AGAINST KEYNES'S RECANTATION

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The Exegetical Story

It is generally accepted that to some extent Keynes changed his ideas over time, and he did say in his essay *My Early Beliefs* that rational behaviour was far less prevalent than he had originally thought. However I am concerned here with the argument that Keynes implicitly went much further than he actually admitted, and that before he wrote the *General Theory* he had recanted the very possibility of rational behaviour, at least in the sense in which this is commonly understood. This paper is concerned only with the historical question of what Keynes said, but the matter has contemporary significance because of what is called 'the crisis in macroeconomics', or the inability of economists to explain Keynesian phenomena as the outcome of rational behaviour. If Keynes recanted the possibility of rational behaviour, then the *General Theory* must be the economics of irrationality, in which case we would not expect to explain macroeconomic phenomena as the outcome of rational agents.

I believe that this is a misinterpretation of Keynes, and that he advanced a system of rational judgement in circumstances of partial knowledge. However mine is the minority view in a field of Keynesian studies which, because it is concerned with the original meaning of Keynes's overall system, I will call Keynesian exegesis. Keynesian exegesists analyse Keynes's methodology and his moral objectives as well as his economic

theories, and there has emerged a composite story that connects Keynes's economics with his philosophy like this : Keynes's *Treatise on Probability*, which was published in 1921, advanced a doctrine of uncertainty and judgement, but this doctrine was based on a technical misunderstanding of the Cambridge philosophical tradition. Keynes had assumed that it was possible to make rational judgements, but in reality a judgement merely reflects someone's subjective and emotional state. Keynes had therefore been refuted on this specific point by Frank Ramsey ; and even though Keynes did not actually admit that he had been refuted, he subsequently tried to evade the force of the refutation by developing a more philosophically defensible theory of economics. To this end Keynes conceived of the economics of radical uncertainty, because if there was no information to judge, the rationality of judgements could not be an issue. Given that there was radical uncertainty, Keynes concluded that social conventions, rather than rational greed, was the driving force behind economic behaviour. Keynes's silent recantation therefore proved to be very fruitful, because he could then write the *General Theory* around respect for the conventions and (what economists call) irrational behaviour. Nevertheless Keynes did not entirely shed his suspect methodology, which is to blame for the faults of Keynes's economics.

Keynesian exegesis therefore tend to conclude that Keynes's method is irremediably flawed. They might concede that there is some merit in some of Keynes's particular theories, but it is well known that Keynes regarded economics as a way of thinking, and his general approach to economics is regarded as false. Anna Carabelli, for example, concluded her *Keynes's Method* with a warning against Keynes's method :

Therefore, after the downfall of Keynesianism, one would be inclined to think that the ultimate cure for such a situation would be to think of a straightforward return to Keynes's methodology. But I do not think that the simple recipe would work ... Keynes's approach [cannot] be easily extrapolated from its intellectual context and generalised in a new standard. It has no *a priori* reason to offer itself as the method which could be most suitable for our years. (Carabelli 1988, pp. 249-50)

And Rod O'Donnell's conclusion was cautious but just as damning : While [Keynes's] stances were underpinned by particular frameworks which we may no longer wish to accept in their entirety, they are by no means inevitably tied to them. His theoretical insight and practical wisdom lend themselves to amendment, and to appropriation by more satisfactory conceptual frameworks. (O'Donnell 1989, p. 338)

While Bradley Bateman's conclusion was condescending :

Keynes clearly made an honest effort to introduce uncertainty to his theoretical revolution. While this effort may seem simplistic or unsophisticated by contemporary standards, it was an honest effort at theoretical innovation. (Bateman 1996, p. 164)

In short, there is a consensus that in some sense Keynes rejected, and should have rejected, his original way of analysing economic problems. It should be added that some of the comments quoted immediately above were after-thoughts rather than tight conclusions, and we will see below that there are significant disagreements about what *was* Keynes's method. However there is a shared feeling that Keynes's theory of probability was, as he came to realise, inferior to modern philosophy and scientific method.

The most important deviations around the main exegetical theme seem to be :

(i) Although it is generally agreed that Keynes did originally propose a doctrine of practical reason, that term is understood in different ways. Bateman and Davis accept that Keynes originally believed that judgements could be logical, but O'Donnell presents 'practical reason' as a Cambridge type of utility maximisation, and Carabelli explains it as an ultimately arbitrary form of common sense.

(ii) It is generally accepted that Keynes's system was refuted by a contemporary Cambridge philosopher, though the most deadly refutation may have issued from Bertrand Russell (Davis 1994), both Frank Ramsey and Ludwig Wittgenstein (Skidelsky 1992), or Ramsey alone (Bateman and O'Donnell 1991). Since there were close personal and doctrinal relationships between these three philosophers, these differences might not matter. However Carabelli seriously deviates from the main theme by arguing that Keynes arrived independently at Wittgenstein's position.

