

COMMENT

On the logical properties of Keynes's theorising, and different approaches to the Keynes–institutionalism nexus

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(First published online 27 March 2019)

Abstract

This paper replies to Hodgson (2019), which responds to my analysis and critique in O'Donnell (2018). My present aim is clarification of our respective positions, our agreements and disagreements, and their underlying causes. To this end, I elaborate further on the logic underpinning my initial paper, comment on several (not all) key points in Hodgson's response, and conclude with the matter of our different agendas. Space limitations preclude fuller discussion and encourage concise expression.

Keywords: Universal theorising; historically specific theorising; Keynes–institutionalism nexus

1. Introduction

Geoff Hodgson and I share an interest in Keynes's theorising and its connections to institutionalism as part of the process of creating improved, non-neoclassical approaches to economics. Where we differ concerns the nature of Keynes's contributions and their connections to institutionalism. Much talking at cross purposes is occurring, however, due to our having different agendas and understandings. My agenda focuses on Keynes's theorising – the non-universal foundations of his general theory and consumption theory, their inseparable connections to historical specificity, and the positive implications these have for Keynes–institutionalism synthesis. Hodgson's agenda is far grander, being concerned with the reinvigoration of a comprehensive generalised institutionalism in which Keynes is but one of many with roles to play.

2. Different logical forms of argument

I agree that universalism in economic theorising is antithetical to historical specificity, that it renders institution-based analysis irrelevant, and that neoclassicism is the prime culprit. I deny, however, that this characterisation applies to Keynes. My key propositions are that the theorising of his *General Theory* (hereafter *GT*) is based on non-universalism, not universalism, and that it is historically specific at the level of the whole in analysing capitalism and at the level of the parts in giving determining roles to sub-institutions.

Section 1 of Hodgson's reply, although relatively brief, is the most important from this viewpoint. He characterises my arguments as having the *rhetorical* form of 'X is untrue but Y is valid', where X and Y can apparently be any pair of propositions whether unrelated or related. This is then converted to 'Keynes does not say X but says Y'. Although the form of this characterisation is mistaken, its unpacking is important.

Regarding unrelated propositions, consider X = Real variables are the key drivers of behaviour in the *GT*, and Y = Keynes saw the Versailles peace treaty as irrational. Here one can argue that X is false and Y true, the reasons for these ascriptions being independent. Regarding related propositions,

take X = Keynes deploys universalist theorising, and Y = Keynes uses historically specific theorising. On my argument, X is false, Y is true, and the reasons are interdependent. No necessary connection between X and Y exists in the former case, but it does in the latter, which is here my sole concern.

In terms of this X and Y framing, Hodgson (2019) makes several submissions:

- (1) Agreement that Keynes' conception of a general theory is very different from that of neoclassicism.
- (2) Denial that he affirms any X concerning Keynes, unless textual evidence is provided to the contrary.
- (3) In most cases, no such textual evidence is provided.
- (4) Sometimes X is omitted, and only an obvious Y discussed.
- (5) Many cases exist of such Xs and Ys.

My theoretical arguments, however, differ from Hodgson's characterisation in three respects. Their form is *logical*, not rhetorical, their constituents are always logically inter-related, and they focus on the properties of Keynes' theorising and conceptual framework. Their nature may be formally expressed as follows.

A = if universal theorising is deployed, historically specific theorising in any form is absent.

B = if non-universal theorising is deployed, historically specific theorising in some form is present.

Both propositions are logical inferences from the meanings of concepts. If something is universal, it applies to everything and hence cannot be specific only to some things or domains. And if something is non-universal, it only applies to a subset of things or domains, whether large or small. It is then contradictory to argue that a theory can be simultaneously universal and historically specific. In reverse form, the propositions become:

A' = If a theory has no historical specificity, it is universal.

B' = If a theory possesses historical specificity, it is non-universal.

To investigate the properties of these pairs, let P = universal theorising, and Q = historically specific theorising so that A and B then become:

If P, then not-Q.

If not-P, then Q.

That P implies not-Q, and not-P implies Q means P and Q cannot both be true which, by definition, makes them logical contradictories. If it is agreed that the *GT* possesses historical specificity, say to developed financial capitalism as Hodgson claims, then it cannot be validly argued that its foundations also possesses universality, as Hodgson also appears to claim (see below).

