

JOHN MAYNARD KEYNES AND HIS DECLARATION OF A GENERAL THEORY

Time is a device to prevent everything happening at once, space is
a device to prevent it all happening in Cambridge.

(A paraphrase – attributed to Dharma Kumar.
– of Joan Robinson)

Keynes was a product of his Cambridge surroundings. His father wrote a major treatise on the methodology of economics. Educated initially in mathematics and philosophy, his move towards economics placed him under the influence of the Cambridge Marshallian tradition.

As we have seen in chapter 8, Alfred Marshall had explicitly recognised the importance and significance of the German historical school. Marshall had also urged John Neville Keynes to immerse himself in the Austro-German literature on the *Methodenstreit*. However, after Marshall's retirement in 1908, economists at the University of Cambridge paid dwindling attention to the German historical school. Strikingly, John Maynard – Neville's son – paid them little regard. Maynard Keynes followed Marshall in attempting a general theory but with none of Marshall's acknowledgement of the problem of historical specificity. Apart from occasional positive citations of Georg Knapp's (1924) theory of money, there are very few other references to either the German historical school or to American institutionalism in Maynard Keynes's works. Overall, and unlike his predecessors, Keynes made little reference to the German historical school and he seemed largely unaware of its contribution. In Keynes's *Collected Works* as a whole, there are only two minor footnote references to works of Gustav von Schmoller and no reference whatsoever to Werner Sombart.¹

Keynes candidly admitted (1930, vol. 1, p. 199 n.) that his knowledge of the German language was 'poor'. But this fact alone cannot explain his minimal engagement with other schools of thought overseas. It would have been possible

1 Keynes had encouraged the translation of Knapp's work into English and he referred to it approvingly in his own *Treatise on Money* (Keynes, 1930). Of course, Keynes was more familiar with some of the members of the British historical school, particularly those who were friends or acquaintances of Marshall. Among these, most notably, was Foxwell. Keynes (1972) wrote a lengthy obituary on Foxwell in the *Economic Journal* in 1936.

to obtain linguistic help and to make a determined effort to obtain knowledge of a substantial, thriving and long-lasting community of social scientists situated across the North Sea, just a few hundred miles to the east of Cambridge. Indeed, at least for any economist writing before the Second World War, some knowledge of the German contribution to economics was a scholarly requirement, and not a mere option.

Furthermore, to the west across the Atlantic, institutional economics was then a substantial force in America. In this case there was no language barrier. Nevertheless, there is no evidence to suggest that Maynard Keynes was generally familiar with the works of leading American institutionalists. Keynes never referred in his writings to Thorstein Veblen. He was most acquainted with the ideas of Wesley Mitchell. Keynes (1930) cited Mitchell's work on business cycles several times in his *Treatise on Money*. In May and June 1934 he met Mitchell in New York City and received an honorary doctorate at Columbia University (Keynes, 1973a, p. 456; 1982, p. 320). Despite this, Keynes failed to mention Mitchell in his *General Theory*.

Keynes briefly referred to John Commons. In a talk and in an essay both written in 1925, Keynes (1931, pp. 303–4; 1981, p. 438) acknowledged Commons as an 'eminent American economist' and expressed agreement with Commons's idea that history had passed through 'the era of scarcity' followed by 'the period of abundance' in the nineteenth century and the 'period of stabilisation' in the twentieth. In 1927, Commons sent Keynes one of his short articles on 'Price Stabilization and the Federal Reserve System' (Commons, 1927). As a result, Keynes wrote to John Commons on 26 April 1927: 'Judging from limited evidence and at great distance, there seems to be no other economist with whose general way of thinking I find myself in such genuine accord.' However, the influence of Commons on Keynes was slight at best, for there is no evidence that Keynes turned a single page of such key works as *The Legal Foundations of Capitalism* (1924) or *Institutional Economics* (1934). Robert Skidelsky's (1992, p. 229) description of Commons as 'an important, if unacknowledged influence on Keynes' is an unwarranted exaggeration. The evidence of influence simply concerns Commons's highly questionable scheme of historical periodisation, which for some strange reason Keynes briefly found attractive.²

Many other economists who came into contact with Keynes were more aware of the historicist and institutionalist legacy. While Keynes was editor of the *Economic Journal* – from 1912 to 1945 – he saw the publication of a substantial number of articles, notes and reviews that cited the works of leading historicists and institutionalists of his day. Yet Keynes paid relatively little attention to these cited works.³

2 The idea that history had passed through 'the era of scarcity' followed by 'the period of abundance' and the 'period of stabilisation' is found in Commons (1934a, pp. 773–88). It is not clear how Keynes got sight of an earlier draft of these ideas. Keynes's letter to Commons is found in the Commons Papers, State Historical Society of Wisconsin, 1982. It is quoted in Skidelsky (1992, p. 229) and Whalen (1993, pp. 1175–6).