(iii) The main theme is that Keynes did not explicitly recant, but Bateman argues that he did.

(iv) There are disagreements about the extent to which Keynes changed his mind. O'Donnell in particular contends that there was only a significant discontinuity, rather than a total recantation, in Keynes's thought.

(v) There are differences as to when the recantation occurred. Davis implies that it developed before the publication of the *Treatise on Probability* (which was in 1921), but Bateman, O'Donnell and Skidelsky argue that the change occurred after Keynes was unable to respond to Ramsey in 1931. Carabelli thinks the break occurred before 1907, ie before Keynes was in his mid-twenties. (We should also briefly note G.L.S. Shackle's argument that Keynes only understood his own theory after 1936.)

The main winner from the recantation story is logical positivism, alias conventional scientific method, because Ramsey's attack on Keynes is recognised as a 'landmark' contribution to this philosophy, and because Keynes's eventual deference to it is supposed to have opened the way for the *General Theory*. On the personal side the recantation shows Keynes to have been a sneaky character, because he knew he was wrong on a matter of great significance and yet he tried to cover up his error. More importantly, the news for macroeconomic intervention is grim, and even more so than the comments quoted at the outset of this paper suggest. The exegetical literature does not mention that Keynesian macroeconomics lost theoretical credibility after economists had concluded that it relied crucially on money illusion and other social conventions. However if the exegetical story were correct, macroeconomists would readily draw the following conclusion : after analytical philosophers attacked Keynes's early doctrine of practical reason, he evaded the issue by theorising instead about irrationality and the economic importance of social conventions. Then when economists eventually realised what he had done, they properly rejected Keynesian economics.

Indeed the news is bad for policy of any sort. According to the positivist rules, any judgement about what *should* be done must be exclusively subjective. So far Carabelli, Davis and O'Donnell have maintained a prudent silence about Keynes's theory of economic policy. Yet if Keynes turned towards logical positivism he would have realised that no policy decisions can be rational, and that although it might be possible to make some clever policy utterances of an emotional nature, ultimately there can be no real justification for any policy directions ; a policy might be consistent, but ultimately it could not be good or bad. This position might seem like nonsense, but it is what Shackle concluded ("the test of success in an expectational system is the maximum attainment of a good state of mind") and Bateman likewise has suggested that Keynes's recantation explains the absence of a policy orientation in the *General Theory* :

And it is there, in his final theoretical work, that the *consequences* of [Keynes's] changed beliefs are most evident. For although *The General Theory* has been traditionally thought of as an argument for discretionary policy, it is so only in a very limited sense. (Bateman 1991b, p. 62)

After he had recanted he recognised that judgements were impossible, and "the mature Keynes was left with people pursuing a plethora of ends (good, bad or otherwise) and employing subjective degrees of belief regarding the likelihood of their outcomes" (Bateman, p. 63). Bateman

does admit that Keynes was "[not] against the use of monetary or fiscal policy altogether" (Bateman, p. 62), though presumably Keynes was slightly illogical on this point.

Keynes' essay *My Early Beliefs* described the evolution of his philosophic ideas ; and if Ramsey had forced Keynes to recant then, given the many and profound implications that such a recantation would have, it would have been almost impossible for Keynes to avoid some comment to this effect in his essay. Since in fact Keynes never mentioned any such thing, it is necessary to read creatively between the lines, or else to argue that Keynes gave a gravely misleading account of his own fundamental ideas. Bateman took the first route and O'Donnell took the second, by describing *My Early Beliefs* as "possibly the most deceptive document in Keynes's *oeuvre*, flawed by error, vagueness, internal inconsistency, and hyperbole" (O'Donnell 1989, p. 184). Nevertheless the failure of Keynes (whom incidentally I believe was an essentially veracious person) to ever mention his own recantation remains a serious stumbling block to all versions of the recantation and redirection story.

Keynes and Ramsey

Keynes' *Treatise on Probability* was not intended to prove that we all float on the Great Sea of Unknowing, and ironic as it might seem, his main objective was to refute the doctrine of radical uncertainty which would later be attributed to Keynes himself. The *Treatise* opens by quoting Leibniz with approval and foreshadowing a new type of logic :

J'ai dit plus d'une fois qu'il faudrait une nouvelle espece de logique, qui traiteroit des degres de Probabilite.

That was the theme ; Keynes had conceived of a new species of logic which, unlike formal logic, could be used to analyse partial and non-quantitative knowledge. He defined probability very widely, to include anything short of luminous certainty to almost complete ignorance, and he argued that everyone used such probable logic all the time. The fact that people were not omniscient did not doom them to lives of brute unreason. The scepticism often attributed to Keynes has historically been used as a weapon against the philosophic tradition in which Keynes was located.

