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RESEARCH ARTICLE

General theorising and historical specificity: Hodgson on Keynes

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Abstract

In relation to Keynes's thought on general theorising, consumption theory and institutions, this paper closely examines Geoff Hodgson's views as set out in his magisterial work, *How Economics Forgot History*. While in full agreement with its advocacy of the institutionalist programme, it finds that Keynes's position has been misunderstood in all three areas, and that deep compatibilities exist between the *General Theory* and institutionalist analysis. Using all his available writings, it is argued that Keynes's conception of a general theory is very different from that underpinning neoclassical economics so that criticisms of the latter are irrelevant to the former, that Keynes's 'fundamental psychological law' was never advanced as a universal law applicable to all economies, and that Keynes expressly analysed a historically specific economic institution and its assemblage of sub-institutions. Keynes is an ally, not an enemy, of institutionalism in pursuing better economic theory.

Keywords: Keynes; general theorising; historical specificity; institutionalism

Geoff Hodgson's two-volume account of institutionalist economics and social science presents powerful and insightful advocacy of that viewpoint. The first volume, *How Economics Forgot History* (Hodgson, 2001), is largely critical, focusing on failures engendered by universal theorising and the resulting neglect of historical and geographical specificity. The second, *The Evolution of Institutional Economics* (Hodgson, 2004), is largely constructive, focusing on key figures, missed turnings and a revitalisation of the institutionalist programme.

In Hodgson's view (2001: *xiv*), economic and social science theorising should avoid general theories claimed as true for all times and all places and instead focus on producing theories that, while guided by indispensable general principles, are 'rooted, both conceptually and empirically, in historically and geographically specific phenomena'. Keynes is one of the theorists severely criticised for inappropriately (and recklessly) pursuing general theorising and epitomising the neglect of historical specificity. While I have deep sympathy with institutionalism in general and much of Hodgson's writings, I believe his position in relation to Keynes is badly mistaken. It attributes to Keynes views he did not advance, these views then preventing recognition of the wide compatibility of his contributions with institutionalism. Although the primary focus concerns Hodgson and Keynes, the paper also touches on important broader issues, some of which, for reasons of length, will be explored in more detail in a subsequent paper.

Four propositions are argued. First, Hodgson's critique applies in full to pure neoclassical economics, as exemplified by the definition of economics as the universal science of choice under scarcity, and its deployment in Walrasian or Arrow–Debreu general equilibrium theories and their variants. Second, his critique does *not* apply to Keynes's *General Theory* (hereafter *GT*), which deploys a non-universal approach to general theorising with strongly contrasting ideas in this domain, so that it is erroneous to lump his thought in with neoclassical economics. Third, Keynes's consumption theory is not grounded on a universal psychological law, as a wealth of evidence from before, during and after the *GT* demonstrates. And fourth, Keynes's actual approaches to general theorising, consumption theory and institutions are highly compatible with institutionalist economics. Although he was not a 'full-blown' institutionalist, his contributions supplement central intellectual currents in institutionalism and do not undermine them. In fact, correcting these mistakes, and exonerating Keynes from misattributed faults, strengthens Hodgson's wider arguments. The first three propositions are most relevant to his first volume, and the last to his second.

1. Hodgson's characterisation of Keynes

This has two aspects, a strong critique, and a question answered consistently with that critique. The critique is that Keynes's theorising in the *GT* suffers from the same two interconnected faults found in general theorising in any social science, including neoclassical economics. Keynes succumbed to the lure of a theory independent of time and space, and failed to recognise the importance of historical specificity and institutions. The following are representative statements:[1]

> [D]espite his revolutionary contribution to macroeconomics, … Keynes is revealed as fostering a neglect of the problem [of historical specificity] and helping to promote a postwar fashion for general theorising in economics. (*xvi*)

> The case of Keynes is an object lesson. The search for a general theory is not confined to mainstream or neoclassical economics. All sorts of economists have revered a 'general theory'. (5)

> General theorists do not recognise the problem of historical specificity because they believe that economics can proceed entirely on the basis of universal and historically unspecific assumptions. (28)