3 In the complete years from 1912 to 1944 inclusive – while the journal was under Keynes's editorship – the following names were cited by other authors in articles, notes or reviews in the

Joan Robinson (1973, p. ix) famously complained that Keynes 'never managed to read Marx'. This was a serious defect for a theorist of the contemporary economic system. However, the omissions go further. Remarkably, in the *General Theory* – his most important and by far his most widely read book – there are no references in the index to leading institutionalists or historicists such as Commons, Knapp, List, Mitchell, Schmoller, Sombart, Veblen or Weber. Schumpeter also receives no mention. Apparently, their ideas played little part in the development of Keynes's theory.⁴

From a policy point of view, Keynes found many kindred voices in other countries. Yet he made inadequate reference to economists, in Germany as well as the United States, who argued long before 1936 that the stimulation of effective demand was the key to economic recovery from the Depression. In the United States, for example, the idea of using public works to revive the economy and reduce unemployment was widespread among economists by 1935 (J. R. Davis, 1971). Yet these American ideas had little impact on Keynes's writing. Language barriers alone cannot explain Keynes's neglect of closely related intellectual developments elsewhere.⁵

Remarkably, as George Garvy (1975) and Jürgen Backhaus (1985) have shown, in Weimar Germany there was a substantial group of economists – including Sombart – who had developed a sophisticated argument for increased public spending to combat recession. As Backhaus (1985) demonstrates, Sombart's views on this matter were grounded in his theoretical analysis of modern capitalism. Again, this had little impact on Keynes. Overall, as Garvy (1975, p. 393) argued, Keynes was a product of a relatively insular academic environment:

Economic Journal: Commons (30), Mitchell (133), Schmoller (69), Sombart (89), Veblen (39), Weber (104). (The number in brackets is the number of items in which each name appears.) However, none of these names is cited in the *General Theory*. In contrast to Keynes, many contributors to the *Economic Journal* believed that the ideas of these leading institutionalists and historicists were of sufficient interest to be worthy of citation.

4 The omission of Mitchell from the *General Theory* is particularly striking, as he had helped to lay the foundations of national income accounting – a practical requirement for the operationalisation of Keynes's macroeconomic principles (Hodgson, 1999b). However, in the *General Theory* there are singular references to two American institutionalists – Knight and Kuznets – and a substantial acknowledgement of the work of the English historicist and institutionalist Hobson. Nevertheless, by comparison, the following economists received multiple references in the *General Theory*: Cassell, Edgeworth, George, Hawtrey, Hayek, Jevons, Kahn, Malthus, Mandeville, Marshall, Mill, von Mises, Petty, Pigou, Ricardo, Robbins, D. H. Robertson, Say and Smith. This number of citations to other authors would refute the defence that Keynes rarely cited institutionalists and historicists because he rarely cited anyone. Mere citation is a blunt bibliographic measure, but there is clear evidence here of a relative neglect of historicism and institutionalism.

5 From the 1920s on, Keynes declared that a policy of free trade was unrealisable and undesirable. Against him, Robbins was one of the leading academic advocates of free trade. In responding to Keynes in the *New Statesman and Nation* on 4 April 1931, Robbins described: 'The shades of a million dead parrots – the much bewhiskered *historismus* of the past – rise up and hail him [Keynes] as a brother, "recognized at last"' (quoted in Koot, 1987, p. 210). Ironically and unfortunately, Keynes was unable to transform this into a useful compliment and to use the plentiful arguments of the historicists against Robbins. Furthermore – unlike the inert parrot of *Monty Python* fame – the flock of 'dead parrots' described by Robbins was far from deceased at the time.

A simple answer to the question why *General Theory* was written in an intellectual vacuum can be given by referring to the well-known isolation of Cambridge economists within the proverbial insularity of Great Britain. . . . Keynes read little of what contemporary economists had to say . . . [n]or did he dig deeply into the wealth of ideas and analyses of the preceding generations of economists. He largely ignored the contributions of his contemporaries (and the generations preceding them) who published in languages other than English.

To what extent can the insularity of Keynes's intellectual environment explain these defects of omission? Significantly, Marshall was also at Cambridge but he referred repeatedly to leading German economists. However, the Cambridge intellectual atmosphere seemed to change after Marshall's retirement in 1908. His successor Arthur Pigou kept the Marshallian intellectual legacy alive but failed to sustain the momentum of Marshall's curricular innovations and reforms. Pigou was a notoriously shy recluse and had 'a total lack of administrative capacity' (Groenewegen, 1995, p. 755). Crucially, he had no apparent knowledge of, or interest in, the German historicist legacy. With the exception of a positive review of Wesley Mitchell's 1913 work on *Business Cycles* (Pigou, 1914), Pigou made no significant mention of historicism or institutionalism. Overall, despite his own achievements, Pigou was less careful than Marshall in reminding others of the qualified and provisional nature of all economic theory. Although Pigou himself made a major contribution, much of this was completed before 1920. In the 1920s, Cambridge economics seemed to rest on its laurels. Keynes himself was largely responsible for the revival of economics at the university. As Robert Skidelsky (1992, p. 286) put it, following the publication of Keynes's *Treatise on Money* (1930), 'Cambridge economics was coming to life after its long war-induced slumber.'

Keynes had the luck and the brilliance to write the most prominent and important economics text that provided a theoretical justification for government interventions to raise the level of employment in the 1930s. He also played a major role in the planning of the new international economic institutions that were to emerge after the Second World War. Accordingly, the term 'Keynesian' became associated with a number of theoretical and policy ideas, some of which in fact pre-date the *General Theory*. Keynes's outstanding volume codified the macroeconomic ideas of the postwar consensus. It became the bible of macroeconomic theory. However, as a result, the silences and omissions of the *General Theory* became the amnesia of postwar generations of economists and policy makers.⁶

Hence, despite the enormous importance and value of his contribution, Keynes was to play an unwitting role in the Great Forgetting that was to afflict economics

6 For a discussion of the historical and institutional context of the rise of Keynesianism see Winch (1969). It is not the intention of this chapter to undermine the importance and genuine value of Keynes's contribution. Elsewhere, however, I have criticised Keynes's overly rationalist conception of action and his neglect of the influence of the historically specific past on the decision making processes of the agent (Hodgson, 1988, ch. 10).

in the years to come. Keynes's work was both a symptom and an additional cause of the abandonment of the heritage of historicism and institutionalism in economics after the Second World War. Of course, Keynes's negative role in this respect must be put alongside his major and revolutionary achievements in economics. Nevertheless, his abandonment of historicism and institutionalism had effects that hitherto have been unappreciated, and it is necessary to discuss them here.