Keynes' minor theme was his refutation of the invalid use of the principle of non-sufficient reason, or the deduction of a 0.5 probability from a state of zero knowledge. He protested that this principle had been used to disguise the need for judgement, and that it put a pseudo-scientific gloss on what was really non-quantitative knowledge. Keynes was led by the

Greek tradition that still lingered on in Cambridge philosophy to believe that practical problems should be approached with higher ideals in mind. He stressed the ability of the intuitive mind to wrestle with the problems of partial knowledge. The theme was that formal logic was only a special instance of a larger logic of common sense that was employed in practical life. Keynes argued that it was possible to make rational decisions, even when not all the information was at hand, by drawing analogies between a theory and the facts.

However Keynes swam very much against the intellectual current, and during the years when he was writing his *Treatise on Probability*, the philosophy of logical positivism also emerged, in particular at Cambridge. Bertrand Russell, Russell's student Ludwig Wittgenstein, and Wittgenstein's student Frank Ramsey rejected the possibility of judgement. As Ramsey said, "I do not perceive [logical intuitions] and ... I ... suspect others do not perceive them either". He therefore proposed to replace Keynes's logical probabilities with a "purely psychological method of measuring belief". There was no intermediate sphere ; if propositions were not scientific, then they were purely subjective. Since non-quantitative probabilities made it impossible to draw definite conclusions, they could not be included in a system of logic. Ramsey wrote against Keynes :

All these authors [Kant, De Morgan, Peirce and Wittgenstein] agree that the conclusion of a formally derived argument is contained in its premisses ; that to deny the conclusion while accepting the premises would be self-contradictory ; that a formal deduction does not increase our knowledge, but only brings out more clearly what we already know in another form ; and that we are bound to accept it validity, on pain of being inconsistent with ourselves. (Ramsey 1990, p. 81)

Ramsey's rational scientific observer put the practical decision maker into a test tube ; there was no rational way to make practical and political judgements, but the external scientific observer could theorise about how *others* made them. The observer had a rational mind, but the decision maker had none. Just as it was possible to deduce unobservable physical phenomena, so the scientific observer could deduce the subjective probabilities in non-rational 'minds' :

Just the same thing is found in physics ; men found that a wire connecting plates of zinc and copper standing in acid deflected a magnetic needle in its neighbourhood. Accordingly as the needle was more or less deflected the wire was said to carry a larger or smaller current. The nature of this 'current' could only be conjectured : what were observed and measured were simply its effects. (Ramsey 1990, p. 66)

Since it was impossible to rationally form such probabilities, the observer could only ask that they should be consistent. Consistency (or what mathematical economists now call transitivity) was essential ; consistent behaviour meant that even subjective probabilities could be included in logic and mathematics :

We do not regard it as belonging to formal logic to say what should be a man's expectation of drawing a white or a black ball from an urn ; his original expectation may within the limits of consistency be any he likes ; all we have to point out is that if he has certain expectations he is bound in consistency to have certain others. (Ramsey 1990, p. 85)

Human behaviour was therefore predictable according to the elementary laws of mathematics :

If A is preferable to B, B for certain cannot be preferable to A ... If anyone violated these laws, his choice would depend on the precise form in which the options were offered him, which would be absurd. He could have a book made against him by a cunning better and would then stand to lose in any event.

We find therefore that a precise account of the nature of partial belief reveals that the laws of probability are laws of consistency, an extension to partial belief of formal logic, the logic of consistency. (Ramsey 1990, p. 78)

Yet it should be obvious that Ramsey's argument is false, and that money pumping can only work for certain if the *arbitrageur* knows for certain what the future will bring. Although some decision makers do go against the market and exploit intertemporal inconsistencies, there is no guarantee that they will succeed. An awareness that the markets can act inconsistently is not sufficient, by itself, to make Ramsey's *arbitrageurs* rich ; most people know that markets are liable to be very inconsistent, but anyone who hopes to become rich must also know specifically whether prices will rise or fall in the future. Arbitrage might be very profitable, but because the future is not known with certainty, it is also dangerous and could be disastrous. Real *arbitrageurs* have only an imprecise notion of the future, just as everyone else does, and so-called money-pumping is one more risky strategy amongst all the others in the market. Anyone who seriously thinks otherwise is invited to immediately make themselves fabulously wealthy. The moral that should be drawn from Ramsey's money pump is not that we can become very rich if other people act inconsistently, but that we can become very rich if we alone know the future.