> [The] problem of historical specificity [was evaded by Keynes because he] fell back on the assumption that economic analysis was based on supposedly universal 'psychological laws'. (29–31)

> Keynes was to play an unwitting role in the Great Forgetting that was to afflict economics in the years to come … [T]he crucial historicist lacuna in his knowledge, combined with his own admiration for general theorising, was eventually to help obliterate both institutionalism and the historical school from the memories of both mainstream and dissident economics. (218–219)

> 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. (221)

> Keynes did make some universal statements. In particular he stressed aspects of human psychology. (222)

> Keynes did not in fact deliver what he had promised: a general theory.… The [*General Theory*] did not provide a general theory of the nature and level of employment in all past, present or possible human societies. (222)

> Keynes's use of the 'general theory' term … helped to obliterate all consideration of the problem of historical specificity from economics … As well as giving unintended succour to the rising

[1]All unreferenced numbers in this section refer to pages in Hodgson (2001).

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> neoclassical generation, Keynes's use of the 'general theory' phrase also hindered the critics of mainstream economics. (227)

The definition of general theory is clearly crucial here, with Hodgson's definition being as follows:

> What characterises a general theory in the social sciences? Here we shall take the term 'general theory' to mean the following: It is any substantial explanation or model of the principal characteristics and behaviour of human economies or societies, *largely or wholly in terms of features that are assumed to be common to most conceivable social or economic systems* … (6, original emphasis)[2]

In other words, 'Universal theories are based on the maxim 'one theory fits all'' (*xiii*). The above definition recurs in Hodgson (2007: 114), accompanied by the remark that general theorists 'build upon features that are taken as common or universal, rather than historically or culturally specific'.

This definition then provides the link to Keynes's propensity to consume, a theory forming the basis of Hodgson's claim that Keynes's general theory is grounded on universal behavioural laws. Overall, Hodgson's critique has twin foundations – general theorising and psychological laws, both conceived as universal in nature and intention, and illustrative of Keynes's recklessness in these matters (12, 223).

The second element in Hodgson's characterisation is the question of how an insightful theorist could explicitly advance a general theory applicable to all times and places and at the same time refer explicitly to specific historical institutions.

> 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 (222).

Seeking an answer, and unable to reconcile these two opposing elements within the framework on which his analysis reposes, Hodgson is obliged to choose. In line with his critique, generality triumphs over specificity, and Keynes is criticised for introducing 'an inconsistency' into the *GT* (223). However, it will be shown below that the problem is not an inconsistency in the *GT*, but the inapplicability of the framework Hodgson deploys in analysing Keynes.

2. The meanings of 'general' and 'law'

These words need careful examination. Each has two different senses in this context, differences which have major implications in relation to Keynes that are not discussed by Hodgson.

The meaning of 'general' depends on whether it is used (1) on its own or (2) in combination with 'theory'. Two relevant senses of 'general' on its own are as follows. It either means universal, as in 'this proposition is general because it holds in every possible case'. Or it is used in the sense of generalisation, as in 'this proposition holds generally' meaning that it holds in many but not all situations so that it is widely but not universally true. Hodgson's critique deploys the first sense, treating general as always synonymous with universal, while Keynes, in his consumption theory used general in the non-universal sense as broadly correct under certain specified conditions but definitely not all conditions (see below). The two meanings of general in the phrase 'general theory' are discussed in the next section.

The notion of 'law' also has two senses. It can refer to universally applicable propositions most often found in physics, including situations of uniformity or homogeneity such that a population has a characteristic because every individual possesses it. Or it can refer, in the far looser sense commonly encountered in economics, to propositions that are far from universal. The 'law of diminishing returns' is not a universal law, merely an assumption about a domain to which the arguments are

[2]Hodgson (2001: 3, n. 3) posits a slight difference in meaning between 'general theory' and 'universal theory', but this does not affect his discussion of Keynes, where these terms are treated as identical.