My arguments are thus not mere conjunctions, X and Y, with one false and the other true. They involve propositions in contradictory relationships. If X is denied and Y affirmed, it is because the truth of Y *implies* the falsity of X. If it is false that the *GT* is grounded on universality, then it is true that it is grounded on historical specificity. What Hodgson loosely describes as my Xs and Ys are actually inseparably bound propositions.

My counter-submissions are then as follows:

- (1) If Keynes's general theory differs from that of neoclassicism, what are the key differences, and how do they differ from those in my paper?
- (2) Hodgson (2001) does actually affirm the Xs central to my critique, namely, that Keynes's theorising is universalist and has helped in the abandonment of historical specificity.

- (3) Textual evidence was presented. In section 1 of my paper, I gave ten quotations from Hodgson (2001), including the crucial universalist definition of a general theory repeated in Hodgson (2007).
- (4) Given that the falsity is demonstrated of $X = \text{Keynes}$ engages in universalist theorising, I then proceeded to its implications for another proposition, $X' = \text{Keynes}$ contributed to the demise of historical specificity. Being a logical consequence of the first, it is also false. Evidence for the falsity of X' is given by pointing out the truth of an important Y' , namely, that Keynes did deploy historically specific institutions and gave them determining roles. Y' is effectively not- X' . Someone upholding the truth of X or X' must logically deny the truth of Y' , which is why my paper discussed Y' at some length. One cannot affirm X or X' , and hold Y' to be an obvious truth requiring no discussion.
- (5) If many X s and Y s do exist, most or all will be variants of A and B above.

In short, my paper is about two sides of the same coin, not two different coins.

3. Keynes the person and Keynes's theories

Hodgson discusses Keynes's deficient knowledge of German historicism, American institutionalism and the works of their main protagonists. This theme, which I am rightly accused of neglecting (see below), is certainly relevant to Keynes the person, but is irrelevant to my critique of how Keynes's analytical contributions are portrayed in Hodgson (2001).

Yes, Keynes was not well read or keenly interested in these insightful schools, even though Marshall and other British economists were.¹ But a distinction needs to be made between the properties of the person (their knowledge of an intellectual tradition, T) and the properties of their theories (any contributions these might make to T). Like institutionalism and historicism, the *GT* is grounded on a variety of realistic assumptions, concerns the society in which people actually live, draws on its relevant institutions, and recognises the limited capacities and varying objectives of agents. Greater knowledge of these schools certainly enriches such discussion, but is not essential. Someone completely ignorant of institutionalism could make a valuable contribution to its programme simply because his/her analysis shared key methodological features with institutionalism.

The creator is not the creation. Knowledge shortfalls concerning T do not prevent theorists from advancing contributions supporting T. Even if T-specific terms are absent, non-universal theorising is forever connected to historical specificity. Lack of explicit references or index entries do not count against significance for T. Whatever Keynes's deficiencies concerning knowledge of Veblen, Mitchell, Commons and others, they do not constitute barriers to *theoretical* connections between the *GT* and institutionalism.

Keynes's well-known objective was a revolutionary theory aimed at supplanting orthodoxy and persuading all its practitioners that better ways of theorising were available and necessary. Despite valiant attempts, institutionalism had clearly been unsuccessful in reorienting current economic thinking, so there would be little point in erecting the new theory directly on its foundations (even if he were tempted in that direction). What was perceived as necessary was a theory confronting orthodoxy head-on with a different and superior supply-and-demand alternative. His objective, although not reorientation grounded on institutionalism, did not prevent intimate connections with institutionalism.

Hodgson's reply criticises Keynes for not having acted in certain ways, some based on the implicit, ahistorical and normative premise that he should have acted more like a modern fulltime academic with responsibilities to read widely, or more like an outspoken advocate of institutionalism. This is

¹It is a severe exaggeration, however, to say that he was 'uninformed' about the historical school. He had read closely over many years the works of Marshall, had almost certainly read his father's *Scope and Method of Political Economy* and, in his 1910–1914 unpublished lecture notes on 'Principles of Economics', commented as follows: 'the division between reality and theory was attacked on two different lines. Menger, Jevons, Walras ... on one hand. The Historical school of Germany, Roscher, Schmoller, Hildebrand, Wagner on the other.'

irrelevant here. If the fact was missed that, despite the absence of explicit advocacy his framework nevertheless promotes institutionalism conceptually, he is not to be reproached by later generations for failing to indicate this. His working life was never fully devoted to academic research and teaching, but involved other time-consuming activities over many years, including editorship of the *Economic Journal*,² bursarship of King's College, chair of an insurance company, extensive public service during and after two world wars, and so on.