The Textual Evidence

Keynes' essay *My Early Beliefs* described the evolution of his philosophic ideas ; and if Ramsey had forced Keynes to recant then, given the many and profound implications that such a recantation would have, it would have been almost impossible for Keynes to avoid some comment to this effect in his essay. Since in fact Keynes never mentioned any such thing, it is necessary to read creatively between the lines, or else to argue that Keynes gave a gravely misleading account of his own fundamental ideas. Bateman took the first route and O'Donnell took the second, by describing *My Early Beliefs* as "possibly the most deceptive document in Keynes's *oeuvre*, flawed by error, vagueness, internal inconsistency, and hyperbole" (O'Donnell 1989, p. 184). Nevertheless the failure of Keynes (whom incidentally I believe was an essentially veracious person) to ever mention his own recantation remains a serious stumbling block to all versions of the recantation and redirection story, which somehow have to overcome Keynes silence on the subject.

1. O'Donnell - Keynes Evasively Recanted

The exegetical story began, paradoxically, with a declaration that Keynes's system was unified by a principle of rational behaviour. « The concept underlying Keynes's philosophy as a whole is ... the more elusive notion of rationality. What *The Treatise on Probability* advances is a general theory of rational belief and action » (O'Donnell 1989, p. 3). However scrutiny of O'Donnell's *Keynes* soon reveals this unifying principle of reason to be merely formal. Rational behaviour could mean either of two different things. It could mean what economists typically consider to be rational, or else what they typically consider to be irrational ; and the theme of O'Donnell's book is that Keynes effected an « internal shift » (O'Donnell 1989, p. 146) from « strong » rationality to the « weak » version.

This shift was less than total, because though Keynes recognised the force of Ramsey's arguments against him, he was unable to change course :

I suggest that Keynes, at this relatively late stage of life, was too steeped in his original philosophical framework to relinquish it for another. The beliefs and mental habits formed over the 28 years prior to 1931 were too ingrained. However he did what he could within this framework to accommodate to new facts, ideas and criticisms, especially if they seemed to point to greater realism and understanding, or to offer hope in dealing with the unfinished business of the *Treatise on Probability*. (O'Donnell 1989, p. 147)

Nevertheless Keynes had been shaken by Ramsey's attack to the extent that he was "willing to modify a philosophical position [but] without collapsing into apostasy" (O'Donnell 1989, p. 147), ie to adapt provided that he did not have to totally recant 'practical reason'. I have put this latter term in apostrophes because of O'Donnell's unusual definition of 'practical reason' - he defines it as maximisation, subject to a constraint influenced by the "weight", or completeness, of information :

The essence of Keynes's theory of practical reason is that rational or right action consists in pursuing that particular course of action which is judged to maximise probable goodness on the whole, due attention being paid to the combined influence of weight and moral risk. (O'Donnell 1989, p. 133)

O'Donnell also calls 'practical reason' strong reason :

First *strong rationality*, based on known probabilities and referring to weight when appropriate. This kind of rationality is the primary focus of the *Treatise on Probability*. (O'Donnell 1989, p. 78)

Keynes had learned this version of utility theory from his Cambridge mentor G.E. Moore. Both Keynes and neo-classical economics assumed utility maximisation, but Keynes's theory allowed for "weight", and therefore for a non-quantitative constraint. From a Keynesian point of view therefore, Keynes had proposed a more general theory than neo-classical economics :

Keynes's theory is distinct from, and not reducible to, the neo-classical theory of expected utility maximisation. It is, for instance, not a purely mechanical approach with agents mathematically maximising expected utility on the basis of given perfect knowledge and mental power. The exercise of intuition, working with limited knowledge and ability, is essential to Keynes's approach. Nevertheless there are certain important relationships between them. Firstly, from within Keynes's theory it is possible to view the mathematical expectations doctrine as a special case holding under restricted conditions - again Keynes may be seen as aiming at a more general approach subsuming current orthodoxy

However O'Donnell's unspoken sub-text is that the view "from within Keynes's theory" was invalid. In reality 'practical reason' was not a more general principle, but only an [invalid] version of the theory of maximisation :

And secondly, from a wider perspective, both are members of the same family as a result of common characteristics such as consequentialism and the use of a maximising principle. Despite these relationships,

however, they are not generally equivalent or interchangeable. (O'Donnell 1989, p. 108)

O'Donnell argues that after Keynes had shifted from strong reason to weak reason, he explained economic behaviour as the outcome of arbitrary social conventions and caprice :

The second form, which may be called weak rationality by contrast, arises when reason in the strong sense has reached its limits and can proceed no further ... Being deprived of the necessary knowledge, reason is *obliged* to turn to alternative strategies which may be based on caprice, conventions or other arbitrary procedures. (O'Donnell 1989, p. 78)