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restricted – the 'laws' of increasing or constant returns obviously restrict its scope. An economic 'law' may also characterise a situation where the population, in the aggregate, has a characteristic not necessarily shared by every individual. The *GT* is associated with the latter sense in relation to consumption. Hodgson (2001: 159–160; 2002a: 106–107) notes Knight's attempt to demarcate universal from non-universal laws but, instead of recognising Keynes as working with non-universal laws, presents him as relying on universality in both his consumption theory and general theorising.[3]

3. Two models of general theories

Just as fundamental are the senses of 'general' in the phrase 'general theory'. It is commonly assumed in economics (and elsewhere) that there is only one conception of a general theory, namely, that general means universal, so that a general theory is involved in the explanation of every possible situation, including those where extra assumptions may be needed to explain particular situations. But in fact there are two main conceptions of 'general theory' in economics and elsewhere, and hence of general theory–special case relationships.

The neoclassical/orthodox conception

The orthodox economics approach to special cases has three stages – start with the assumption set of the general theory, add extra fundamental assumptions according to the requirements of the special case, and use the expanded assumption set to derive the relevant special case theory. This conception allows a multiplicity of special case theories to be derived from any given general theory, with the general theory fulfilling its role as a universal theory necessary to explaining all phenomena, either on its own or in supplemented form.

To capture Keynes's unemployment equilibria, for example, neoclassical economics starts with its pure general theory, adds further assumptions, say of constant money wages (or fixity in any other price or non-price variable), and derives a special case theory explaining unemployment equilibria in its own terms. Here the generality (universality) of the parent theory is maintained by its being necessary but insufficient for short-run analysis, and both necessary and sufficient for long-run analysis. Deviations from its inevitable long-run conclusions are viewed as transitional departures explained by special case theories derived from the supplemented general theory. Since this approach involves a parent general theory and any number of special case theories, it is here called the *multiple theory model* (hereafter MTM) of general theory–special case relationships.

Keynes's conception

The conception of generality informing the *GT*, however, is completely different in two ways. First and foremost, is it a *one theory model* (hereafter OTM). While this model has several senses in which it can express its generality, all are *internal* to the model and do not require external assistance of any kind. In the *GT*, the primary sense derives from its being a theory of output as a whole, the conclusion of which is that equilibrium output is variable in the long period, and not permanently at full employment as in orthodoxy.

This sense is expounded in the *GT*'s first chapter, the object of which is to explain why Keynes called his theory general. The 'general case' allows for a multiplicity of output values whereas the orthodox theory deals with only 'a special case', the latter being 'a limiting point of the possible positions of equilibrium' (3).[4] More formally, if Y is long period equilibrium real output, Keynes's general conclusion is

[3]Being well aware of the vast differences in the material analysed by physics and economics, Keynes strongly opposed reductions of the latter to the former.

[4]All unreferenced numbers in the rest of the paper are to the *GT*, volume *VII* of Keynes (1973–1989), *The Collected Writings of John Maynard Keynes*. References to other volumes take the form of *CW*, volume number, and page number(s).

$0 < Y \leq Y^F$, as against the orthodox conclusion of $Y = Y^F$, where Y^F is full employment output. What is crucial here is that the orthodox conclusion already exists as a possible outcome within the general theory conclusion without requiring imported fundamental assumptions for its generation. Alongside this primary sense, other important senses exist, one of which is discussed below.[5]

Second, as a corollary made clear by Keynes, his general theory is a non-universal, historically specific theory of capitalism, and not a universal theory fundamental to all economies and agent behaviour regardless of time or space. Evidence for this is presented below.[6]

The fork in the road

Given his departure point, Hodgson is faced with choices regarding general theorising and historical specificity. Concerning the former, he accepts that the *GT*'s opening chapter suggests two alternatives, but then adopts the alternative consistent with his universalist conceptions of general theorising and psychological laws. Regarding historical specificity, he argues, consistently with the above, for the unimportance of institutions in the *GT*.

