What Can Economists Learn From Keynes's Philosophy?

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Over the last fifteen years or so, a new area of Keynes scholarship has attracted considerable research activity. This is the investigation of Keynes's philosophy and its relations to his thought in economics, politics and other subjects. A growing number of books and articles have been published, and I'm pleased to say that Australians have been as much a part of these developments as Americans, Britons and others.

It comes as no surprise to learn that disagreements abound here just as they do among interpreters of Keynes's economics. Certain characteristics of Keynes's manner of writing seem capable of laying seeds of disputation and misunderstanding among his readers no matter what the field. We would do well to pay more attention to these characteristics so as to eliminate unnecessary controversies. But despite the debates, virtually all commentators are agreed that Keynes's philosophy possesses *some* significance for his other thought.

I should like to begin by outlining my motivation for working in the 'Keynes industry' and my particular interest in Keynes's philosophy. In economics, I believe Keynes's contributions are extremely important, partly because they greatly enrich and strengthen economics as a social science (theoretically and practically), and partly because they represent one of the bulwarks against economics succumbing completely to Neoclassicism which, despite its dominance and strengths, contains serious flaws (theoretically and practically). Of course, it is vitally important here to distinguish between Keynes's economics (which fewer and fewer economists read) and Keynesian economics (versions of which inhabit the numerous textbooks which more and more economists do read). Once one has gained an understanding of Keynes's economics, the next step is obviously to extend and adapt his thought in the light of modern insights and historical conditions. But to understand Keynes's economics fully, we must first take a step backwards and come to grips with his philosophy. For it is his philosophy which not only unites the different regions of his thought, but also illuminates particular conceptual issues in these regions, including economics. And, if we are to understand his philosophy fully, we must take further pause and consider all, rather than just some, of his philosophical writings. It is therefore important to have ready access to his entire philosophical output, this being one of the aims of my supplementary edition of Keynes's remaining unpublished writings (which will run to nine volumes on current estimates).

Keynes as a Philosopher

Propositions not generally known a decade ago are now more widely appreciated – Keynes was a philosopher before he was an economist; he has a considerable body of philosophical writings to his credit (published and unpublished); and his interest in philosophy was not merely a juvenile fancy but a preoccupation persisting well into adult life.

His philosophical range was very broad. The main topics engaging his attention included logic, probability, rationality under uncertainty, epistemology, causality, formalism, statistical inference, atomism and organicism, ethics and morality, aesthetics and political philosophy. From the perspective of the history of philosophy, his main contribution is usually taken to lie in the field of probability. This was the area in which he published his major philosophical work, the *Treastise on* Probability of 1921, and several lesser articles. But given the nature of his philosophy of probability, it is more informatively described as *a theory of* *rational belief and action under uncertainty*. Viewed in this light, it opens up a host of possible connections with economic theory, economic policy, politics and social policy. The other feature of his philosophy relevant to economics is that his theory of rationality is *non-Neoclassical* in nature – it is, in fact, a more general theory which, in its own terms, embraces the Neoclassical theory as a special case.

The important thing about Keynes's philosophy, in my view, is that it is fundamental to his economics and politics. Put another way, to understand Keynes's philosophy is to have a key capable of unlocking various conceptual puzzles in his economic and political writings, puzzles which, whether previously broached or ignored, remain unsolved as long as his philosophical writings are unexamined. Let me clarify this claim a little more. I am not claiming that philosophy is the whole foundation to his other thought, only that it is a *part* foundation. His economics has an independent grounding in Marshall, and his politics also has a foundation, though to a considerably lesser degree, in Burke. And in speaking of philosophy, I am mainly referring to *Keynes's philosophical framework*, not necessarily to particular theories or positions worked out at particular times within this framework. This permits a degree of change in Keynes's philosophising over time whilst still maintaining that his thought remains within the same conceptual framework.

Important corollaries follow. Once one sees how Keynes's economics has philosophical foundations, one can see that Neoclassicism also has philosophical foundations (of a different kind). More broadly, it reinforces the proposition, familiar to previous generations of economists but largely lost to current generations, that economics is not an independent, self-sufficient discipline but one with vital links to philosophy and other social sciences.

How, then, does Keynes's philosophy clarify his economics? In providing a brief selection of examples, I shall concentrate on the *General Theory* and Keynes's later thought from 1932 to 1946.

Economic Theory

Many of the revolutionary elements of the *General Theory* can be linked to different aspects of Keynes's philosophy. The following five give the flavour of these connections.

1. Uncertainty

All the various senses of uncertainty Keynes used, whether probabilistic or non-probabilistic, are explicable in terms of the conceptual framework of the *Treatise on Probability*. In particular, the idea of radical uncertainty, which is such a critical ingredient of the *General Theory* and which was outlined in closely related senses in 1936, 1937 and 1938, has its analytical foundations in his philosophy of logical probability.