Keynes is rightly credited with furthering a global revolution in economic thought, which radicalised the whole approach to macroeconomic theory and policy. However, the crucial historicist lacuna in his knowledge, combined with his own admiration for general theorising, was eventually to help to obliterate both institutionalism and the historical school from the memories of both mainstream and dissident economists.

HOW GENERAL IS THE *GENERAL THEORY*?

Analytically, we focus on just one aspect of Keynes's contribution. Despite the gigantic secondary literature on Keynes and Keynesianism, it has rarely been discussed. Yet Keynes himself attributed to it much importance. Very near to the beginning of his *General Theory* he wrote:

I have called this book the *General Theory of Employment, Interest and Money*, placing the emphasis on the prefix *general*. . . . I shall argue that the postulates of the classical theory are applicable to a special case only and not to the general case, the situation which it assumes being a limiting point of the possible positions of equilibrium. Moreover, the characteristics of the special case assumed by the classical theory happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience.

(Keynes, 1936, p. 3)

The first chapter of the *General Theory* consists solely of the single paragraph from which the above quotation is taken. Here Keynes was playing a double rhetorical game. First, the term 'general theory' was used to create a contrast with the special theory of the 'classical' economists. Keynes made the convincing argument that the 'classical' theory was a 'special case': it pertained to a special and limited set of possible outcomes. Keynes enlarged on this point throughout the *General Theory*, arguing that the 'classical' theory encompassed neither uncertainty nor disequilibria. He wanted a 'general theory' that could explain such phenomena.

There is a crucial ambiguity in the above quotation. According to one possible interpretation, Keynes was seeking a theory that could explain more adequately the possible outcomes in *one given type* of 'economic society'. Such a theory would be more general and satisfactory than one that explained less. However, such a theory might not be general in the sense that it could lead to adequate

explanations of phenomena pertaining to *other types* of 'economic society'. In the terms introduced in chapter 2, Keynes in the above passage might have sought explanations that were more general in an intensive rather than in an extensive sense. The claim made there by Keynes was that his 'general' theory could embrace and explain more phenomena within the single 'economic society in which we actually live'.

However, as shown below, Keynes also made extensive claims about the generality of his theory. He also claimed in the same work that his theory had sufficient generality to apply to several different types of 'economic society', by virtue of its supposed foundation on universal 'psychological laws'.

If the 'economic society in which we live' is different in one or more important respects from other socio-economic systems, then an attempt at an extensive general theory, embracing all or several such systems, might have difficulty including every possibility. The complexity of reality can place limits on the detailed explanatory power of any general theory. The pursuit of a general theory always involves simplification and loss of specific details. The danger is that we may fail to identify the particular mechanisms that were relatively more important at a specific historical juncture. Keynes did not seem to recognise this dilemma. He did not acknowledge that by trying to make a theory more general we may make it less able to focus on the important aspects of the 'economic society in which we live' and less able to design effective policies to deal with economic problems.

In economics, a theory with sufficient explanatory power would have to focus on the key economic relations and processes that were of importance in understanding the nature and behaviour of the system in question. Keynes did not consider that a theory with substantial explanatory power, that applied to the 'economic society in which we live', might have to be a special theory. Indeed, a 'general theory' might under-emphasise some of the historically specific features of the economic system and the causes of the prevailing unemployment of the 1930s. Keynes overlooked the possibility that a special theory could use some assumptions concerning economic institutions that were limited to a historically specific domain of analysis, and end up with much greater explanatory power.

Keynes was concerned to criticise those 'classical' theories that claimed to show that markets would clear and the economy would automatically reach a full-employment equilibrium. But the fact that Keynes clearly considered disequilibria, and other equilibria below full employment, was not enough to make his theory truly *general*. There were other types of system – such as economies without money – that in fact had no place in Keynes's theory. The classical theory is not general, in part because it assumes price flexibility, excludes radical uncertainty and under-estimates the role of money as a store of value and means of dealing with an uncertain future. Nor, for different reasons, is the *General Theory*. While Keynes dropped several of the classical assumptions, he imposed other restrictive conditions. For instance he assumed a monetary economy, without extensive barter, where money plays a special role. While Keynes made his theory more general with one move, he made it less general

with another. Overall, it is difficult to say whether the classical or the Keynesian theory is more general. And if one theory is more general that would not necessarily mean that it is a better theory.

In addition, Keynes did little in explicit terms to ground his theory upon historically specific economic institutions. Although institutions, such as the joint stock company and the stock exchange, inevitably protrude into his narrative, he did not start from the specific institutions of capitalist society and then develop a theory that illuminated their principal causal processes and relations. Instead, Keynes (1936, pp. 246–7) appealed repeatedly to ‘fundamental psychological factors’ as the foundation for his theory. His invocation of supposed psychological factors in his discussion of economic processes is more prominent than any discussion of historically specific institutions. Specific institutions appear casually in the *General Theory* as the mechanisms through which seemingly ahistorical psychological forces express their power. Keynes attempted to develop a ‘general theory’ that would apply to a number of different types of socio-economic system. He conceived of this general theory as having a universal and psychological foundation.

