

**KEYNES AND THE CONTEMPORARY PREDICAMENT**ABSTRACT

Prevailing approaches to policy issues in many Western countries in recent decades have reflected a characteristic cost of mind - neoclassical in economics, liberal and individualistic in politics, value neutral and universalistic in policy. This paper analyses some of the foundations of this cast of mind, deep-seated in Western intellectual history, and reviews work in several different areas pointing to a strikingly different paradigm. This analysis is set in the context of the rise of Asian nations with quite different diverse traditions, and the consequent need for effective interchange across cultural barriers.

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## KEYNES AND THE CONTEMPORARY PREDICAMENT<sup>1</sup>

At the heart of many contemporary debates lies an age old dilemma: the values of the market seem necessary for growth and increased income, yet their vigorous pursuit often destroys the very communities which pursue them and undermines the values which give meaning to life for those communities. The underlying conflict is evident on a daily basis in the continuing clash between the cut-throat aggression of the marketplace and the compassionate values of the civilized community, between the demands of self-interest and of the public good, between the imperatives of profit and of the poor. Each era must address, or fail to address, these deep tensions in its own terms. As the twentieth century draws to a close in a new phase of the technological revolution, these old issues are being starkly posed for us once again.

In the name of competitiveness, efficiency and the free market, the nature of societies around the globe is being reshaped. Yet chronic unemployment has emerged in many developed countries, and chronic poverty remains endemic in many poor countries. Inequality between rich and poor nations is widening sharply, as is the gap between rich and poor within nations. As the market extends further into areas such as health, education and justice, the very nature of these services changes and further precedence is given to those with economic power. In many countries the media is being corrupted by the unbridled search for profits and for market share, and popular culture is becoming degraded. Common spaces and public places are in decline. Many of the institutions of community life, whether it be in the media, in public service, in the arts or in sport, are being destroyed or reduced in importance. The values of the market-place pervade the whole *polis*.

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Many accept this destruction of community life as the price which must be paid for the benefits of prosperity, or even welcome it as clearing away obstacles to new forms of human living. Certainly, growth has transformed the material standard of life of what are now the advanced countries, and the lot of the poor and the least privileged in these societies is much improved since the time of Dickens or even since the 1930s. And, given the wave of competition and globalisation sweeping through the world economy in the 1990s, no policy maker in any country can afford to ignore the demands of efficiency and of the market. Yes, it is said, growth through the market is a value neutral process, and may destroy traditional values and ways of life held precious. But this is the inevitable price of prosperity, perhaps even of progress, and no country can stand aside.

Yet, other voices are being increasingly heard. The environmental movement has perhaps been the clearest voice arguing that economic growth may destroy more fundamental community values, and must be re-examined in that light. The report of the Commission on Social Justice in the U.K., *Strategies for National Renewal*, (Commission on Social Justice 1994), is one of the most recent of many studies in the developed countries raising urgent concerns about both the quality of life and the distribution life-chances in those countries. The preparatory work for the 1995 World Summit on Social Development (e.g. Chambers 1994), and indeed the declaration of the Summit itself, stressed not only the deteriorating situation of the world's poor but the need for broader and more inclusive concepts of welfare and development if this situation is to be addressed. Even in rapidly developing countries such as Japan, Korea and Malaysia, concern is increasingly evident both about the impact of growth on traditional culture and about the character of emerging national values and forms of life. The collapse of the headlong rush to the free market in Russia has refocused attention not only on the institutional but also on the moral basis of a viable market economy (Intriligator 1994). And in Australia the headlong pursuit of the so-called 'economic rationalism' seems to have been halted by the results of the 1992 election, and many are searching for better means to achieve ends defined more broadly in terms of the welfare of the Australian community.

Our thinking about these matters is dominated by modern neoclassical economics, the propagandists, if not the creative spirits, of which promote the view that improved human welfare can be, indeed can only be, advanced through free competition in untrammelled markets. In many circles this would be regarded as *the* point of view of economists. It is ironic, then, that the man widely regarded as the greatest economist of this century, John Maynard Keynes, did not endorse the primacy of market values. Keynes saw economics as a moral science, and looked to growth to provide the basis for a new phase of civilization where human rather than economic values prevail and where shared goods are available to all, and not to just to a few. Two important books - the second volume of Robert Skidelsky's biography of Keynes, *John Maynard Keynes: The Economist as Saviour 1920-37* (1992), and *Keynes's Vision* by Athol Fitzgibbons (1988) - illuminate Keynes's views on these and many other matters. A better understanding of Keynes will surely throw light on our contemporary predicament.