Is it fair to criticise a writer who, given their objectives, knowledge, expository style and other activities, wrote a ground-breaking work under considerable pressure, for not having presented his ideas in ways preferred by later readers with different needs, criteria and agendas? Eighty-five years ago, Keynes rightly observed that writers inevitably *never say everything* (some things are not explicitly stated), offer *shorter* statements of a *whole bundle of associated ideas* (readers have to do some work), request *goodwill* from their readers (no prejudgements, please), and need a *cooperation of minds* to extend or improve their analyses (sympathetic readers must do even more work). The same applies here.

While generally inactive in promoting institutionalism, Keynes nevertheless participated in the advancement of scientific economics based on realistic assumptions, institutions, non-universalist general theorising and historical specificity. In this sense, he did not encourage or participate in the Great Abandonment or Forgetting, but made significant, not always recognised, contributions to institutionalism.

4. Keynes on general theorising, and specificity to capitalism

Here Hodgson (2019) makes the following points.

- (1) Keynes was 'unable' to formulate his objectives in terms of a non-universal, historically specific theory.
- (2) He failed to make clear that his theory was a general theory of capitalism.
- (3) The reason for the failures was his ignorance of the relevant conceptual tools available from institutionalism.
- (4) He did not provide a historical periodisation or taxonomy of types of economic systems.
- (5) Universalism in economics is not to be discarded. Some universal principles are indispensable, and the idea of some 'universal features of human nature' is not rejected.

My responses are as follows.

- (1) Keynes's overall objective in relation to generality is explicitly given on the *GT*'s first page, and explicitly linked in the next two chapters to the principle of effective demand in an alternative supply-and-demand framework (as well as being repeated subsequently).
- (2) The first page, and other comments, explicitly refer to 'the economic society in which we actually live'. This is one of Keynes's ways of indicating capitalism. What else could it be?
- (3) He did not fail to make clear the non-universality and historical specificity of the *GT*. Institutional conceptual tools are not the only gateway to theorising non-universality and specificity. Absences in his knowledge of other writings do not cause these properties to disappear from his theorising.
- (4) Keynes indicated that his 'law' of consumption concerned this society, not any conceivable society (and could also fail to hold in this society).
- (5) An historical taxonomy of economic systems was never part of the *GT*'s objectives. His three types of economies (not mine) are *analytical* categories, not historical ones, and his 'entrepreneur economy' and 'monetary production economy' are further abbreviated indicators of capitalism.

²Even if Keynes's reading was less extensive than an institutionalist would prefer, Garvy's extreme remarks that 'Keynes read little of what contemporary economists had to say', and that the *GT* was 'written in an intellectual vacuum', are deplorably uninformed.

Concerning universalism in economic theorising, my paper is consistent with Hodgson's insistence on the need for general/universal principles. But because some unfortunate sliding between principles and theories occurs in his books and reply, it is equally important to insist on a distinction between general/universal *principles* and general/universal *theories*. Principles alone do not a theory make.

What kind of capitalism is portrayed in the *GT*? While a key question for Hodgson, it is for me a subsidiary question involving a specificity within a specificity. All that my argument (and that of the *GT*) requires is specificity to capitalism. Hodgson, however, views the *GT* as pertaining only to a particular stage of capitalism, one that comes into existence when a 'developed' financial system involving banks and widespread credit has emerged. But capitalism, in all its historical stages, has always involved money and credit in an organised or developed form appropriate to that stage, and will continue to do so throughout its future stages, so that it is rather odd to consider such features as only defining a particular stage. The *GT* applies to capitalism in general, because it has the necessary set of essential features, including money, waged labour and a money market determining nominal borrowing and lending interest rates. Either of these latter, combined with the marginal efficiency of capital, determines investment, which then joins with consumption to determine income, and so forth.

My view does not regard capitalism as constituted by markets *per se* or the presence of money. Capitalism is an interconnected set of markets of particular kinds (including money and systems for borrowing and lending), in which the most important, historically and analytically to follow Marx, is a generalised labour market where the bulk of the population necessarily acquires income through waged labour. My conception is actually consistent with the definition chosen in Hodgson (2015: 253–259), provided it is accepted that an operational financial system is always part of capitalism.

5. Does the response agree/disagree with my core propositions on Keynes's non-universalism and specificity?

This is difficult to answer for two reasons – the response does not directly address my propositions in the forms advanced, and conflicting indications arise in the reply.