A striking piece of further evidence confirms this verdict. As Bertram Schefold (1980) has shown, in his 1936 Preface to the German edition of the *General Theory*, Keynes made the following extraordinary but symptomatic argument:

This is one of the reasons which justify my calling my theory a *General* theory. Since it is based on less narrow assumptions than the orthodox theory, it is also more easily applied to a large area of different circumstances.⁷

According to Keynes, his *General Theory* applied not only to the ‘Anglo-Saxon countries . . . where laissez-faire still prevails’ but also to countries with strong ‘national leadership’ such as Nazi Germany. He made this statement on the basis that his analysis was not based on specific institutions but allegedly on ‘the theory of psychological laws relating consumption and saving’. Hence Keynes clearly claimed that his theory was not based on historically specific institutions but on general ‘psychological laws’. But Keynes gave little guidance on the psychological literature from which these supposed laws were derived.⁸

7 Davidson’s (1996) translation of this passage is slightly different. In particular, he translates *weniger enge Voraussetzungen* as ‘fewer restrictive assumptions’ instead of ‘less narrow assumptions’. Both translations are possible, but in personal correspondence Schefold has given reasons why his version is to be preferred. We are unlikely to determine Keynes’s intended meaning in more precise terms, because the preface was translated into German from a draft by Keynes, which the editor condensed and has since been lost.

8 Schefold (1980) pointed out that, with the exception of the statement concerning ‘the theory of psychological laws’, the above words were excluded from the English translation of Keynes’s preface to the German edition, in his *Collected Works*, vol. 7. Notably, Davidson (1996) quoted and endorsed the key words from the ‘missing’ passage quoted here. Hutchison (1981, pp. 261–2) has indicated, however, that in the preface to the French edition of the *General Theory*, Keynes made yet another claim, that his theory was also general in the sense that it applied to the general behaviour ‘of the economic system as a whole’.

Furthermore, Keynes did not in fact deliver what he had promised: a general theory. Keynes did make some universal statements. In particular, he stressed aspects of human psychology. But he could not show how psychological propensities worked out in practice except by introducing an explicit or implicit institutional framework. Human psychology had to play out its part on some specific institutional stage. It had to be applied to quite specific institutional structures, such as to financial markets, state money and legal contracts. Hence the famous discussion of the psychology of speculation in chapter 12 of the *General Theory* requires a specific type of institutional framework, principally the stock market. Other parts of the book, such as Keynes's theory of money or interest have a greater degree of generality, although these are not universal to all types of human society. Again they refer to historically specific phenomena.

Consider the specific economic phenomena to which Keynes referred in the title of his book. Even here he did not fulfil the promise of a general theory. The work did not provide a general theory of the nature and level of employment in all past, present or possible human societies. What Keynes analysed was the quite specific relationships in modern capitalism between employment, expectations and effective demand. Rather than providing a truly general theory of interest or money, Keynes explored the quite specific, capitalist type of system in which 'money is the drink which stimulates the system to activity' (Keynes, 1936, p. 173). Money has existed for thousands of years but it did not become such an elixir of production until the rise of modern capitalism. Keynes favoured the 'general theory' rhetoric but always ended up exploring the particular circumstances of the contemporary capitalist system. Absent in the *General Theory* is a truly general theory of employment, interest or money.

In sum, Keynes claimed generality but relied upon the historically specific institutions of modern capitalism. Overall, one wonders why Keynes was inclined to use and emphasise the 'general theory' phrase. He could have easily and concisely called his book *A Theory of Employment, Interest and Money*. The intellectual mood of the times may have been a factor. It may help to explain why Keynes aimed to develop a 'general theory' and neglected the problem of historical specificity. Albert Einstein had developed 'the general theory of relativity'.⁹ Physics and biology were both basking in the illuminations of Einstein, Darwin and others, and seemingly making great strides towards the conceptual unification of each discipline. Similarly, in these 'years of high theory' (Shackle, 1967) economists were also striving towards a grand, synthetic explanation of the underlying forces of economic recovery and growth.

⁹ Keynes and Einstein met in Berlin in 1926. Hsieh and Ye (1992) and Skidelsky (1992) have both suggested that Einstein inspired Keynes. Galbraith (1996) made a case that the *General Theory* was Einsteinian rather than Newtonian in its assumptions because Keynes broke from 'Newtonian reductionism and his space-time dichotomy, as both were reflected in the classical economics'. Instead 'Keynes sought to disestablish the absolute space of classical markets, and to end the separation of markets from the world of money'. This does not alter the fact that physics deals with physical constants and laws of nature that are fixed, whereas the subject-matter of economics evolves and changes through history. Even if the Einsteinian parallel has substance, it does not sustain the possibility of an entirely 'general theory' in the domain of economics.

Notably, Keynes did show some awareness of the philosophical basis of the problem of historical specificity. In a letter to Roy Harrod dated 4 July 1938, Keynes (1973b, p. 296) wrote:

Economics is the science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world. It is compelled to do this, because, unlike the typical natural science, the material to which it is applied is, in too many respects, not homogeneous through time.

However, there is an inconsistency in Keynes's work. In the above letter he implied that economic theory must be related to historically specific material. Yet the *General Theory* was attempted on the basis of universal 'psychological laws'. If Keynes had been aware of the vast historical school literature, which had tried to develop economics in full awareness that economies are 'not homogeneous through time', then he would have been less likely to attempt an entirely *general* theory.

Any analysis in economics that engages with reality is bound to make some assumptions about the institutional make-up of society. The *General Theory* was no exception. But the reckless striving for generality relegates specific institutions to the background, whereas they ought to occupy the centre of the stage. There is not much discussion in the *General Theory* of specific economic institutions that are, in fact, indispensable to his argument. For example, Keynes was concerned to examine the nature of the wage bargain, and the relation between real and money wages. But the institutions of the labour market and employment are not discussed in any depth. In this respect, Keynes attempted the impossible: to draw quite specific conclusions from a theory that purported to be general.