The key opening chapter of the *GT* is portrayed as containing a 'crucial ambiguity' in having two conflicting interpretations of generality. One is that Keynes used generality in an 'intensive' sense to refer to 'possible outcomes' in 'one given type' of society, a monetary economy that excluded barter (Hodgson 2001: 219–220). This points towards an OTM understanding. The opposing interpretation is that Keynes used generality 'extensively' in claiming the applicability of his theory to all types of societies because it involved a 'supposed foundation on universal psychological laws'. Here Hodgson's analysis (2001: 25–26, 220) draws an analogy with the extensive and intensive concepts outlined in Nagel (1961: 574–575). Closer investigation, however, reveals that, although correct in recognising the need for a distinction, the analogy is theoretically inappropriate for several reasons.[7]

In this tussle, universality is declared the victor and non-universality the loser. Universality triumphs because it is required by the adopted universalist definition of a general theory, and because of the indispensability of Keynes's 'universal psychological laws' within this interpretation. Non-universality loses because it is disqualified by the definition of general theory that Hodgson deploys in understanding Keynes, and because it excludes universalism in psychological behaviour.

Hodgson also adopts MTM as the only relevant model of general theorising, a view in conformity with his universalist definition. In explaining 'the standpoint' of his work and 'the thrust' of his overall argument, eight propositions are advanced that he upholds and seeks to 'enforce'. The fifth of these is as follows:

> Purportedly general theories have explanatory power in the social sciences only when additional, confining and particular assumptions are made. (Hodgson 2001: 39–40; 2007: 132–133)

This is simply the underlying principle of MTM. But using MTM instead of OTM to understand Keynes becomes a major source of confusion concerning the *GT*''s generality and historical specificity.

Regarding the historical specificity of institutions, it is then argued, again consistently with the universalist narrative, that only 'specific' institutions appear in the *GT*, not institutions in general, and that such institutions only appear 'casually' in its discussion as intrusions that serve merely as mechanisms for the transmission of universal psychological forces. Keynes, that is, does not theorise in a fully

[5]For extended discussion of the two contrasting models of general theories, and the presence of the one theory model in the *GT* and its various senses, see O'Donnell (2018a).

[6]It is also not the case, as in Hodgson (2001: 219–220 and Hodgson (2002b: 52–53), that an aspect of Keynes's generality in the *GT* is the embrace of both equilibria and disequilibria. This quite standard feature is present in his pre-*GT* economics, including, for example, the English preface to his *Treatise on Money*.

[7]This topic is too large to discuss in a paper primarily focused on Keynes and institutionalism, but will be addressed subsequently.

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institutionalist manner by explicitly starting with institutions, and drawing conclusions using the major categories, themes and emphases of institutionalist analysis:

> Keynes did little in explicit terms to ground his theory upon historically specific 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, [he] appealed repeatedly to 'fundamental psychological factors' as the foundation for his theory … He conceived of this general theory as having a universal and psychological foundation (Hodgson 2001: 221, also 223).[8]

The above stance does not withstand scrutiny, however. First, full-blooded institutionalist analysis is not the only road to accepting historically specific institutions. As explained further below, Keynes included these in the *GT* in a different manner, one theorising the interplay between economic variables and institutions within a given overall institution, namely, the capitalist economy and its numerous sub-institutions. The overall institution and its component institutions are accepted from the start and form part of the 'givens' of Keynes's theoretical system. They are not explicitly *listed*, but they are certainly *present* at the start, waiting off-stage until called upon to enter the analysis at the appropriate point in the determination of aggregate output. It is within this set-up that psychological decision-makers have institutionally defined roles. Both institutions and agent behaviour then become necessary in understanding the causal mechanisms and outcomes of this complex system. Second, as also explained below, Keynes did not advance any universal psychological laws, only one highly qualified, time-dependent proposition concerning consumption. Third, it is difficult to see how the only institutions Hodgson specifically mentions (the joint stock company and the stock exchange) act as the central or dominant mechanisms for the transmission of universal forces concerning household *consumption*. And fourth, the account rests on a mistaken conception of why Keynes's theory is general.

More generally, the issue is understood as an internal conflict in the *GT* between specificity and universality. On one side, it is accepted that Keynes mentions institutions in the *GT*, thus opening the door to historical specificity. But on the other, it is said that Keynes recklessly ploughed on in developing a universal theory that firmly closed the door on specificity because he was unaware of the 'dilemma' of incompatibilities between specificity and universality (Hodgson 2001: 219–224). It follows that synthesis between specificity and generality becomes impossible in Keynes's theoretical system.