### **THE ORIGINS OF MODERN ECONOMICS**

Modern economics was born at the cusp of the new world. Its birth was intertwined with the events which have given the modern age its specific character - the rise of science, the displacement of traditional metaphysics and ethics by the views of the Enlightenment, the coming of the Industrial Revolution and the opening up of the New World.

While of course he had his precursors, Adam Smith is clearly the founding father. His two key works, *The Theory of Moral Sentiments* and *The Wealth of Nations*, were published in London in 1759 and 1776 respectively. To place these dates in context, Newton's *Principia Mathematica* was published in 1687, also in London, and many fields of science surged during the eighteenth century. The first Industrial Revolution was gathering pace in Britain as Smith was preparing *The Wealth of Nations*, although this remains very much a pre-industrial work. As Smith wrote both the American and French Revolutions were brewing - the American War of Independence began in 1775 and the Declaration of the Rights of Man was made in Paris in 1789 - and these currents were

important influences on his thought. Perhaps most importantly, during the middle of the eighteenth century Smith's friend David Hume was writing those works, such as *The Treatise on Human Nature*, which were to mark the decisive break with modes of thought dating back to the Greeks.

Nevertheless, in one key respect, Smith's work remains entirely traditional - his economics emerged from and was guided by moral philosophy. Smith's economics was a component of a larger program, to show that 'by acting according to the dictates of our moral faculties, we necessarily pursue the most effectual means for promoting the happiness of mankind' (Smith 1974, Part III 5.7). Thus he sought to show that by acting in accordance with the virtues the best result for both the individual and for society would be achieved. The three primary virtues are **prudence**, **justice** and **benevolence**. Prudence, or proper concern for one's own interests, is the subject of *The Wealth of Nations*, one famous theme of which is that proper pursuit of individual self-interest will achieve the common good. But prudence is one but only one of the virtues, and must be exercised in conjunction with the others. In particular, Smith was clear that 'the wise and virtuous man is at all times willing that his own private interests should be sacrificed to the public interest of his own particular order or society' (1974, Part VI 3.3).

Thus for Smith his economics was part of a broader program to show that acting in accordance with the virtues would lead to the public good. The *Wealth of Nations* was an element of a **moral** agenda. This is not the place to trace the complex thread between Adam Smith and the quite different tradition of contemporary neoclassical economics, which in its current form was forged in academic achievements of the 1950s and 1960s and which has dominated the textbooks and the policy agendas of the past two decades. Two points must suffice.

The first is that the forging of the modern neoclassical theories was above all a **mathematical** achievement. Drawing on the work of von Neumann and Wald, a group of mathematical economists working primarily in the United States, such as Arrow, Debreu, McKenzie, Koopmans, Samuelson and many others, created a new mathematical language for economics. This went well beyond the classical calculus, drew heavily on set theory and topology, and introduced linear, non-linear and dynamic programming.

The power of these new techniques, and the gains made through their use, were remarkable. They enabled a precise statement to be given of a set of ideas widely held by economists for two centuries. Their fruitfulness was such that one distinguished participant, Frank Hahn, has spoken recently of 'a new dawn such as shone on those of us who came to economic theory after the last war' (Hahn 1991, p. 50). The techniques, and the neoclassical ideas expressed through them, spread rapidly through the economics profession, and in due course came to dominate policy. But as a leading chronicler of general equilibrium theory, Roy Weintraub, has pointed out, this story 'is one in which empirical work, ideas of facts and falsification, played no role at all' (1983, p. 37). It was the triumph of pure theory.