This pretence of generality has widely afflicted economics for much of the twentieth century. Because of Keynes, many of his followers have attempted general theories as well. On the other hand, some post-Keynesians have stressed the importance of history and specific economic institutions, so that the rhetoric of general theorising has been implicitly undermined.

For example, Victoria Chick (1986) has shown that standard assumptions of monetary theory are specific to the financial institutions involved. As these institutions evolve through time, different theoretical principles can pertain. In particular, the nature of money itself changes, from precious metal, to bank deposits, to data in computer memories. Chick argued that because of the institutional realities of pre-industrial capitalism, saving necessarily preceded investment. Subsequently, as soon as banks were able to create credit, saving no longer had to precede investment. As the banking system evolved it enhanced the capacity for the banks to create credit. Hence, by the 1920s and the time of Keynes, banking institutions and the credit system had evolved to the point that investment could and would precede saving. This was the quite specific historic period to which the allegedly *General Theory* applied. Subsequently, as Chick pointed out in her paper, financial institutions have developed further, with

massive global speculation in a variety of financial assets. This may mean that Keynesian analyses and remedies can to some extent become obsolete.

Chick's argument underlines the fact that the *General Theory* was not, in truth, a general theory but it applied to a historically specific set of capitalist institutions. Like Chick, other Post Keynesians have explicitly centred their analysis on historically specific institutions. What has been largely unnoticed, however, is the implication that the professedly general theoretical status of the *General Theory* is likely to be undermined as a result.

JOHN MAYNARD KEYNES, JOSEPH SCHUMPETER AND ECONOMIC POLICY

In his extended and generous obituary of Keynes, Schumpeter (1946, p. 514) wrote of the *General Theory*:

But there is one word in the book that cannot be defended on these lines – the word 'general.' Those emphasizing devices – even if quite unexceptionable in other respects – cannot do more than individuate very special cases. Keynesians might hold that these special cases are the actual ones of our age. They cannot hold more than that.

Schumpeter thus criticised Keynes for propounding a theory that claimed to be general but in fact was not. Similarly, in his earlier review of the *General Theory*, Schumpeter noted the contrast between Keynes's claim to provide a general theory and his keenness to promote specific economic policies. Schumpeter (1936, p. 792) claimed that Keynes had adopted the 'Ricardian' practice of claiming highly specific policies from an allegedly general theory:

Mr. Keynes underlines the significance of the words 'General Theory' in his title. . . . But . . . everywhere he really pleads for a definite policy. . . . It is, however, vital to renounce communion with any attempt to revive the Ricardian practice of offering, in the garb of general scientific truth, advice which – whether good or bad – carries meaning only with reference to the practical exigencies of the unique historical situation of a given time and country.

This is a valid criticism. Schumpeter (1954, p. 1171) dubbed this defect 'the Ricardian vice'. He thus alleged a parallel between Ricardo and Keynes: 'Keynes . . . was Ricardo's peer also in that his work is a striking example of . . . the Ricardian Vice, namely, the habit of piling a heavy load of practical conclusions upon a tenuous groundwork.'

Schumpeter (1946, p. 514 n.) also noted that Oskar Lange in 1938 had 'paid due respect to the only truly general theory ever written – the theory of Léon Walras'. Lange (1938, p. 20) had argued that 'both the Keynesian and the traditional theory of interest are but two limiting cases of what may be regarded to be the general

theory of interest . . . the essentials of this general theory are contained already in the work of Walras.' Later Schumpeter (1954, p. 1082) mistakenly declared Keynes's *General Theory* to be 'a special case of the genuinely general theory of Walras'. Clearly, Schumpeter too was beguiled by the lure of a general theory. That is one reason why he praised Walras throughout his life. Schumpeter rightly pointed out that the *General Theory* was not truly general. Schumpeter's persuasive criticism of Keynes was that instead of attempting to derive specific policies solely from a theory that claimed to be general, Keynes should have analysed a historically specific situation. His unpersuasive criticism of Keynes was that the *General Theory* was not general enough.

Schumpeter's invocation of Walras as a general theorist was also questionable. Contrary to Schumpeter, Walrasian theory is not general. Walras made restrictive assumptions in his model, by excluding out-of-equilibrium trading, for instance (Bertrand, 1883; De Vroey, 1998). It has been admitted by leading practitioners of Walrasian theory – such as Kenneth Arrow (1986) and Frank Hahn (1980) – that it fails to incorporate key phenomena, such as time and money.

Although some of Schumpeter's criticisms of Keynes were on target, others were not. In particular, Schumpeter's attempt to put Keynes in the same camp as Ricardo is misleading. Although Keynes tried to draw out specific policies from something masquerading as a 'general theory', he did this in a manner very different from that of Ricardo. Ricardo was a deductivist theorist *par excellence*. Keynes preferred the more tentative and empirically informed theorising of Malthus and others.

The genuine defect that Schumpeter recognised was that Keynes simultaneously revered a 'general theory' and attempted to derive quite specific policy conclusions from such an edifice. For instance, the scope for governmental management of the level of effective demand would depend crucially on the economic institutions in a particular country and the nature and extent of its engagement with world markets. An entirely 'general theory' can tell us little of these vital but specific details. In this respect, Schumpeter's criticism hit home. It might be possible to regard Keynes's work as a framework for viable analyses that addressed such specific circumstances, but Keynes himself did not lay down guidelines for the development of historically sensitive theories.