There is, however, no crucial ambiguity in Keynes's opening chapter. His explanation of the sense in which his book constitutes a general theory is plainly set out, this obviously differing from the universalist conception driving neoclassicism. Likewise, the *GT* displays no 'inconsistency' between general theorising and historical specificity, nor is the former 'undermined' by the presence of the latter (Hodgson 2001: 223–224). Hodgson's previous question has a simple answer: it was easy for Keynes, simultaneously and explicitly, to advance a general theory and to embrace historical specificity because he had a totally different conception of a general theory from Hodgson. The charges of ambiguous, inconsistent and self-undermining arguments all repose on universalist propositions seeking to switch his ideas onto tracks he never took.

At bottom, the causes of Hodgson taking the wrong road are three (inter-related) 'universalisations' of Keynes – conflating general with universal in his treatment of generality, confusing fundamental with universal in his treatment of 'law', and claiming the permanent incompatibility of general theorising and historical specificity.

[8]Somewhat inconsistently, Hodgson (2001: 224) later agrees with Chick that the *GT* 'in truth … applied to a historically specific set of capitalist institutions'.

The important case of Nazi Germany

In line with his universalist interpretation, Hodgson argues that Keynes's claims in the *GT* were that 'his theory had sufficient generality to apply to several different types of "economic society", by virtue of its supposed foundations on universal "psychological laws"', and that this general theory applied to 'a number of different types of socio-economic system' due to its having a 'universal and psychological foundation' (Hodgson 2001: 220–221).[9]

To support these propositions, Hodgson relies on his interpretation of a few sentences in a *single* document, the September 1936 preface to the German edition of the *GT*. There Keynes stated that one reason for calling his theory general is that it is applicable to 'a large field of different circumstances', this field including the German economy at the time. Only one part of the preface is quoted, but its surrounding sentences put this part in context:

> [T]he theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of laissez-faire. This is one of the reasons which justify calling my theory a *general* theory. Since it is based on less narrow assumptions than the orthodox theory, it is also more easily adapted to a large field of different circumstances. Although I have thus worked it out having the conditions in the Anglo-Saxon countries in view – where a great deal of laisser-faire still prevails – it yet remains applicable to situations in which national leadership is more pronounced. The theory of the psychological laws relating consumption and saving, the influence of loan expenditure on prices and real wages, the part played by the rate of interest – these remain as necessary ingredients in our scheme of thought. (*CW VII*: *xxvi–xix*, and Schefold, 1980: 175)[10]

Viewing this passage as a 'striking piece of further evidence' confirming his verdict, Hodgson argues that the preface shows that Keynes made the following claims about the generality of his theory: it was 'extensive' in the above Nagel sense; it was applicable to 'different types' of economic society; its wide embrace of the Anglo-Saxon and Nazi German economies demonstrated this extensive nature; and the grounds for these claims were universal 'psychological laws relating to consumption and saving' (Hodgson, 2001: 220–221).

However, Keynes's actual point in this passage is that *one* of the senses in which his theory can be considered general is that it applies to capitalist economies under *varying degrees of state control*. From this perspective, his theory is applicable to three broad types of such economies: those with no state involvement (the limiting case of *laissez-faire*); those with relatively low levels of state involvement (the Anglo-Saxon countries, the main case in mind in the *GT*); and those with much higher degrees of state involvement (such as Nazi Germany). There is no claim at all that his theory applies to several different 'types' of economic society. What is portrayed here is applicability to several different *forms of one type* of socio-economic system. Keynes's 'large field of different circumstances' for one socio-economic system is not to be conflated with a range of different types of socio-economic systems.

Two further points deserve notice. From a historically specific standpoint, Nazi Germany had, in September 1936, an economy that was a *complicated mixture of private and state elements*. Private property, private initiative, competition, profit-driven firms and privatised state-owned industries all existed alongside newly created state industries, public works, state-controlled labour unions and social welfare. It was not a fully centrally planned economy, and not at the time of Keynes's writing even a fully mobilised war economy although that was about to start. As such, his theory of the determination of aggregate output remained applicable to its economy. What Keynes advanced was a bounded, not a universal, claim of applicability, one embracing the German economy at that time but

[9]No such claims are present, however, in the *GT* or associated writings.