One notable difficulty with 'strong reason' is that, as a matter of logic, it is not possible to maximise (ie it is not possible to definitively rank alternative states of the world) unless perfect knowledge can be assumed. Since O'Donnell stresses uncertainty, it is not possible to definitively connect a decision to its consequences. Did Keynes fail to understand this and perpetrate a simple but basic error, or has O'Donnell merely tried to synthesise Keynes with neo-classical economics at the wrong level? It is relevant that O'Donnell thought that Keynes was saying that uncertainty would always cancel out :

[According to Keynes] if we are completely nescient of the remote future and have no reason to believe anything definite about the relative size of its effects, then we have no particular evidence for or against its influence and it drops out of the picture. (O'Donnell 1989, p. 118)

In fact the error lies with O'Donnell and not Keynes. Keynes not only denied that it was possible to maximise when there was uncertainty, but he took his opposition to an extreme, and even rejected maximisation when there was quantitative probability :

In the present case, even if we are able to range goods in their order of magnitude, and also their probability in order of magnitude, yet it does not follow that we can range the products composed of each good and its corresponding probability in this order. (Keynes 1921, p. 349)

Even though we might know both the value of a set of outcomes, and the probability of each outcomes, "a new direct judgement might still be required" to bring the two together (Keynes 1921, p. 349 *et seq*). This is in accordance with what Keynes later said in *My Early Beliefs*, when he positively denied that he had ever subscribed to a principle of optimisation, with or without a Cambridge flavour :

As we had thrown hedonism out the window, and discarding Moore's so highly problematical calculus [of utility AF]... it follows that we

were among the first of our generation, perhaps alone amongst our generation, to escape from the Benthamite tradition. (Keynes 1973, X, p. 445).

O'Donnell has mistakenly attributed the early Keynes with an illogical utility theory, which O'Donnell has called 'practical reason'. The theory is absent from Keynes's mature writings ; and since O'Donnell believes that Ramsey's attack on Keynes was transparently correct, he has concluded that Keynes must have quietly distanced himself from 'practical reason'. Yet even so the story makes no sense, because Ramsey did not ever object to optimisation ; to the contrary, he himself formulated a very modern, ordinal, version of that doctrine. Ramsey attacked Keynes's theory that it was possible to respond rationally to a situation in which there were non-quantitative probabilities ; because Keynes's theory permitted inconsistent behaviour. If Keynes really had formulated a theory of optimisation, Ramsey could have had no objection, because optimisation would have ensured that behaviour was always consistent.

There is no textual evidence for O'Donnell's story, which is based on nothing more than confusion. However O'Donnell's erudition, and the widespread sympathy for logical positivism, were sufficient to revive the idea that Keynes must have, in some way, rejected his original and unacceptable position. A search began for a more plausible, and stronger, version of the recantation story.

2. Skidelsky - Keynes Inwardly Recanted

Our understanding of Keynes has been influenced, far more than that of any other figure in the history of economic thought, by his biographers. In particular Keynesian exegesis swelled from a trickle to a flood after the publication of volume 1 of Robert Skidelsky's justly famous *John Maynard Keynes*, the declared object of which was to advance a new interpretation of Keynes's system. Skidelsky's opening proposition was that the circumstances of Keynes's private life would not only reveal Keynes's vision, but would even cast a light on Keynesian economics :

If underlying Keynesian theory was Keynes's vision of his age, knowledge of his state of mind and the circumstances which formed it is essential, not only in order to understand how he came to see the world as he did, but also in order to pass a judgement on the theory itself. (Skidelsky, p. xv)

Skidelsky's portrait of a neurotic and irrational Keynes seemed to colour and complement the prevailing view that Keynesian economic theory must inevitably rely on irrational market behaviour. However Skidelsky's method took biography into new territory, and I have

commented adversely on Skidelsky's search for a unity in Keynes's life, rather than in his ideas. More to the point, Skidelsky's method was criticised by O'Donnell; and Skidelsky replied to the effect that his method had been able to reach a conclusion that O'Donnell himself had failed to establish :

O'Donnell finds much more consistency than I do between Keynes's epistemology, ethics, economics and politics, seeing that consistency to lie in his 'general theory of rationality'. I would argue that this consistency is formal, or can be made formal, but that a biographer's task is to pay attention to the points of tension, and the distribution of sympathy and passion, in a thinker's ideas. (Skidelsky, p. xii)

These 'points of tension' referred specifically to Keynes's alleged redirection. According to Skidelsky, Keynes had clearly been refuted by Ramsey, who had demonstrated that decisions which were made in the absence of perfect knowledge were entirely subjective :

Ramsey's statement, once made, seemed obvious. The Emperor had no clothes. All Keynes had established was that we make judgements of probability, not that there were objective probability relations corresponding to them. (Skidelsky 1992, pp. 70-1)

The force of Ramsey's argument was inescapable. "Ramsey's critique won the day", and although Keynes was "loath to surrender" his hard-won truths (Skidelsky 1992, pp. 71-2), his silence signalled defeat. I had argued that Keynes never abandoned his concept of rationality ; Skidelsky replied that Keynes was merely unable to adequately express his inner doubts :