The second point is that this system aims to be **value neutral** in several senses. Whereas Adam Smith pursued a moral agenda, positive neoclassical economics seeks a value free, scientific description which can handle any sets of individual preferences and to which normative judgements can be added as desired. The economic theory is a scientific model, which can be used by clients with very different values. Thus the standard components of neoclassical economics - the theory of the consumer and of the firm, the existence of general equilibrium, the Fundamental Theorems of Welfare Economics, the theory of international trade and the theory of growth - constitute a very sophisticated positive economic model, expressing long held economic intuitions with mathematical precision and on the basis of clearly specified assumptions. It is true that the assumptions of the neoclassical system have been widely recognised as highly unrealistic, and that work over the past decade on revised assumptions has shaken the system to its foundations (see, for example, Stiglitz 1991). But it remains the foundation of political ideology and public policy in many countries.

What has passed into political ideology from this system is that what individuals want can be discerned through the market, that those preferences can be met most effectively through market systems and that if this is thought to lead to an undesirable distribution of outcomes, any desired redistribution can be achieved by lump sum payments. Efficiency can be attained through the market, while the moral issue of the distribution of the benefits of economic efficiency can be handled through redistributions.

Of course, few believe that the theoretically possible redistributions are in fact feasible, so all that is left is the efficiency of competitive systems in meeting those needs identified by the market. The moral issues must be sacrificed to the demands of efficiency. But, as we have seen above, this thin gruel no longer satisfies many concerned with central issues facing the world community.

### **KEYNES: THE "PARTITIONED" CHARACTER**

In his important book *After Virtue*, Alasdair MacIntyre (1981) notes the indecisive nature of moral disputes in modern society, and postulates that a radical breakdown has taken place in our moral thought and language. We have retained habits of thought and patterns of argument from traditional ethics, but have lost the substantive basis for many of those habits. For example, in the Aristotelian tradition which prevailed prior to the modern era, moral judgements were based on a shared conception of the *telos* or end of man, and it could then be a matter of fact whether a given course of action would lead to achievement of the *telos*. But, MacIntyre argues, with this conception lost, with the project to provide a rational justification for morality having failed and with emotivism the prevailing consensus, no shared basis remains on which to determine the truth and falsity of a moral judgement. Yet the language and the disputes about the truth or falsity of moral judgements remain.

MacIntyre also argues that in this breakdown of the moral realm certain types of 'character' become common. These characters embody different perceptions, even different traditions, of moral life, but in an emotivist world there is no contact between them. Two main types are dominant. One is the aesthete, for whom the fulfilment of oneself through sensual enjoyment and artistic experience is the only and ultimate goal, and for whom value is a matter of private and unarguable perception. The other is the manager, for whom ends are taken as given and who claims moral authority through his effectiveness in achieving those ends, and through the stability and prosperity which he generates. Indeed, MacIntyre claims, in spite of their lack of contact 'the two characters

may on occasion be found in one and the same person who partitions his life between them' (1981, p. 27).

In *The Economist as Saviour 1920-37* Skidelsky uses MacIntyre's analysis to define his view of Keynes. Keynes is 'a leading, possibly the leading, twentieth-century example of this type of "partitioned" character, the finest flower of an autumnal civilization' (1992, p. xviii). The cleavage in Keynes's life was between the sensual and artistic world of Bloomsbury and his managerial role as economic statesman and 'saviour' of capitalism. *The Economist as Saviour 1920-37* eloquently catalogues these two worlds. On the one hand it traces the evolution of Keynes's early Cambridge set into the Bloomsbury group, his continuing friendship with Leonard and Virginia Woolf, Clive and Vanessa Bell and many others, his loving relationship with his wife, the Russian ballerina Lydia Lopokova, and his passionate commitment to Bloomsbury values and to the artistic endeavour. On the other hand, Skidelsky stresses Keynes's roots in the 'autumnal' world of late Edwardian privilege and duty, and his life-long commitment to advancing society through his intellectual and managerial efforts.

For Skidelsky, then, Keynes's life was partitioned into his Bloomsbury activities, driven by the religion of friendship and beauty learnt from G.E. Moore and the urge for unfettered self-expression, and his intellectual and managerial activities, driven by the vestiges of Edwardian duty. Thus his 'character' was a set of strategems, and he presented a series of masks to his contemporaries. But his sense of duty prevailed in the end, 'because the world needed to be saved from its folly'. However, in this Keynes held to a tradition which was a fragment of a passing era. He was 'the last great economist to hold economics in some sort of relation to the 'good life'' (p. xxiii). In this, as in other respects, Keynes was echoing a vanishing world rather than being a harbinger of the new. There are

moral resonances in Keynes's technical arguments which can be heard by those willing to listen. They are not part of the logic of the arguments themselves. Economics was already too far removed from being a moral science for it to carry moral arguments. It was another fragment of a vanishing whole, soon to disappear into the black hole of mathematics. (p. xxv)