[10]Schefold (1980) explains why the English translation of the German preface in *CW VII* is incomplete.

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certainly not all possible types of economies, past, present or future. Thus, while definitely 'symptomatic' of his own conception of a general theory, Keynes's claim is far from 'extraordinary' (Hodgson, 2001: 221).

Further, the referent of 'totalitarian' is more political than economic. Nazi Germany was unmistakeably politically totalitarian, but it was not yet economically totalitarian for the above reasons. The words 'state' and 'national leadership' likewise have predominantly political overtones (without overlooking obvious influences on economic matters). Also highly relevant is the description of national leadership in Germany, not as total, but as merely *more pronounced*.

4. The epistemological status of the propensity to consume

Keynes's description of his propensity to consume as a 'fundamental psychological law' is a constant centrepiece in Hodgson's critique. Keynes introduces his relationship as follows, consumption and income being measured in real terms:

> The fundamental psychological law, upon which we are entitled to depend with great confidence both *a priori* from our knowledge of human nature and from the detailed facts of experience, is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income. (96)

For Hodgson this is convincing demonstration of Keynes's search for a general theory in the universal sense:

> Keynes fell back on the assumption that economic analysis was based on supposedly universal 'psychological laws'. (Hodgson 2001: 31)

> Keynes … made extensive claims about the generality of his theory. He also claimed … 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'. (Hodgson 2001: 220)

> Instead [Keynes] appealed repeatedly to 'fundamental psychological factors' as the foundation for his theory … 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. (Hodgson 2001: 221)

Like the reframing of Keynes's general theory as a universal theory, the proposition that Keynes here calls 'fundamental' has been relabelled 'universal'. In both cases, treating his descriptors as synonymous with universal is a seriously mistake.

As is often the case, adequate understandings of Keynes's statements require careful, contextual and comprehensive readings, including the identification as clearly as possible of the referents of the terms used and their properties. Since his consumption theory has been carefully and comprehensively discussed using all his relevant writings in O'Donnell (2018b), only a condensed summary in the form of 15 points is presented here.

(1) The analytical significance of 'propensity'

Keynes's theory was deliberately called 'the propensity to consume', and its underpinnings were referred to as 'psychological propensities' (91, 117–118), these being analytically precise terms in his theory. Propensity means a disposition, proclivity, inclination, tendency or motive to do something, and suggests variability in behaviour according to circumstances. Evidently, people consume, but just as evidently the *strength* of their propensities, dispositions or motives to do so varies with

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situations and environments. Propensity does not connote fixed, invariant, or universal behaviour, but allows for variable behaviour.[11]

(2) The psychological content of the law

Humans need to consume to survive, but this universal *biological* necessity lies outside economics and psychology. What economics explores, *inter alia*, is the generation of output or income, and the proportions of income devoted to consumption and saving, and in both these analyses it often draws upon psychological factors. In calling the relation between consumption (C) and income (Y) a 'psychological' relation, Keynes is referring to *the C-S division of Y*. This split, and its associated ΔC-ΔS division of ΔY, or the marginal propensity to consume (*mpc*), form the subject matter of his 'psychological law'.

(3) The functional form of the law

Keynes presents the law using $C = \chi(Y)$, which then makes understanding this equation critically important. First, the equation concerns the C-S division: given χ and Y, both C and S are determined.[12] Second, the law indicates that the dependent variable, C, is driven by a set of determinants. One determinant, Y, appears explicitly, but all other determinants are tucked inside the unspecified function, χ. Third, the law is presented in *qualitative* form, not as a *quantitative* equation where all determinants and relationships are specified with mathematical precision. Reductions to mathematical form, as in standard replacements with $C = C_O + cY$ or variations thereof, are distorted simplifications of his theory. Fourth, Keynes often used these types of functional equations, labelling them 'symbolic equations' and distinguishing them from 'algebraic equations'. By prioritising conceptual reasoning over mathematical reasoning, they represent tools of thought rather than tools of mathematical manipulation.[13]

(4) The income determinant of consumption

Y is specifically identified because Keynes's ultimate aim is a theory of aggregate output or income in which C plays a vital role, and because income is viewed as the principal determinant of C *under certain conditions* indicated below. To regard C as a function of Y alone, however, is a simplification discarding the complexity and richness of his theory.