Yet the issue is not so easily disposed of, for in his economic writings [Keynes] may have been trying to rationalise - give a rational account of - behaviour which he believed to be irrational. This, I believe, is a crucial point of tension which a biographer needs to notice, which emerges in the gap between the language Keynes uses and the thoughts he thinks. As he was to write, we know more than we can say precisely. (Skidelsky 1992, p. 89)

We may indeed all know more than we can precisely say. Yet however interesting a biographer may find the inner recesses of Keynes's mind, there are limits to the value of inexplicable insights, and there are also good reasons why economic exchanges usually occur with words rather than mental vibrations. We do not really know what Keynes thought, nor how clear his thoughts were, nor the extent to which he was committed to these thoughts, nor whether he had many other thoughts that were superior to the ones he had expressed, nor why he did not give those thoughts public expression. Whatever unuttered second thoughts Keynes may had about his

philosophy of probability, they should have no economic or policy implications. They should tell us absolutely nothing that would help us to “pass a judgement on [Keynes's] theory itself”.

Further, since Skidelsky has not found any *word* of a recantation, his insight depends on Ramsey having been *obviously and indisputably* correct. Yet not only do I deny that Ramsey was right, but I also dispute that Keynes thought so. For if we lay aside economic theory and turn to his more general ideas, then there are many examples to show that Keynes continued to apply his philosophy of uncertainty and judgement to matters of great significance. In the next section I point out that it was central to his theory of economic policy in the *General Theory*, and in his account of Isaac Newton, which was written at the time of or later. Since none of these analyses would have been possible if Keynes had felt that he had been refuted by Ramsey, they constitute positive evidence that Keynes was unaware of his own recantation or redirection.

3. Davis - Keynes Methodologically Recanted

John Davis's main point is that *The Treatise on Probability* was a ghastly mistake, because Keynes, as a follower of Bertrand Russell and G. E. Moore, had meant to write an “important contribution to the New Realist philosophy emerging at Cambridge”. However just before *The Treatise on Probability* was published, Russell and Moore had retracted their theories that there could be rational judgements, leaving Keynes stranded :

Ironically, then, by the time Keynes was to publish the *Treatise*, Russell and Moore had abandoned the view that propositions actually existed, and had gone on to argue that their accompanying (dyadic) theory of judgement (linking an act of judgement and the proposition judged) was fundamentally misconceived. This certainly was of no small consequence for Keynes's arguments ... (Davis 1994, p. 88)

The inherent unreasonableness of logical intuition, the “indisputably subjective” nature of judgement, and the impossibility of combining intuition with evidence, all constitute crucial evidence that he must have done so. Keynes was maintaining that intuition was a source of knowledge, and yet different people had different intuitions :

The crucial problem with Keynes's early thinking then, was in his adherence to an understanding of intuition that, as privately available to each and every one of us, purportedly provided certain and objective foundations for the great bulk of knowledge. (Davis 1994, p. 38)

Davis begins with an assertion that Keynes recanted. No one thinks that the early philosophic work of Marx and Smith “passed relatively unchanged into their later thinking and economics” (Davis 1994, p. xii).

Thus “understanding the development in Keynes’s thinking required understanding how philosophy and economics influenced each other in an overall intellectual development” (Davis 1994, p. xii). Yet Davis also admits that there is no textual evidence of any such recantation, and the nature of his argument changes mid-stream. The case against Keynes was so clear and unambiguous that it did not even matter what Keynes had said. Even if had been unaware that his position was untenable, we should read Keynes as if he were :

It is not suggested here that this [intellectual discontinuity] was a clear conscious decision on Keynes’s part (though there is nothing in his writings or papers to indicate that it was not). Rather, it is presumed here that any author’s self-understanding is of limited value for the analysis of that author’s work. Indeed no philosopher has ever anticipated the full range of interpretations of his or her thinking, and all philosophers have been evaluated according to the coherence of their ideas, not their author’s own appraisal of those ideas. (Davis 1994, p. 175)

Yet Keynes’s theory of judgement does not perpetrate a logical contradiction, and its errors are less than transparent to those of us who have reservations about the absolute truth of Ramsey’s method. I can cheerfully admit that each entrepreneur, or each creative mind, might understand a given situation in a unique way, without concluding that there are no entrepreneurs or creative minds. Far more to the point, Keynes himself considered this “crucial problem” to be less than crucial. Whatever the merits of Keynes’s theory, he seems to have anticipated, and rejected, Davis’s objection :

While it is important, in establishing a control of direct judgement by general principles, not to conceal its presence, yet the fact that we ultimately depend upon an intuition need not lead us to suppose that our conclusions have, therefore, no basis in reason, or that they are as subjective in validity as they are in origin. (Keynes 1921, p. 76)