### **KEYNES: THE UNIFIED VISION**

One important contribution of the first volume of Skidelsky's biography, which was entitled *John Maynard Keynes: Hopes Betrayed 1883-1920* (1993), was to draw attention to a number of important early philosophical and political manuscripts written by Keynes between 1905 and 1912. These manuscripts, written between the ages of 22 years and 29 years, are unpublished, having been regarded as not sufficiently relevant to his economic writings to be included in the definitive 30 volume edition of his collected works published by Macmillan/CUP for the Royal Economic Society.

In his highly original and thought-provoking book *Keynes's Vision*, Athol Fitzgibbons has argued that in these early works Keynes developed a philosophical and political position which remained largely unchanged, which underpinned his life's work and activities in many different spheres and which is essential to a proper understanding of his mature work. According to Fitzgibbons, Keynes had a unified vision in two senses: that the diverse aspects of his life, so disparate to many of his contemporaries, sprung from a common well and that his political and economic views and activities emerged from his underlying ethical position. Not surprisingly, Keynes's vision as outlined by Fitzgibbons is quite complex, but it is certainly worth attention. I outline below this vision as presented by Fitzgibbons.

### **Ethical Foundations**

Keynes's vision is quite consciously a reversion in key respects to pre-modernity. He held that certain central mistakes had been made in fashioning the distinctive intellectual cast of the modern world, and of modern economics, from our older inheritance. In diagnosing those mistakes and shaping his vision, Keynes drew upon and reacted to three main figures - Hume, Moore and Burke.

Keynes saw Hume as the most powerful intellectual force in the creation of the modern world. Three positions of Hume were particularly critical. One is the failure of induction, implying that no knowledge can be obtained by non-deductive means. The second is the gulf between "is" and "ought", so that no moral conclusions can be inferred from factual premises. The third is a consequence of these, namely Hume's view that there is no role for reason in either morality or in action. These are the preserve only of the

passions and of unreasoning convention. Keynes opposed each of these positions, and launched his public assault with *A Treatise on Probability*, published in 1921, although he earlier wrote about these matters extensively in his unpublished papers.

Keynes's continuing concern was with the rational basis for moral judgement and action. The central argument of the *Treatise* was that, just as we are able to judge that two things are similar, so we can form a rational judgement that a proposition is probable relative to a certain set of evidence. These judgements or intuitions of probability are the foundation of much reasoning, in science as well as in ordinary life, and indeed there should be a logic of probability, parallel to the logic of deduction laid out in Whitehead and Russell's *Principia Mathematica*. Hume's mistake was to treat judgements of probability as not rational simply because they were not deductive. On the contrary, it is rational to rely on judgements of probability in action, indeed we ought to do so.

These rational intuitions of what is probable are parallel to the exercise of understanding in many other areas - in mathematics and science, in the arts and in ethics. In his essay on Newton, Keynes describes Newton as the most intuitive of men, the last of the great magicians. He relates a story of Newton informing Halley of one of his great discoveries of planetary motion. Halley asks him how he knows this, and whether he can prove it. "Why, I've known it for years" says Newton. "If you give me a few days, I'll certainly find you a proof", as in due course he did (Keynes 1971-1989, X: 364).

These rational intuitions were a continuing point of contact between Keynes and Moore's *Principia Ethica* (Moore 1903). In that work, which had enormous influence on Keynes and his Cambridge contemporaries, Moore distinguished between our intuitions of ultimate goods - truth, love and beauty - and the problem of duty, of determining what one ought to do in action. Moore sought a utilitarian solution to this problem, that we should do whatever would secure the greatest good for the greatest number, but argued that we can never know with sufficient accuracy and surety the consequences of our actions. Thus there can never be a rational determination of duty, and we should follow standard conventions of duty. In terms of practical morality Moore ends up with Hume.