THE POSTWAR TRIUMPH OF 'GENERAL THEORY'

Keynes's theory triumphed, at first by capturing, by the end of the 1930s, the two great Anglo-American academic bastions of Harvard and Cambridge. This was an impressive achievement and did a great deal to establish for Keynes a global and deserved reputation. Yet Harvard had been the centre of resistance against interwar institutionalism in the United States. And Cambridge had forgotten the historicist background to its earlier, Marshallian revolution. The price of victory was indeed very dear. Cambridge insularity and Harvard neoclassicism were legitimised. Consequently, the manner and locations of

the Keynesian triumph helped to obliterate the memories of historicism and institutionalism on a global scale.

The subsequent story of how the economics of Keynes was transformed and vulgarised into postwar 'Keynesianism' is well known. Like Marshall before him, Keynes was highly critical of the abuse of mathematical and formal methods.¹⁰ Despite this, the rising general of mathematical economists hijacked some of his ideas. Influential academic contributions – including those from Alvin Hansen and Paul Samuelson in America, and Roy Harrod and John Hicks in England – helped to create a mathematical 'Keynesian' system.

Alongside this so-called 'Keynesian general theory', Walrasian microeconomics became widely accepted in the 1940s, particularly as the result of the work of John Hicks (1939) in the UK and Paul Samuelson (1947, 1948) in the USA. As a result, 'general equilibrium theory' became the core of microeconomic analysis.

The attraction of the new 'Keynesian' macroeconomics was partly its claim to generality, partly its technocratic lure, and partly because of its apparent policy solutions to the pressing economic problems of the day. For a rising generation of technocratic economists, the synthesis of Walrasian general equilibrium theory with the Keynesian macroeconomic 'general theory' was all very appealing.

Although Keynes attacked the equilibrium theorising found in the classical and neoclassical traditions, his own announcement of a 'general theory' struck a chord among the rising generation of mathematical, Walrasian economists. If he had addressed the problem of historical specificity and eschewed the 'general theory' label, then the notorious postwar synthesis in economics would have been more difficult to achieve. Hence Keynes must take a small part of the blame for the incorporation of 'Keynesianism' into the postwar, neoclassical, textbook synthesis of microeconomics and macroeconomics.

There were justified protests from some Keynesians that Walrasian microeconomics was incompatible with Keynesian macroeconomics, but the phrases 'general theory' and 'general equilibrium theory' have two out of three words in common. While the word 'general' in 'general equilibrium theory' applies to the word 'equilibrium' rather than 'theory', general equilibrium theorists used the rhetoric and appeal of general theorising. A mathematicised 'general theory' in macroeconomics was placed alongside a mathematical 'general equilibrium theory' as its microeconomic complement. The rhetorical battle was won. As Terence Hutchison (1981, p. 249) put it: 'Keynes's work was treated as, and indeed largely re-established, *general* macroeconomic theory, as complementary with general microeconomic theory.'

The effect of this 'general theory' rhetoric in the literature in economics was dramatic. Prior to 1936, among the leading Anglo-American journals in

¹⁰ In his letter to Roy Harrod of 16 July 1938, Keynes (1973b, p. 299) wrote: 'In economics . . . to convert a model into a quantitative formula is to destroy its usefulness as an instrument of thought.' For more on Keynes's critical views of econometrics and mathematical modelling see Moggridge (1992, pp. 621–3).

economics, the phrase 'general theory' appeared in the title of two articles only.¹¹ A few book titles or subtitles carried the phrase, as in Knut Wicksell's *Lectures* (1934). After the appearance of the *General Theory*, these two words appeared in a stream of articles themselves discussing Keynes's book. Subsequently, there appeared a steady flow of mainstream books and articles, each claiming to construct a 'general theory' of some kind or another.¹²

General theorising became the vogue, in economics and elsewhere. Under the leadership of Talcott Parsons, sociology had already taken this road. At an even more abstract level, 'general systems theory' attempted a general theory of all human and non-human systems (Bertalanffy, 1950). In the United States, the Society for General Systems Research was founded in 1954.

Of course, Keynes was not responsible for all these outcomes. Nor were they all of negative worth. It is argued in this book that there is a role for general theorising in the social sciences and much can be learned from systems theory and other developments. The problem was that Keynes's use of the 'general theory' term to analyse what were highly specific historical circumstances helped to obliterate all consideration of the problem of historical specificity from economics. Furthermore, it helped to create the postwar synthesis between neoclassical general equilibrium theory and postwar macroeconomics.

Because of his influence and brilliance, Keynes was a bridge between the interwar and the post-1945 eras. He was associated with postwar policies that were designed to avoid a repetition of the Depression of the 1930s. This span between the interwar and postwar epochs was adorned with his name and shaped by his rhetoric. However, the historicists of Germany and the institutionalists of America were barred entry to the new era. They also became lost from the rewritten history of ideas.

As well as giving unintended succour to the rising neoclassical generation, Keynes's use of the 'general theory' phrase also hindered the critics of mainstream economics. Those heterodox economists, attempting to keep the radical theoretical message of Keynes alive, were also diverted from the problem of historical specificity. This was no less true at Cambridge itself. From the 1940s to the 1980s, Keynes's followers dominated the Faculty of Economics at Cambridge. Nicholas Kaldor, Joan Robinson and Piero Sraffa contributed to the reputation of Cambridge as an international centre for heterodox economics. Despite some significant and enduring recognition of the importance of history and institutions, the particular theoretical and methodological problem of historical specificity

11 This search of article titles was done on the JSTOR internet database of leading economics journals. The two pre-1936 articles are Zinn (1927) and Knight (1928a). Among journals of economics prior to 1936, the JSTOR database covers the *Quarterly Journal of Economics* (1886), the *Economic Journal* (1891), the *Journal of Political Economy* (1892), the *American Economic Review* (1911), the *Review of Economics and Statistics* (1919), *Econometrica* (1933) and the *Review of Economic Studies* (1934). (The year of foundation and first inclusion is given in brackets.)