Furthermore, and despite what Davis claims, Keynes did not fall silent on this subject of logical intuition, but continued to refer to it frequently and in relation to the most significant social and scientific issues. We will simply note his 1936 analysis of judgement and rearmament ; a British decision about whether to rearm could hardly be optimal or scientific, but since it could take account of the available information, even when it was of a nebulous sort, neither could it be described as entirely subjective :

The only practical course is to form a judgement of probability based on our view of the temper of the country, its motive and ideals, its public opinion in the broadest sense, and the sort of people likely to be

in power from time to time in the near future. It is on such a judgement, and on such a judgement alone, that we can arrive at a reasonable conclusion whether we wish this country to be strong or weak. (Keynes 1973, XXVII, p. 52)

The *General Theory* stressed that Keynes's own economic theory need to be interpreted with judgement ;

If we examine any actual problem along the lines of the above schematism, we shall find it more manageable ; and our practical intuition (which can take account of a more detailed complex of facts than can be treated on general principles) will be offered a less intractable material upon which to work (Keynes, 1936, p. 249).

And one of his last essays, concerning Isaac Newton and the origin of scientific ideas, Keynes attributed Newton's pre-eminence in science to his "muscles of intuition" :

I fancy [Newton's] pre-eminence is due to his muscles of intuition being the strongest and most enduring with which a man has ever been gifted. (Keynes 1973, X, p. 365)

So when Davis claims that we should interpret Keynes's ideas as though they were 'coherent', the answer is that should recognise all ideas. However we normally distinguish between an author's original ideas and their subsequent development for the same reason that we study the history of thought. Experience shows that some enlarged minds have continued to be a source of inspiration, and that new ways of understanding their old truths can sometimes suggest fruitful themes and directions. For this reason we customarily differentiate between Keynes's economics and Keynesian economics, just as we do between the historical and canonical versions of Adam Smith. It is unlikely that Davis's coherence with positivism theme would exhaust all of Keynes's intellectual potential, and it is even possible that Davis himself might find something additional in the real Keynes, just as J.R. Hicks did after he had formulated the IS-LM system.

However the main point is that the posthumous reinterpretation of an author's works can hardly count as evidence of an intellectual discontinuity in that author's writings. Davis begins by asserting that a discontinuity in Keynes's thought occurred in historical time, but points of methodology are not evidence of what Keynes actually said.

4. Bateman - Keynes Explicitly Recanted

Bateman has not only insisted that there is clear textual evidence Keynes explicitly "capitulated" and "graciously conceded defeat", but he has even accused other researchers of refusing to see the obvious :

Virtually none of the recent work on Keynes accepts his own statement in *My Early Beliefs* that he abandoned his early conception of probability in the face of Frank Ramsey's attack in the *Foundations of Mathematics*. Virtually none of the recent work accepts his own statement that he saw his early attachment to Platonism as a mistake. (Bateman 1996, p. 8)

But despite this appeal for textual accuracy, it is transparent that Bateman (Bateman 1996, ch.1) has confused the proposition (1) 'I was too ready to assume rational behaviour', which *My Early Beliefs* explains at length, with the very different proposition (2) 'I rejected my concept of rational behaviour', which is nowhere to be found in Keynes. Bateman relies on this passage, in which Keynes said at length that he had been too ready to assume rationality :

"We were among the last of the Utopians, or meliorists as they are sometimes called, who believe in a continuing moral progress by virtue of which the human race consists of reliable rational decent people, influenced by truth and objective standards, who can be safely released from the outward constraints of convention and traditional standards and inflexible rules of conduct, and left from now onwards, to their own sensible devices, pure motives and reliable intuitions of the good. (Quoted in Bateman 1996, p. 12)

This passage is advanced as evidence of proposition (2), when in fact it is only relevant to proposition (1). It is proposition (2), the point that Bateman needs to establish, which is not in the 30 volumes of Keynes's *Collected Writings*. Keynes did not recant his view that rationality requires the combination of evidence and intuition, even though he did come to concede that this type of rationality was rare.

I have divided the other passage that Bateman relies upon into its three constituent parts. This was Keynes's response to Ramsey :

Ramsey argues, against the view which I had put forward, that probability is concerned not with objective relations between propositions but (in some sense) with degrees of belief ...

Ramsey had presented this as a semantic point, made for the purposes of clarification. If probability was concerned with degrees of belief rather than objective relations, then the substantive issue would become whether "degrees of belief" could have a partial basis in fact and reason, or (alternatively) whether they were exclusively subjective. Ramsey therefore described it as "an obvious and easily corrected defect" in Keynes's theory of probability (Ramsey 1990, p. 56). The passage continues :

[Ramsey] succeeds in showing that the calculus of probabilities simply amounts to a set of rules for ensuring that the system of degrees of

belief which we hold shall be a consistent system. Thus the calculus of probabilities belongs to formal logic.