Keynes retained the rational intuitions of ultimate goods - Moore's religion, as he called it - but dispensed with his practical ethics. But he shared Moore's opposition to

utilitarianism, on similar grounds that it was not possible to calculate all the future consequences of one's actions. For Keynes, uncertainty about the course of human affairs was pervasive, as was objective chance, i.e. situations in which it is impossible in principle, given human limitations, to predict the future. The utilitarian calculations are just not possible. Thus Keynes was opposed to any concept of the **social good** or the **maximisation of utility** as a touchstone for action.

Nevertheless, he believed that he had established, in the *Treatise*, that there could in many situations be rational judgements of probability, and these ought to be utilised in determining action. These judgements could be used, not in calculations of the social good, but in bringing the eternal absolutes down to earth. Thus the foundations of Keynes's ethics were the absolute ideals of truth, love and beauty, with their counterparts of reason, creativity and justice, and the use of rational judgements of probability to determine courses of actions which would make these ideals more effective in human society.

### **Political Basis**

The key point of attraction of Thomas Burke to Keynes was that, in Keynes's view, Burke alone based politics on ethics and absolute values or "religion". This means that politics should be devoted to the achievement of ethical ends, not to quasi-political ends such as political equality, the rights of man and the utilitarian social good. Keynes thus sided with Burke in his opposition to building the ideals of the French Revolution into absolute political ideals. Politics is about means not ends. The ends to be served are the ethical ideals, and the dominant political principle is that of expediency, meaning the pursuit of these absolute ideals through whatever means are appropriate from time to time.

Again, Keynes agreed with Burke in opposing the "Benthamite calculus", the calculations of rational self-interest based on an "over-valuation of the economic criterion". Modern ethics, which was the scientific study of rational self-love, was a totally inappropriate basis for politics, or for economics. Keynes saw Marxism as the final corruption of the Benthamite calculus. The ultimate ideals were spiritual not material, and

economic and political processes could only find their rationale in the service of these higher ideals.

While agreeing with Burke in basing politics on ethics or "religion", Keynes differed sharply with Burke about the content of religion. Burke was committed to traditional religion and to its expression in the English property and class system. This was mistaken, and led Burke to miss some of the most important developments of his time. Keynes's religion consisted of the ideals he learnt from Moore. For Keynes, then, correct political action is expedient action, based on the best judgements of actual circumstances, guided by truth, reason and justice and in pursuit of a world where spiritual and not material values prevail.

### **Economics**

The centrepiece of Keynes's mature economics, encapsulated above all in the *General Theory*, was his treatment of uncertainty. By uncertainty Keynes did not mean that which is often discussed under this name in modern economics, where a probability distribution over future states of affairs is known but it is uncertain which state will eventuate. True uncertainty for Keynes is when there is "no scientific basis on which to form any calculable probability whatever. We simply do not know." For Keynes, such uncertainty is pervasive in the modern economy, and it is a central failure of orthodox economic theory to assume a knowledge of the future of a quite different kind from that which we actually possess.

This uncertainty is the main reason for the volatility of investment, and hence of the level of economic activity. For, when faced with an unknowable future, rational economic man tends to fall back on conventions or fads, as had both Hume and Moore in rationalising action in accord with duty. These conventions are not based on reason but on self-deception. Thus they may lead to investment being set for a long period at a level inconsistent with full employment, or with rapid changes in the prevailing wisdom, leading to economic instability. The difficulties in rationally predicting the future may also lead to speculation, i.e. trying to guess better than the crowd how the crowd will behave, rather than to fixed investment for the long term. When the views prevailing in the business

community are such that the level of investment is inconsistent with full employment, government intervention by appropriate policies is justified.

In the *General Theory* the focus of this uncertainty is money. Keynes identified the lynchpin of the classical theory as the natural rate of interest, the rate which equated savings and investment and hence at which there was full employment. But, Keynes argued, at this point the classical theory is incoherent. There is no such natural rate, to which the actual rate is tending and to which it will return if disturbed. The rate of interest is determined by the supply of and demand for money, and is a transient monetary phenomenon. "The rate of interest is a highly conventional ... phenomenon. For its actual value is largely governed by the prevailing view as to what its value is expected to be. Any level of interest which is accepted with sufficient conviction as likely to be durable will be durable ..." (p. 203). It may fluctuate for decades at a rate which is too high for full employment.

