact on the 20th century. Most named Keynes, many referring directly to *The General Theory*; but this vote was about influence in the past. One hardly sees references to Keynes in macroeconomic textbooks any more – perhaps a passing remark related to the case of rigid wages in the labour market (which only demonstrates that the author has not read *The General Theory*). Given the number of similarities between the economic crisis of the 1930s and the present one, we considered this an obvious time to gather Keynes scholars from around the world to discuss and exchange views on the ‘relevance and perspectives’ of *The General Theory* for this century.

The theme of this volume is the teaching of the economics of Keynes. This theme is important as much of the original ‘message’ of *The General Theory* is no longer present in the syllabuses taught in most universities. In many ways, questions can be raised as to whether the original elements in *The General Theory* have ever truly been a part of the syllabus in macroeconomics, even in the 1950s and 1960s. The so-called ‘Keynesian Economics’, as we know it from Paul Samuelson’s textbook *Economics*, first published in 1948, is not really the economics of *The General Theory*. The methodology, the emphasis on equilibrium and the role of the inflexibility of prices and wages in explaining unemployment are features which
Samuelson, together with many other neoclassical synthesizers, developed in the 1950s and 1960s with inspiration from Hicks’s ISLM diagram. This macroeconomic teaching was easy to explain in the classroom and to use for constructing the new macroeconometric models which dominated the macroeconomic debate for some time and represented mainstream macroeconomics at that time. In the 1980s, this approach in macroeconomics was swept aside by the claim that it was not ‘scientific’, because a rigorous microeconomic foundation was lacking and the theory of expectations was ad hoc – not grounded in rational choice theory. In fact, this is where the teaching in macroeconomics stands today. Only textbooks assuming general equilibrium and using the microeconomic foundation of rational choice theory are widely available. This version of macroeconomics is of little help towards understanding the present economic crisis: what caused it, why it is dragging on and how to get out of it. These are questions which cannot be answered within a general equilibrium model, where crises are caused by exogenous shocks and the macroeconomic system assumed to be self-adjusting. This teaching situation is, of course, especially embarrassing for the macroeconomists who hold that Keynes and *The General Theory* possess indispensable insight which would give students a better understanding of the world economy in which they live.

At this stage, we feel tempted to quote directly from Keynes, who anticipated this difficult situation with teaching new ideas. In his time, he was up against what he called Ricardian Theory, which was represented in Cambridge by the only professor in economics, Arthur Cecil Pigou, who had just published his view of macroeconomics in a book entitled *Unemployment* (1933). In *The General Theory*, Keynes asked how it was possible that:

Ricardo conquered England as completely as the Holy Inquisition conquered Spain . . . The completeness of the Ricardian victory is something of a curiosity and a mystery. It must have been due to a complex of suitabilities in the doctrine to the environment into which it was projected. That it reached conclusions quite different from what the ordinary uninstructed person would expect, added, I suppose, to its intellectual prestige. That its teaching, translated into practice, was austere and often unpalatable, lent it virtue. (Keynes, 1936: 32–3)

TEACHING POST KEYNESIAN ECONOMICS

Marc Lavoie, in his chapter ‘Teaching post Keynesian economics in a mainstream department’, describes how he came into contact with post Keynesian economics early in his studies at Carleton University in the 1970s. He describes how the students had a hard time making sense of
Introduction

3

the Cambridge capital controversies. One of the seminars was given by T.K. Rymes at a point when Lavoie had been attracted to post Keynesian economic theory but had yet to be convinced – although the survey chapter by Eichner and Kregel (1975) had made quite an impression on him. He later followed a course in advanced macroeconomics at the University of Paris 1 and was confronted with various forms of Keynesian theory, notably disequilibrium theory and monetary circuit theory. One of the main lecturers was Alain Parguez. Lavoie’s dissertation was essentially inspired by monetary circuit theory and many of the new and important books at the time.