(5) The non-income determinants of consumption

χ is described as a 'portmanteau function' (96), that is, as a carry-all for the non-income determinants. These are explicitly divided into three categories:

(a) the objective factors (hereafter OF), principally six in number (91–95),
(b) income distribution (hereafter ID), initially apparently included with the subjective factors, but later listed separately and further clarified (90–95, 107–109; *CW XIV*: 270–272), and
(c) the subjective factors (hereafter SF), principally 12 in number comprising eight for individuals/households and four for private and public institutions (107–109).[14]

[11]While overlooking this in Keynes, Hodgson is well aware of the nature of propensity for it is later called into service in developing improved institutionalist theorising (Hodgson, 2001: 285–286).

[12]Here Y, C and S are understood in real terms in Keynes's *GT* sense.

[13]For further discussion, see O'Donnell (1997) and Rymes (1988: D19, I22).

[14]This subjective-objective division does not correspond with a psychological/non-psychological division; SF are mostly psychological, but only a majority of OF are non-psychological.

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The structure given to the non-income determinants is as follows. SF are taken as *given*, that is, as factors that remain constant during a particular analysis due to being impounded in *ceteris paribus* clauses. They are allowed to vary but only as changes to the givens that generate new χs and new environments for analysis. By contrast, OF are *variable* within the given analysis. They remain constant (or effectively constant) during *short* intervals of time but vary over longer intervals.

Because Keynes links ID to both OF and SF, his treatment is less clear but can be understood by dividing it into two separate determinants. ID_1 captures changes in ID induced by the economy's journey through time, these then influencing *C* in virtually the same way as OF (91–95, 121, 245). And ID_2 captures the background social determinants of distribution that change more slowly and influence χ in ways similar to SF (110, 245).

The result is that all the non-income determinants can vary over time in different ways, so that χ also varies over time.[15] Hence constancy in χ, or its properties such as the *mpc*, while logically possible, are extremely unlikely particular cases. And there is no universality/invariance in how χ itself might change over time. In Keynes's theory, *none* of the determinants of *C*, whether relating to *Y* or χ, involve universalities/constancies.

(6) The total number of determinants

At least 21 exist: *Y*, the six principal OF, the two ID factors, and the 12 principal SF. This is a lower bound because non-principal determinants may reside within OF and SF. It would be highly unusual if all these determinants varied in such a way as to generate universality/invariance over time and space.

(7) The actual constancy behind the 'law'

Keynes advanced three propositions concerning the temporal behaviour of the propensity to consume. It is generally constant or stable for short intervals of time under normal conditions; it is capable of some change under these conditions but not so much as to upset the first proposition as a generalisation for theoretical purposes; and it is capable of major changes over longer intervals and abnormal conditions (109–110 especially, but also 91–97). Clearly, conditionality wrecks any supposed universality in the law and its *C-S* divisions.

The referent of 'law' in Keynes' discussion is thus *the general or approximate constancy of* χ *over short periods and under normal conditions with* χ *having the property* $\Delta C < \Delta Y$ *or* $mpc < 1$. When it is said that the *C-Y* relation is 'a fairly stable function' where *C* 'mainly depends' on *Y* rather than on the non-income determinants subsumed within χ (96), the attributes of stability and normality only obtain under these conditions. Constancy in χ then permits *C* to vary with *Y* in a law-like manner. But outside this context other factors destroy universality: χ can change (via OF and ID_1 at least) with *Y* constant, so that *C* changes independently of *Y*; and both *Y* and χ can change simultaneously over time, so eliminating stability in *C-Y* relations. Reducing χ to a universal/fixed/invariant relationship as in simplified representations substitutes a very different referent for Keynes's referent.