12 For example, Wald (1947), Isard (1949), Hansson (1952), Mishan (1952), Pen (1952), Lipsey and Lancaster (1956), Chamberlin (1957), Debreu (1959), Lange (1965), Harsanyi (1966), Vanek (1966, 1970), Arrow and Hahn (1971), Olson (1986), Day (1987), Ghiselin (1987), Harsanyi and Selten (1988), Lindenberg (1990), Rosser (1991), Woo (1992).

was largely forgotten. Recognition of the importance of history, or even of historically specific institutions, does not amount to recognition of the analytical problem of historical specificity. What the post-Marshall Cambridge theorists failed to address adequately was the methodological problem of building theories that related explicitly to specific historical and institutional circumstances.

Crucially, the legacy of historicism and institutionalism remained largely untouched at Cambridge. Kaldor continued to emphasise the influence of his teacher, Allyn Young, but made little of the fact that Young was a product of a substantial American institutionalist tradition. Long after its heyday, Joan Robinson stumbled belatedly across some remnants of American institutionalism. In her book *Economic Philosophy* (1964, pp. 103–7) there is a positive appraisal of Clarence Ayres's *Theory of Economic Progress* (1944). In about 1970 she came across Veblen's (1919, pp. 185–200) critique of neoclassical capital theory and concluded that Veblen was 'the most original economist born and bred in the USA' (Robinson, 1979, p. 95). It is a pity that earlier generations of students of economics at Cambridge were not pointed in this direction. It is ironic that a university that makes so much of tradition, made so little use of the long and established intellectual traditions that were at hand.¹³

'POST KEYNESIANISM'

When Joan Robinson, Paul Davidson, Sidney Weintraub and Alfred Eichner worked together in the early 1970s to establish an anti-neoclassical stream of economic thought, they chose the label of 'Post Keynesian economics' (Lee, 2001). This label, like Keynes himself, also fostered a neglect of earlier and allied traditions of economics.

Keynes (1936, p. viii) himself wrote of his 'long struggle of escape . . . from habitual modes of thought and expression'. Ironically, Post Keynesianism itself has faced a 'long struggle of escape' from the *General Theory* title, its claimed ahistorical foundation in universal psychological laws, and its problematic first chapter.

Despite the 'general theory' phraseology, several leading Post Keynesians have been instinctively aware of institutional and historical specificities. Robinson (1974) repeatedly emphasised the importance of 'historical time'. Davidson (1980) likewise understood that 'the economy is a process in historical time' and economic and political institutions 'play an extremely important role'

13 In his memoirs of the university in the 1940s and 1950s, H. Johnson painted a very critical picture of Cambridge academic life, affected by the arcane and parcellised culture of the system of autonomous colleges, and with consequent and disproportionate institutional bias towards undergraduate teaching rather than postgraduate research. Lively intellectual debates there certainly were, but according to Johnson these were often 'only a tool for furthering left-wing politics at the level of intellectual debate' (Johnson and Johnson, 1978, p. 150). If we place his account alongside the Cambridge neglect after Marshall of entire traditions of economic thought – including historicism and institutionalism – then there is a case to answer of academic deficiency. On the Cambridge environment see also Winch (1969) and Tribe (2000).

in determining real-world economic outcomes. Eichner (1979, p. 172) clearly argued that Post Keynesian economics must concern itself with 'the behavior of the system as a whole, constituted as a set of historically specific institutions'. Indeed, Eichner had a much better acquaintance than most with institutional economics. However, none of this amounted to an explicit recognition of the limits of general theorising or the problem of historical specificity. As elsewhere, there is little discussion of this methodological problem in the Post Keynesian tradition. Praiseworthy historical and institutional instincts would have been enhanced by an awareness of past debates on the problem.

This methodological failure helped to undermine any focus on 'historically specific institutions'. This was particularly the case when leading Post Keynesians endorsed Keynes's generalist methodology. For example, Davidson (1994, p. 15) defended the idea that the work of Keynes and his followers provided 'a more general theory of the economy since it requires fewer initial axioms'. But, as argued in chapter 1 above, such a general theory would necessarily exclude many assumptions that were grounded on historically specific institutions. Davidson (1996, pp. 52–4) argued for 'the minimum axioms needed for the general theory . . . applicable to *all* economic regimes of money-using systems' and for the exclusion of any additional assumptions. Accordingly, the *General Theory* would be so general as it would encompass all monetary economies, spanning the two thousand years or more when money has been in use, and would have no special focus on the key institutions specific to modern industrial capitalism.¹⁴

In defence of Keynes, Anna Carabelli (1991, p. 116) wrote: 'For Keynes, a . . . theory which, at the beginning of its analysis, avoided introducing limiting assumptions of independence, was truly general.' This argument suggests that everything must be conceived as depending on everything else. However, as we have seen in chapter 1, the assumption of a monetary economy rules out a whole set of pairwise and barter interactions. A key point about institutions is that some interactions or interdependencies are ruled out. For example, a language acquires meaning because it has restrictive rules of utterance and syntax. It is in the nature of specific institutions, laws and rules that some things are restricted, prohibited or unyielding. Accordingly, just as the presumption of a monetary economy would involve more restrictive assumptions compared with a theory of barter, the adequate representation of other institutional specificities may require *more* rather than 'fewer restrictive assumptions'.