In 1979 Lavoie began his academic career at the University of Ottawa, and he and Mario Seccareccia were awarded tenure-track positions in 1981. Today they are the only two remaining heterodox economists in their department. It is against this background that Lavoie gives his thoughts as to the options for teaching post Keynesian economics in a mainstream department.

According to Lavoie, the most successful option is undoubtedly a full heterodox course when the economy is in a recession or with a high rate of unemployment, much like the current situation with the subprime financial crisis and its aftermath. Students will be looking for alternative explanations of the crisis. Other strategies include either an introduction to elements of heterodoxy in orthodox modules or courses, or teaching orthodox and heterodox economics in parallel.

There are three possible paths to follow if the strategy with an independent course is established. The first is to use existing course titles, the second to create a new course with explicit titles, and the third is to create a new course with an ambiguous title. Examples are given.

The extent to which it is possible to teach a fully heterodox course also depends on which textbooks are available. Godley and Lavoie’s brilliant 2007 book, which presents a stock-flow consistent approach, gave post Keynesian economics new opportunities to assert themselves. Another way is to introduce elements of heterodoxy in orthodox textbooks. A successful example of this is the adoption of the US Baumol and Blinder textbook, which was in its 10th edition. Much to Lavoie’s surprise, it was much easier to introduce eclectic or heterodox elements in the micro part of the textbook than in the macro section, but overall a very satisfactory result.

In his chapter, ‘The economist who mistook his model for a market’ Roy Rotheim emphasizes the didactic aspect of and limitations of any teaching; the discrepancy between what the teacher intends the students to learn and what they learn. Of course, the focus point of post Keynesian teaching is to give students an insight into real-world processes in time and
space. This is ambitious and difficult because we do not really know the real world; but with inspiration from Keynes’s path-breaking contribution in *The General Theory* there is at least a starting point for post Keynesian teaching. Whatever is told in the class-room is at best a vague mirror picture of reality. Roy Rotheim points at a number of obstacles: lack of understanding, of language, of metaphors and (ab)use of mathematics. But, at least, good post Keynesian teachers know these limitations and attempt to avoid falling into the trap of mixing the pedagogic model with reality. Exactly for that reason, the author claims, post Keynesian economics will never be a part of teaching in a mainstream department. Here it is expected that teaching in economics is without ambiguities. Economics is an exact science and the teaching has to be undertaken in accordance with this scientific principle. Hence, in that case mathematics is the preferred language: exact, deductive and without ambiguity. In that case there is no reason to differentiate between model and reality – the model is the best possible understanding of the market. Therefore, the author sees no possible bridging in mutual understanding between mainstream and post Keynesian economics either in economic analysis or in teaching. One has to be realistic about this lack of mutual research and teaching agenda.

THE BASICS: OPEN SYSTEMS, PLURALISM AND RHETORIC

The chapters that follow focus on a number of methodological considerations required to support the teaching of post Keynesian economics. They are about the choice between closed and open models in economic thinking. It will be argued that pluralism and the rhetoric used are crucial to how powerful post Keynesianism will work.

*Victoria Chick*, in her chapter ‘The future is open: on open-system theorizing in economics’, stresses that open systems should form the core of economics teaching on the grounds of their superior relevance. However, there is some psychological difficulty related to this approach. Modern economics is often attributed to its formalism, particularly its reliance on mathematics and how it encourages a closed-system approach to theory construction from a methodological point of view.

There can be many types of openness, but no system can be completely open – boundaries must exist. Four dimensions of openness are identified: subject matter, the object of study, the level of analysis (micro and macro), and time.

Chick is very aware that open systems will cause problems beyond the usual ones of doing something which is not mainstream. Principal among
these is an adverse reaction to the lack of definiteness or certainty. All this goes against the Cartesian mode of thought which has dominated Western thinking for a very long time.

Open systems are obviously created by open minds and require open minds to understand them, but this requires experiences, and learners can become increasingly open in their belief systems. The chapter demonstrates a description of progression from closed to more open forms of learning – the so-called ‘stages of student maturation’. A way of developing this is getting students to realize that they are responsible for their own learning.