Keynes's rejection of the underlying natural rate of interest was an instance of his more general opposition to what Fitzgibbons calls "the celestial science" of economics. He rejected the attempt to determine the underlying causal structure of the economy, the "Copernican system" of economics based on the analogy with physics and expressible in systems of simultaneous equations. While Keynes attributed this view to Marshall, its contemporary dominance owes much more to Cournot, Walras and the founders of modern neoclassicism. Given the swirl of events there are no truly independent variables; economics does not deal at the true causal level, and its variables are fallible and changing indexes; radical uncertainty and objective chance are pervasive. For these and other reasons the celestial science is a delusion, obscuring the exercise of reason in dealing with the complexity of the world.

By contrast with the celestial science, Keynes held to a firm view of economics as a **moral science**. This is not some arcane, outdated notion, nor does it imply any opposition to economic theory. What Keynes meant was that economics was and should be a method of thinking rather than a body of settled theory, that its theoretical models were intended as the servant of practical intuition and judgement in dealing with actual circumstances, that they must not become so fixed or quantitative as to obscure the

complexity of the real world, and that they were to be put to the task of embodying the eternal ideals in the earth of actual human societies.

### **Assessment**

This brilliant book by Fitzgibbons provides a quite different view of Keynes from that of his biographers, including Skidelsky. Here, Keynes is seeking to relate economic and political matters to fundamental ethical ideals in a consistent vision, and in doing so stands opposed to some of the central tenets of modernity and to the received conception of economics. Rather than being the finest flower of a fading civilization and the last great economist to be concerned with relating economics to "the good life", Fitzgibbons's Keynes speaks to us now about how values might relate to analysis and action in a very uncertain contemporary world.

As the Fitzgibbon himself is well aware, this book raises a multitude of questions. While it provides an enticing unity to Keynes's life, and a consistent interpretation of many of his otherwise puzzling remarks, its overall validity must be tested by detailed scholarly assessment. But even if it proves to be only one plausible interpretation among many of Keynes's life and work, the definition of this vision is an important contribution. The assessment of the vision itself raises fundamental questions of moral and political philosophy, and of economic theory and method. But at least we are focused back on the key issue, from which Keynes never deviated, of how practical action, informed by reason and theory, can make the celestial values more real on earth.

It is important to note that Keynes's views are not merely untested theory. For example, Keynes was involved with the Peace Conference after the First World War, and his reputation was made with *The Economic Consequences of the Peace*, the book in which he expressed his disgust with the settlement forced on Germany (1919). The victorious allies had acted on neither truth nor justice, but out of greed and venality. Rather than pursuing short-term self-interest through injustice and by avoiding the truth, the allies should have based their actions on better expectations, in the belief "that the prosperity and happiness of one country promotes that of others, that the solidarity of nations is not a fiction, and that nations can still afford to treat other nations as fellow

creatures" (p.170). Given the immoral nature of the settlement "vengeance, I dare predict, will not limp ... before which the horrors of the late German war will fade into nothing" (p. 170). While we cannot predict the future, present injustice is likely to generate greater future evil. The accuracy of this grim prediction needs no comment.

Keynes did not live to see the inauguration of the Marshall Plan in Europe in 1946, but it surely owed much to his unceasing efforts over nearly 30 years since the end of the First World War. Its success, and that of the broader economic policies and institutions reflecting his inspiration, over the next quarter century was a remarkable vindication of his work. It is not hard to guess what Keynes would have made of the present inertia of the world community in the face of the evils of the late twentieth century, nor of the re-emergence of extreme forms of laissez faire. In 1944 Keynes sent a famous letter to Hayek, who had argued in *The Road to Serfdom* that any intervention or economic planning was a step on the road back to serfdom. Keynes wrote

Your greatest danger ahead is the probable practical failure of the application of your philosophy in the US in an extreme form. No, what we need is the restoration of right moral thinking - a return to proper moral values in our social philosophy. (1971-1989, XXVII:387)

In the event, the postwar period saw a successful application of the program of Keynes rather than that of Hayek. For the latter we had to wait until the 1980's of Reagan and Thatcher, and Keynes's remark seems a highly relevant comment on those experiments.