Disagreement is indicated by Hodgson's statement that he is *not* criticising Keynes for discerning universal features of human nature. Hodgson's own work involves a search for such general frameworks of analysis (see below), where general presumably means universal in line with his previous definition of general. This implies rejection of much of my critique.

Agreement is conveyed by other remarks, but these are joined to weakening comments so that the extent of agreement is unclear. He concurs that deep compatibilities exist between the *GT* and institutional analysis, but then describes them as 'links and affinities', terms which can have many meanings in the absence of further explanation. He also agrees that Keynes's concept of general theorising is different from that of neoclassicism, but then describes my portrayal of Keynes's concept as *implicitly resembling* what Keynes *ends up* doing, despite its being outlined clearly and explicitly on the *GT*'s first page and repeated thereafter.

Some remarks hover between disagreement and agreement. Hodgson denies upholding any *X* that I claim to be false (say *X* = The *GT* has universalist foundations) *unless* contrary textual evidence is provided. This points to disagreement. But if it is accepted that contrary evidence has been provided (as noted above), the needle swings to acceptance of *X*.

Also left unclear, due to minimal engagement, are his views on my critique of his universalised interpretation of Keynes's consumption theory, a key foundation of the universalism attributed to the *GT*. Only two relevant comments are made, one concerning universal features of human nature as above, and one on habit.³

³This inconsequential quibble illustrates further talking at cross purposes. I noted that habit *might* suggest constancy in behaviour, not that it is *constant use* of a skill set.

6. The alternative agenda

Hodgson's complete agenda becomes clearer when his main works – Hodgson (2001), Hodgson (2004), Hodgson and Knudsen (2010) and Hodgson (2015), for example – are considered as components in the development of a single over-arching framework aimed at deeper understandings in all the social and human sciences. His objective is a generalised Darwinian, evolutionary, law-enhanced institutionalism at a 'metatheoretical' level. Applicable to all societies, institutions, individuals and genes, and embracing social structure, human intentionality and causality, it seeks extremely high universality and generality.⁴

These substantial and informative works, taken as a whole, suggest the hypothesis that our differences concerning the Keynes–institutionalism relationship derive from two main differences in our agendas. First, Hodgson sees the fundamental difference between neoclassicism and Keynes, *not* as the universalism/non-universalism opposition that I portray, but as a clash between two different forms of universalism – a wrong neoclassical one, and a better (not yet fully developed) institutionalist one based on universal principles (and possibly universal theorising). Second, where my agenda sees a cooperative synthesis between two equals, Hodgson's agenda views Keynes as one of many sources of support in the journey towards a rehabilitated global institutionalism that, in economics, incorporates Keynesianism 'along institutionalist lines'.

The contrast clarifies certain puzzling features in his reply – talking at cross purposes and *ignoratio elenchi*; the absence of key distinctions; my 'alleged mischaracterisations' of his position; his non-engagement with my discussion of Keynes's consumption theory; the focus on Keynes's knowledge shortfalls; contrasting views on what is relevant/primary and irrelevant/secondary; and the absence of clear responses to my central propositions.

7. Conclusion

While sharing some important common aims, Hodgson and I have different agendas, strategies and understandings. My paper primarily focuses on one particular issue, the high significance of Keynes for institutionalist economics, this residing in his general theorising being non-universalist and hence historically specific. My motivations are twofold – positively, to demonstrate the importance of his conceptual framework and theories for a Keynes–institutionalism synthesis and, negatively, to protect institutionalism from some of the dangers of universalist *theorising*. By contrast, Hodgson's agenda possesses tremendous scope – a grand evolutionary institutionalism based on general/universal principles (and perhaps general/universal theories) as a foundation for all social and human sciences (and even beyond). Among the myriad thinkers on whom he draws, Keynes, in his view, has relevance *via* two primary contributions – a non-neoclassical treatment of universal human behaviour in consumption, and an historically specific theory of a stage of capitalism.

For each of us, much more remains to be done (on very different scales), but as the success of Hodgson's venture depends on getting the parts right as well as the whole, our respective pursuits may generate further relevant and informative exchanges.

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⁴This ambitious objective has its origins in the past transition of the German Historical School from its earlier Hegelianism to a modernised Darwinianism, as discussed by Veblen (1901 pp.75–81). Hodgson's research program may be seen as the ongoing modernisation, generalisation and extension of Darwinian institutionalism.

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