Sheila Dow argues in a similar manner in her chapter, ‘Teaching open-system economics’, favouring use of an open-system approach when teaching economics. Again, an open system is not the opposite of a closed system since there are many possibilities for open-system approaches to economics. A system is open if any one of the conditions for a closed theoretical system is not met. Closed system economics is based on classical logic and therefore on a deductivist methodology often presented in mathematical terms. Conversely, an open system calls for a different kind of logic: human or ordinary logic. According to Dow, a closed-system approach poses tremendous challenges in its application to an open-system economy. Experience shows, however, that internal consistency is given higher methodological priority within mainstream economics than applicability to the real world. On the contrary, open-system thinking is specifically designed to recommend a critical realist approach to addressing open-system subject matters. Uncertainty is an inescapable part of realistic economics and therefore an argument for using open-system analysis. Social phenomena are evolving over time in an unpredictable manner that must deal with mechanisms and structures partly unknowable to the researcher.

Even if there is some psychological (and methodological) aversion to handling uncertainty in the teaching of economics, post Keynesian economics has indicated a willingness to engage with it. This requires a special kind of economics thinking such as that which Keynes expressed in *The General Theory* – that the object of the analysis is not to provide a machine or method of blind manipulation, but rather that we are to provide ourselves with an organized and orderly method of thinking out particular problems. The actual financial and economic crisis could call forth a range of competing explanations and theories on which to base policy solutions, drawing on different approaches. At the very least it is a wonderful case study for teaching post Keynesian economics.

A challenge for teaching open-system analysis is that it leaves the outcome open-ended, meaning that students must learn the art of independent
thinking and judgement in addition to a large body of material. Open-system learning thus develops different skills from closed-system learning. The teaching of any models should therefore be embedded in a broader discussion of the factors left out of the model in order to teach how models can be useful as well as to demonstrate their limitations.

Andy Denis, in his chapter ‘Pluralism in economics education’, argues that pluralism should be a central part of economics. Basing the teaching of economics on controversy will be to the benefit of students, staff, employers and polity alike. It is emphasized that every science is rhetorical and the social sciences doubly so: there is a body of knowledge and an image of knowledge. The latter part in particular concerns economics due to its proximity to policy-making, and in particular the economic policy-making process. But it is important to notice that while the field of economics is inevitably plural, many contributions have not been refuted; instead, they are simply ignored. This long, drawn-out process of squeezing the history and methodology of the subject out of the curriculum is part of an organic process of quarantining and sequestering heterodox thought in the discipline.

What we have today is monism, or the hegemony of a particular approach. The alternative, then, is pluralism, or a tolerant, critical conversation. Pluralism can either be permissive or assertive. The lower grade of pluralism is permissive as a permission to introduce different kinds of schools. Assertive pluralism requires the mutual engagement of different schools of thought.

By viewing the phenomena in question from multiple perspectives, pluralism raises the issues of uncertainty, complexity and context. In this manner, pluralism helps students learn to become life-long learners; it gives them the ability to make judgements in the context of uncertainty and a commitment to questioning one’s own purposes, evidence, implications, assumptions and standpoint.

In his chapter ‘Truth and beauty in macroeconomics’, Allin Cottrell takes issue with Paul Krugman’s notion that Keynesian economics is the best macro-theory that we have, but is somewhat messy and unclear. This is refuted and it is documented how Keynes’s theory, when correctly interpreted, exhibits an elegance and coherence that Krugman somehow misses. In Cottrell’s optic, neoclassical macro-theory may be internally consistent from a purely logical point of view, but there is a gross discrepancy between the epistemology of the theory and the ontology of the domain it claims to be theorizing on. To the contrary, the relevance of Keynes’ General Theory lies in how he is able to build a powerful engine of analysis capable of illuminating a wide range of macroeconomic phenomena on the parsimonious basis of a few very general facts about the macroeconomic
reality in ‘which we happen to live’. An example of this scientific relevance is found in Keynes’s analysis of the role of ‘wage flexibility’ in the labour market. Nothing can be said about the macroeconomic outcome if the money wage level were assumed to be perfectly flexible until uncertainty is taken deliberately into the argument, including its impact on planned investments. If there is a fall in the volume of saving, full employment will not be obtained at any money wage level.