### **ON KEYNES AND WITTGENSTEIN**

Neither Skidelsky nor Fitzgibbons explore in any detail the relationship between Wittgenstein and Keynes, the deep similarities between their intellectual paths or their possible influence on one another. These parallels are highlighted by reading another important recent book, Ray Monk's *Ludwig Wittgenstein: The Duty of Genius* (1991), in parallel with Skidelsky's biography. Monk notes an intermittent relationship between the two stretching over thirty years and the importance of Keynes to many of the physical transitions in Wittgenstein's life. This is particularly so of his return to Cambridge in

January 1929, when Wittgenstein was struggling to free himself from the shackles of the *Tractatus* and Keynes to break finally with classical orthodoxy. Both biographers cite Keynes's note to Lydia at that time: 'Well, God has arrived. I met him at the 5.15 train' (e.g. Monk 1991, p. 249). God stayed with Keynes for a fortnight, and they had discussions for two or three hours a day. What they discussed we do not know, but both authors note Keynes's ambivalence about his relationship with Wittgenstein, expressed to him with characteristic frankness: 'The truth is that I alternate between loving and enjoying you and your conversation and having my nerves worn to death by it' (e.g. Monk 1991, p. 269).

The parallels between these two seminal thinkers of the twentieth century are striking, in spite of their obvious differences. Both were children of great centres of civilization in turmoil and decline, in one case Edwardian England and in the other the Hapsburgh empire. Both sought the perfection of received ideas in their chosen field, before struggling painfully to escape from their embrace. For both men their first passion and model of human excellence was in the arts, for Keynes in the visual and performing arts and for Wittgenstein in music. Both detested the spread of materialistic values and of scientific positivism, and vigorously opposed taking the natural sciences as the model for investigations into man and society.

Keynes and Wittgenstein are widely regarded as the greatest figures in our century in economics and philosophy respectively. We will probably never know the extent to which, if at all, they supported one another in their common struggle against received ideas and the scientific paradigm. Each developed by the end of their lives a quite distinctive conception of their own discipline. Generalisations are dangerous, but these conceptions certainly had in common fierce opposition to all quasi scientific and mathematical pretension, an emphasis on values and knowledge as inseparable from specific patterns of human life and institutions, and on the uncertainty of all understanding. Both in texture and intent Keynes description of economics as a moral science, and the implicit comparison with physics, could have been a paragraph in Wittgenstein's *Philosophical Investigations*:

It is as though the fall of the apple to the ground depended on the apple's motives, on whether it is worthwhile falling to the ground, and whether the ground wanted the apple to fall, and on mistaken calculations on the part of the apple as to how far it was from the centre of the earth. (1971-1989, XIV:300)

Both of these men claimed to have identified basic flaws in the structure and method of modern thought. In spite of the veneration given to them, their radical alternatives are today honoured mainly in the breach in the practice of economics and philosophy. Given the contemporary predicament, perhaps it is time to think again. And indeed that thinking has already begun.

### **A RETURN TO THE MORAL SCIENCE ?**

While not yet widely evident in empirical analysis and policy debate, the past two decades have seen fundamental changes at the level of basic economic theory. As noted above, the most influential development in economics in the middle decades of this century was the formalisation of neoclassical economics, particularly in terms of general equilibrium theory, with a continuing analogy to physics. The achievements here prior to 1970 set the basis for the subsequent dominance of this model in the textbooks and in policy around the world. But, at the purely theoretical level and in respect of its original intent, this model has substantially collapsed under its own weight and that of the expertise devoted to it. **The implicit goal of a single explanatory model of the economic system now looks implausible, while the value neutral foundation of individual preferences or utility has been shaken.**

As with all such general frameworks, the standard neoclassical model requires many specific assumptions. Over the past two decades, much work has been done to explore the behaviour of the model when each of these many assumptions are varied. That is, it has been explored for cases in which markets are not complete (e.g. Hahn 1991; Magill and Shafer 1991); when full information does not prevail (e.g. Laffont 1989); when there are increasing returns to scale and sunk costs (e.g. Panzar 1989; Quinzii 1992); when there are only a small number of firms and hence oligopoly rather than perfect competition prevails (e.g. Shapiro 1989); when technology is endogenous and new goods are created as a result of innovative activity (e.g. Romer 1990, 1994), and so on. The standard model has proved to be a fertile framework in which to explore these variations,

at least on an individual basis. Yet, in almost every case, the outcomes of the model change quite markedly each time the assumptions change.