2. Rationality under Uncertainty

The issue of whether agents in the *General Theory* are rational or irrational can now be answered with the aid of Keynes's philosophy. They are rational, but their rationality is non-Neoclassical. The key to the issue is the more general theory of rationality developed in the *Treatise on Probability*.

3. Expectations

The *General Theory* implicitly contains a theory of expectations formation, one that can also be traced back to his earlier philosophical work. In fact, an interesting implication of his philosophising in 1908 was a non-Neoclassical theory of *rational expectations*, one that is more general than the concept deployed in the current 'rational expectations hypothesis'.

4. Causality

Keynes's philosophy doesn't merely illuminate agent behaviour under uncertainty, but also emphasises notions of causality and underlying mechanisms and processes. In fact, it provides a framework which reconciles both these aspects of social science. Many interpreters of the *General Theory* have tried to isolate its single essential feature, some choosing uncertainty and expectations, others opting for its central causal proposition, the principle of effective demand. But with the benefit of Keynes's philosophy, one can see that uncertainty and causality are compatible concepts in the *General Theory* and that both are essential to Keynes's theoretical revolution. The conflict, in other words, between those who focus on uncertainty and those who isolate effective demand as 'the' unique revolutionary element of the *General Theory*, is a false one.

5. Formalism

Traditionally, Keynes has been viewed as largely hostile to the use of mathematical or statistical formalism in economics. His philosophy helps reveal that this is incorrect, and that his view was actually that formalism has a useful but limited role to play. Again the key lies in a difference in philosophies, between Keynes's philosophy of the nature and scope of formalisation and that informing modern mathematical economics.

Economic Policy

Policy, Keynes recognised, was significantly philosophy-dependent. 'We shall only change our policies', he declared in 1936, 'if we change the philosophy underlying them.' More specifically, policy was a branch of practical rationality, embracing the short and the long run and having economic and non-economic dimensions. The non-economic dimension primarily concerned ethics. It was ethics, not economics, that set the ultimate goals, with economics and politics being means (and vitally important ones) to these ends.

The role of the state in Keynes's framework is to act as the guardian, supervisor and promoter of civilised society. The fundamental criterion of civilisation in this view lies in the maintenance and increase of ethical goodness as conceived by G. E. Moore. The state's activities, however, are not fixed. The nature and extent of its duties depend on the performance of the private sector. But since *laissez-faire* capitalism does not consciously aim at ethical improvement or even at full employment, it is prone to a variety of moral and economic deficiencies. The result is that the state acquires an extensive agenda, the list of activities on this agenda expanding and contracting over time according to the efficacy of the private sector.

Keynes's policy stances always have a basis in rationality, given the knowledge and circumstances of the time. Let me illustrate with three examples from different areas. In economics, the notion of fiscal responsibility, beloved of conservatives as a stick with which to beat Keynesians, has always been part of Keynes's budget policy. The key difference is that Keynes argued for cyclical balance rather than annual balance, budget deficits during slumps being compensated by budget surpluses during booms. Contrary to the popular habit of associating Keynes's name only with expansionary fiscal stances and deficit spending, contractionary fiscal policy and budget surpluses are just as much a part of Keynes's fiscal views as their opposites. The next example, relating to the ethical sphere, is state support for the arts. Since aesthetic appreciation and love of beauty were among the greatest goods known to humans, and since private enterprise was essentially motivated by financial rather than artistic considerations, it became the duty of the state to encourage and maintain artistic activity in a wide variety of spheres – architecture, theatre, music, painting, radio and public performances, for instance – the extent of its involvement depending on circumstances and available resources. My final example combines the economic and non-economic. Activities involving state economic support for non-economic ends, such as public housing, parks and amenities and the preservation of natural and cultural environments, served higher goals than those measured by purely commercial criteria. They were not required to generate commercial rates of return to justify their existence; they should make non-zero returns where possible, but breaking-even and subsidies were also acceptable. To Keynes, running public finance along the lines of private finance in these areas was a 'sort of parody of an accountant's nightmare', 'a frantic perversion of business arithmetic'.

Conclusion

Keynes was never just an economist, preoccupied solely with economic variables and the material side of life. His practical schemes and policies were also driven by ethics and a concern for what may, independently of religion, be called the spiritual side of life. To augment the amount of goodness in the world, chiefly through increasing love and friendship, and the appreciation of beauty, was the ultimate goal of his policies. This was one of his strengths. Grounded in both ethics and economics, he reconciled both aspects of the human condition, and never fell into the trap that economists (and accountants and business administrators) have largely created for themselves under the influence of the Neoclassical framework, that the achievement of economic and financial goals is all that ever matters.

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