Lange and Schumpeter were in error to describe Walras's theory as entirely general, because it included several restrictive assumptions. However, Keynes, Carabelli and Davidson were doubly wrong – in claiming that the *General Theory*

¹⁴ Davidson endorsed Keynes's attempts at general theorising while he repeatedly emphasised the non-ergodic character of economic processes. In interpretations of this concept of non-ergodicity, reality itself is both changing and mutable (Davidson, 1993; J. B. Davis, 1998). Yet if economic structures can take radically different forms then these could place ontological limits on general theorising; it would also point to a more confined and historically specific domain of analysis, acknowledged insufficiently by Keynes and Davidson alike.

was truly general and in claiming that any form of generality is necessarily a positive attribute. Notably, all five of these economists were misled by the lure of a general theory. They all failed to observe that a theory designed to apply to a more particular real domain may be more adequate in its analysis of the distinguishing characteristics of the type of economy in question. What Keynesians required was not a general theory but a historically sensitive theory of a modern, monetary, corporate capitalist economy.

To some extent, the Post Keynesian label itself encouraged attempts to build a new or extended 'general theory', against the warnings, before and after Keynes, of members of the historical and institutionalist schools. It even became acceptable for those non-mainstream economists attempting to build a rival paradigm to sport the 'general theory' phrase in the titles of their own works. Hence another group of Post Keynesians avoided the institutional specifics and developed ostensibly general theories, professedly to enhance the 'general theory' of Keynes.¹⁵

Amnesia took hold. The 'Post Keynesianism' label helped to seal off the valuable pre-Keynesian heritage from view. The German historical school was largely forgotten. The history of economic thought was reconstructed largely in Anglophone terms. Clearly, other economists are not exempt from these criticisms. In the latter part of the twentieth century, not only neoclassical and Austrian, but also institutionalist and Marxist economists alike, have generally neglected the problem of historical specificity. What I am concerned to identify here is the crucial failure of Keynes and his Cambridge followers to take the problem on board. In Cambridge after Marshall, the problem was ignored. Given the role that Cambridge played as an international centre for non-mainstream economics, this neglect was disastrous, not only for Cambridge but also for economics as a whole.

Crucially, at least in the early years, Post Keynesianism lacked any developed methodological foundations. In their calls for 'realism of assumptions', leading Post Keynesians were evidently unaware of the twists and turns of the methodological battles on this theme, which had lasted for well over a hundred years. Eichner (1983, p. 211) took the untenable position that all the assumptions of a theory had to be 'empirically validated'. Similarly, Robinson (1964) believed that all 'metaphysical' assumptions had to go, simply because they were 'metaphysical'. This was an empiricist rejection of everything metaphysical – a position that had been increasingly criticised by philosophers of science since the decline of logical positivism in the 1950s. It has been argued already in this volume, when evaluating the weaknesses of the older historical school, that all science

¹⁵ Notably, Robinson followed Parsons and entered the out-generalising the *General Theory* race, with the publication of a volume including an essay entitled: 'The Generalisation of the General Theory' (Robinson, 1952). However, this essay tells us little of what 'generalisation' might mean. Also in Cambridge, Sraffa (1960) offered a general theoretical foundation for the analysis of profit-oriented, market economies. Post Keynesians who have attempted to develop a general theoretical framework on Sraffian lines include Pasinetti (1981), Eatwell and Milgate (1983) and Nell (1998). In addition, the phrase 'general theory' is symptomatically included in the titles of the following non-mainstream works: Roemer (1982), Nell (1998), Ormerod (1998) and Hunt (2000).

unavoidably depends on some assumptions that are both 'metaphysical' and cannot be 'empirically validated'. Unlike Robinson and Eichner, Marshall understood this very well. Eichner and Robinson fostered a version of empirical realism that could have benefited from an awareness of its trials and severe limitations in past debates, that had already lasted for well over a hundred years.

It would perhaps be an exaggeration to quote Hegel that the only thing that we learn from history is that people do not learn from history. But one thing is tragically clear. Not only was Post Keynesianism originally founded on weak and undeveloped methodological foundations, but also, by the close of the century, 'Post Keynesian' economics had still failed to provide itself with an agreed and sufficient set of common core principles around which dissidents could gather. This omission might well prove fatal.¹⁶

Since then the lure of a 'general theory' has become almost universal. By the 1980s, general equilibrium theorists such as Frank Hahn were dominating the Faculty of Economics at Cambridge. By the close of the twentieth century, the distinctive Cambridge tradition in economics – stretching from Marshall through Keynes, to Robinson and Kaldor – had dramatically declined in influence. Cambridge no longer regarded itself as the vanguard, and sought instead to emulate the leading neoclassical departments of economics in the United States of America.

¹⁶ See Harcourt (1982) for a relatively early consideration of this problem. Much later, Walters and Young (1997) claimed that Post Keynesianism lacked a coherent foundation. The responses of Arestis *et al.* (1999) and Dunn (2000) involved a belated and as yet incomplete endeavour to provide Post Keynesianism with a coherent methodological and theoretical core. Notably, this was attempted by excluding approaches – such as Sraffian economics – that were formerly described as Post Keynesian. It also involved the adoption of the 'critical realism' of T. Lawson (1997) and others. But there has been significant disagreement among Post Keynesians on whether Lawson's dismissal of mathematical economics and econometrics should be followed.