To take one brief example: when full information is no longer assumed and markets are not complete, how individuals acquire information becomes critical; but the information available will depend on the actual historical path of the economy; so, contrary to the standard model, the equilibrium of the economy will depend on the particular historical path and the dynamics within it, and multiple equilibria may well be possible. This simple fact of path dependence alone has extensive ramifications for economic theory, which have been explored in many different contexts. For example, David has emphasised path dependence both in the introduction of new technology (1985) and in re-interpreting the nature of economics (1991). Arthur has used path dependence and the resulting feedback mechanisms to elucidate the choice of competing technologies in a situation of increasing returns (1989) and in other contexts. Hahn and others have explored some of the drastic implications for general equilibrium theory of the dependence of future equilibria on the prior path of the economy (1990), while much recent work in game theory has centred on the development of 'refinements' of the equilibrium concept to address the multiple outcomes endemic in repeated games of incomplete information (e.g. Fudenberg and Tirole 1991). Further, a number of the new growth models stress intertemporal linkages between production functions in different sectors of the economy, generating the possibility of multiple equilibria and several different growth paths (e.g. Durlauf 1993).

Two general conclusions seem to have emerged clearly from this work. Firstly, the basic neoclassical model is not robust, in that quite different results emerge from variations in assumptions. Indeed, this work has been taken to show that the standard model applies only in highly exceptional circumstances, most unlikely to apply in the real world (Stiglitz 1991). Secondly, perfectly good models can be built with a very wide range of different sets of assumptions, no one of which can claim to be a preferred representation of all or even most of the economic world. Thus there is no longer one preferred model but rather many models, each appropriate for different circumstances. From this it seems to follow that economics must be seen not as the search for the single universal model akin to physics but as a diverse and sophisticated set of tools, to be used wisely to guide judgement in the understanding of many different situations.

I have noted above that Skidelsky said of Keynes that he was 'the last great economist to hold economics in some sort of relation to the 'good life'', and that in this as in other respects he was echoing a vanishing world rather than being a harbinger of the new (Skidelsky 1992). Another important recent development has been that, for both

practical and theoretical reasons, many contemporary economists have come to question the deliberately neutral concept of utility or of a structured set of preferences which lies behind standard economic theory. The practical reasons relate to the manifest facts that growth as defined by economists does not always advance human welfare and that some low growth changes can make people better off than other changes which induce more rapid growth. Broader and more inclusive concepts of human welfare seem to be necessary, not only in political debate but also in economic thought. The theoretical reasons relate to the viability of welfare economics in the light of Arrow's Impossibility Theorem and to the view that the information base of the standard preference view is too narrow to support an adequate account of the social good. Sugden has recently summarised the position succinctly:

Revealed preference welfarism - the approach which has been standard in normative economics for the last forty years - may have to be given up. Our present awareness of the limitations of that approach is largely due to Amartya Sen. If revealed preference welfarism does have to be given up, there seem to be two main ways of reconstructing normative economics. One is to start from a conception of what makes a good life for a human being, and to build up from this to a theory of the social good: this is the enterprise to which Sen's work belongs. The other is to focus on the rules which govern social interaction, and to evaluate these rules against procedural criteria. (Sugden 1993, p. 1961)

How these and related matters may evolve remains to be seen. But one upshot is an important literature about "the quality of life" in economic theory and practice, which has been particularly driven by the work of Sen, who has developed his own substantive concept of welfare in terms of human capabilities and functionings (Sen 1992; Nussbaum and Sen 1993). The "good life" is returning as a central concern of economics.

What may be in prospect, then, is an economics which seeks to develop diverse and sophisticated tools to aid practical judgement in a wide range of different contexts, while building a normative base on a substantive analysis of what constitutes a good life for human beings at a particular time and place. This approach to economics would be consistent with trends in other relevant disciplines, from mathematics, where diverse and competing bodies of theory have replaced the single universal truth, to philosophy and political theory, where the atomistic individual has been superseded and where there is renewed emphasis on the need for a substantive concept of the good (Sheehan 1995).

Such an economics would certainly be very different in intent from the old neoclassical vision of a universal, value-free science. It would almost certainly provide very different policy prescriptions for many but not all of the key issues facing the world community. Indeed, it would be what Keynes would call a **moral science**.

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