According to Cottrell, there is a trade-off between detail and conceptual clarity, and the desirable point in that trade-off depends on the particular question we are trying to address. In this manner, Keynes offers a clear conceptual account of the problem of demand-deficient unemployment in a capitalist economy.

Bruce Littleboy takes a different, less exegetical and critical direction into rhetoric in his chapter ‘Rhetoric in the spirit of Keynes: metaphors to persuade economists, students and the public about fiscal policy’. In his opinion, the economics of Keynes has been too aggregated for too long. What used to be simplified has become simplistic. But debating the merits of a metaphor helps us probe what we are really talking about. A metaphor has three clear uses: it inspires new hypotheses, it offers a means of education and spreading ideas, and it tests causal reasoning by permitting critical thought experiments.

To provide an example, Littleboy shows how wastefulness is not sufficient for providing a demand stimulus. It makes better rhetorical sense to focus on how markets can waste resources through idleness than to advocate wasteful activity by government. Littleboy finds it striking that Keynesian ideas once regarded as routine and introductory are now widely regarded as being fallacious at best and dangerously imbecilic at worst. Littleboy gives an example of recent debates over the suitability of fiscal policy that in part reflects the Austrian critique of the Keynesian approach. The chapter offers a first step as to how the debate barely extends beyond assertion and crude metaphor. The different intuitions are in collision; they are not yet in exploratory engagement.

TEXTBOOKS

The macroeconomics of Paul Davidson is the economics of the real world. This is what Finn Olesen highlights in his chapter: ‘Teaching macroeconomics – seeking inspiration from Paul Davidson’.

The chapter examines two of Davidson’s economics textbooks, Post Keynesian Macroeconomics Theory (2011) and Aggregate Supply and Demand Analysis (1964; together with Eugene Smolensky). The latter
was originally presented and designed to be the ultimate post Keynesian macroeconomics textbook. Both books are meant to be seen as clear alternatives to the prevailing mainstream interpretation of macroeconomics by using ‘the principle of effective demand’ as the pivotal part of their teaching model.

Throughout almost all of his writings, Davidson has repeatedly argued that to understand the relevant economics processes of a modern monetary entrepreneurial macro economy you have to acknowledge and take Keynes’s fundamental conclusions into account. Consequently, Davidson’s interpretation of Keynes holds that money is never neutral in the sense that money actually does affect real economic variables in the short run as well as in the longer run. According to Davidson, Keynes also rejected the axiom of gross substitution – all markets are not going to clear simultaneously. And as a final and fundamental viewpoint, Keynes understood the macroeconomic system as a system that was functioning in a non-ergodic manner. Davidson’s macroeconomic universe is, according to Olesen, quite different from the modern macroeconomic mainstream of today. Davidson proposes an alternative to the mainstream by focusing, as Keynes did, on ‘time, money and uncertainty’.

In Poul Thøis Madsen’s chapter, ‘What about the mainstream critique of American principles of economics textbooks?’, it is made clear that the criticism of economics textbooks goes back a long way. It is a minor debate that has been going on for decades but especially in the period 1987–93. However, the author identifies a number of factors that make it difficult to find the mainstream debate on textbooks.

The critical points contained in the publications can be divided into three major problems. First, the so-called ‘fundamental problem’, such as the relationship between the textbook and actual economic reality. Less and less contextual and historical knowledge and fewer ideas drawn from the history of economics are to be found in textbooks. Disagreements among economists are thrown out together with a perceived bias towards neoclassical Keynesianism. Secondly, leading textbooks are tending to become increasingly similar. Thirdly, important issues have been handled inadequately.