This was Keynes's concession. Keynes had argued that there was a logic of non-quantitative probabilities, and he now conceded that only *consistent* probabilities could be part of formal logic. However the concession was semantic rather than substantial, because it concerned the definition of the word 'logic'. Keynes had adopted a common sense definition of logic, but he now accepted Ramsey's narrow definition of formal logic. He then went on to complain of the aridity of narrow logic :

The gradual perfection of the formal treatment [of logic] at the hands of Russell, of Wittgenstein and of Ramsey had been, however, to empty it of content and to reduce it more and more to dry bones, until finally it seemed to exclude not only all experience, but most of the principles, usually reckoned logical, of reasonable thought.

The final part of the alleged 'capitulation' proceeds thus :

But the basis of our degrees of belief - or the a priori probabilities as they used to be called - is part of our human outfit, perhaps merely given us merely by natural selection, analogous to our perceptions and our memories rather than to formal logic. So far I yield to Ramsey - I think he is right. (Keynes 1973, X, p. 39)

The meaning of this passage depends on what is implied by 'natural selection'. A logical positivist might argue interpret it to mean that *a priori* probabilities are entirely subjective. However it might also be argued that evolution as a force operating to enhance human power of judgement, and that this power constituted an extension of the senses and the mind. This was the view of the very young Keynes - "as you rise in the scale the element of reflection grows and grows". (Keynes, *Posterior Analytics* UA/28).

In summary there is no reason to think that Keynes rejected the concept of rational intuition, or that he embraced a strict dichotomy between formal logic and subjective feelings. Consequently the overall tone of Keynes's "capitulation" was not characterised by a gracious deference, but by a gracious opposition, to Cambridge philosophy. Not only did Keynes mount an attack on the narrowness of that system, but he concluded the passage at issue with an accusation that Ramsey had been unable to explain induction. Since induction requires judgement, Ramsey had to defend the indefensible and describe it as a "useful mental habit".

Finally, Bateman's conclusion, that Keynes abandoned his policy orientation after being converted to positivism, is contradicted by more evidence than I can possibly present. *The General Theory* was written as a

solution to the sufferings of the Great Depression. It stressed the importance of establishing an effective set of macroeconomic controls :

Our final task might be to select those variables which can be deliberately controlled or managed by central authority in the kind of system in which we actually live. (Keynes 1936, p. 247)

As Bateman notes, Keynes did not advocate fine tuning, but he did want monetary policy to permanently reduce the rate of interest, and he welcomed a side effect of this policy, which was the euthanasia of the rentier (Keynes 1936 : 376). And though he reserved judgement as to whether monetary policy alone would be sufficient to counter unemployment (Keynes 1936, p. 172), Keynes indicated that the objections to deficit financing were misconceived (Keynes 1936, p. 130). He was prepared to advocate if necessary the “guiding influence of the state through taxation”, and if further necessary the “comprehensive socialisation of investment” (Keynes 1936, p. 378). Far from acting as an outside observer of the decision making process, Keynes took the view of a participant by advocating an extensive and radical program of economic intervention.

Conclusion

And yet Keynes does seem to have changed direction in one very crucial respect ; Keynes did not explain the microeconomics of the *General Theory* in terms of uncertainty and judgement. To this extent the exegetical literature has discovered an important truth ; the system of uncertainty and judgement was not applied in the most important instance, although it might have been. The theory of knowledge to which Keynes subscribed when he wrote the *General Theory* was not clearly and unambiguously declared, and it is very easy to read the *General Theory* as a system of zero knowledge and irrational behaviour. This is exactly how it *was* understood, and it is arguable that traditional Keynesian economics became sterile and eventually broke down *because* the *General Theory* was read in this way.

My conclusion is that although Keynes did not recant, he did not adequately address the methodological issue, so far as it related to economics. Of course his main concern in the *General Theory* was to end the Great Depression, and not to debate the faults of Ramsey and logical positivism, but Keynes’s language allowed economists to integrate the new principle of aggregate demand into a methodology which he himself still regarded as false. The seeds of the present crisis in macroeconomics were

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sown in 1936, when Keynes designed a theory that would solve the pressing economic problems of his own time and not of ours.

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Citer ce document / Cite this document :

Fitzgibbons Athol. Against Keynes' Recantation. In: Cahiers d'économie politique, n°30-31, 1998. Keynes : économie et philosophie. pp. 147-166;

doi : <https://doi.org/10.3406/cep.1998.1217>

https://www.persee.fr/doc/cep_0154-8344_1998_num_30_1_1217

Fichier pdf généré le 17/05/2018