The author sets out to discover what has happened to the mainstream critique of textbooks. He concludes that its decline could be ascribed either to the fact that there is little merit in criticizing textbooks or that textbook authors and their publishers believe they have found a winning formula not in need of any change – even if relevant criticism leaves plenty of space for improving the textbooks.
CONFRONTATION AND COMPARISON

In a chapter entitled ‘Teaching Keynes’s theory to neoclassically formed minds’, Angel Asensio argues that setting uncertainty at the centre of the methodological debate reveals the very reason for the theoretical oppositions between neoclassics and post Keynesians. The aim of the chapter is to offer an exposition of the macroeconomics of competitive equilibrium based on both a deconstruction of the neoclassical theory and a restatement of The General Theory proper, meaning a proper articulation of concepts at every level. It implies, among other things, the way both approaches deal with uncertainty and rational decisions, and it is argued that modern theory of decision-making under uncertainty supports Keynes’s approach. The General Theory revolutionized macroeconomics because it renewed the microfoundation, the result being a transmutation of competitive equilibrium analyses and detection of the failure of competitive forces to eradicate unemployment. The chapter also reviews a number of potentially destabilizing forces of competitive markets.

Compared with mainstream economics, Keynes did adopt the widest approach to uncertainty. That is also why The General Theory is basically more general and realistic than mainstream economics. Keynes’s equilibrium accordingly involves both a wider role for institutions and a richer concept of equilibrium, which admits the possibility that all markets do not clear. Unfortunately mainstream thinking dominates students’ first years of study. ‘Post Keynesian’ teaching therefore requires that the concepts are first deconstructed. Otherwise, it will be difficult to break through with broader Keynesian thinking.

Confrontation between the neoclassical and Keynesian macro models is also the topic in Marco Missaglia’s chapter, ‘Neoclassical and Keynesian macro models: thinking about the “special case”’. This chapter argues that Keynesian models are the general case, whereas neoclassical models constitute the special one. It is also shown that the reason why the opposite belief has been dominating the scene for decades is to be found in the over-emphasis Keynes himself placed on his theory of ‘liquidity preference’.

What makes Keynesian ideas regarding macroeconomics much more general than neoclassical views is not related to what money is for, but rather to how money is created and introduced into the system. The theory of endogenous money developed by the post Keynesians is the analytical tool through which Keynesian causality – from investment to savings – is to be explained. This chapter also emphasizes that all sorts of Keynesian models may be written in a ‘complementarity format’, which is a way of showing the formal similarities between the neoclassical and Keynesian macro models.
Throughout the chapter it is argued that the most important Keynesian idea – that aggregate demand is the engine which moves the economic system – is not a 'special case', as neoclassical economists otherwise claim. The special case is the neoclassical one in which any increase in investment expenditure is to be accompanied by a reduction in consumption expenditure.

The last chapter, ‘Economists on the 2008 financial crisis: genuine reflection; or constructing narratives to re-affirm the profession’s authority?’ by Michael Salvagno provides an analysis of a sample of initial writings by leading economists and financial journalists in the financial press. They primarily focus on their efforts to evaluate both the performance of the profession and the suitability of the project of modern economics.

These writings capture a series of debates in what could only be described as a period of distress in the discipline. The writings are assessed in order to determine how to identify the role and performance of the economics profession leading up to and during the crisis, as well as the suggested proposals for reforming the discipline.

It has been argued that the unreal assumptions of the leading models – the efficiency of the market and the rationality of individuals – led to poor understanding of the economy and therefore inadequate management, which can paradoxically serve to re-affirm the authority of empirically divorced theoretical ideas. So the question then becomes how to develop analysis of the economy from rationality of individuals and markets to establish a range of signals for identifying new risks to both the economic system and the financial sovereignty of states. It is suggested that this transformation would require a new foundation for economic theory.

But while it may seem as though genuine reform or a critical review of the profession’s performance is taking place, the analysis presented in this chapter contends that from the authors listed, and with the exception of the institutionalist reformers, this process has barely begun.

NOTE

1. See e.g. Bezemer (2009) for an analysis presenting evidence that accounting or flow-of-fund macroeconomic models helped anticipate the credit and economic recession.

REFERENCES