(8) Habit

The psychological factor of 'habit', often emphasised by institutionalists,[16] might suggest constancy in behaviour. In the *GT*, habit is not listed among the determinants but is included in the concept 'psychological' in two main dimensions. First, habit can be changed by other factors such as changes in interest rates (an OF) when the changes are large and prolonged (93–94). It is also capable of gradually adjusting itself over time to 'changed objective circumstances', the reference here being to income (which is listed separately from OF). If income rises or falls, 'habitual standard of life' is *temporarily*

[15] See also *CW XXIX*: 249–250.

[16] See Hodgson (1989).

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maintained so that ΔS initially rises or falls by ΔY, this including situations where C *exceeds* Y for an interval because people use up 'financial reserves … accumulated in better times'. After these changes, adjustments occur with later ΔS being smaller than initially (97–98). And second, habit itself is a key background influence on the more durable SF, for these are regarded as depending on the 'habits formed by race, education, convention, religion and current morals' (109). But regardless of its roles, it is never associated with universality.

(9) The inapplicability of the law

The law, understood as in (7) above, breaks down in two general situations – longer time intervals, and abnormal conditions in shorter intervals. Regarding the latter, Keynes advances five scenarios: *revolutionary circumstances* (91), presumably political ones without excluding other possibilities; *high uncertainty* about the future that can change one of the OF, the rate of interest (94); *war-time*, with propaganda for reduced consumption (117); *cumulative instability*, when the stability conditions for the economy do not hold (252); and *hyperinflation* as in the early 1920s in Germany and Russia, this being underlined in Keynes's 1933 *GT*-related lectures.[17]

(10) The loose meaning of 'law'

As noted, 'law' in economics is often used in a lax, non-universalist manner compared with how it is used in physics. Consistent with this, it is also important to note that the word 'law' is entirely epiphenomenal in Keynes's discussion. *Nothing* would change in his theory if 'law' were jettisoned and replaced by 'proposition' or 'assumption', as in 'fundamental psychological proposition' or 'assumption'.

(11) The meaning of 'fundamental'

Fundamental and universal are obviously not synonyms. Features that are fundamental to a particular economic form, say lord–vassal–serf relations in feudalism, are far from essential to all economic forms.

The *GT* does not explicitly explain this term, but at least three interrelated senses are possible. The first is realism in that his law refers to the real behaviour of an aggregate of people. He regarded the propensity to consume as based on 'the detailed facts of experience' (91) and sometimes called it as an 'empirical' law. The second is that of a necessary condition for explanation. If the 'law' were invalid, the economy would not behave the way it does in exhibiting periods of sub-optimal stagnation (249). The third concerns theoretical foundations, his law being positively fundamental to his new non-universalist theory of output, and negatively fundamental in his rejection of orthodox theory with its very different (universal) foundations. None of these senses suggests that fundamental is equivalent to universal.

(12) One or several fundamental psychological laws?

The presence of *multiple universal* psychological laws is postulated in Hodgson's account, yet their number, referents and roles within the theory are never adequately outlined. Keynes, however, specified *only one fundamental* psychological law in the *GT*, that concerning consumption.[18]

[17]See Rymes (1988: G17, B41–B42, N11 respectively; and M13), these inflations having been earlier discussed by Keynes in his *Tract of Monetary Reform* of 1923. Note that Keynes's theory can still hold when his law does not (see (14) below).

[18]Hodgson (2001: 221) draws on Keynes's phrase, 'the psychological laws of consumption and saving', but the latter 'law' is merely a corollary of the first and not an independent law.

It seems that this mistake derives from confusing the *GT*'s multiplicity of fundamental psychological *factors* – the propensity to consume, liquidity preference and the psychological expectations behind the marginal efficiency of capital (246–247) – with a multiplicity of psychological *laws*. Hodgson (2001: 221, 223), for example, switches from 'factors' to 'laws' within three pages without registering the difference. But concepts and factors are not laws, and no laws are advanced for the last two factors. The *GT* certainly depends on fundamental psychological factors, but not on any universal psychological laws.

(13) Keynes's propensity to consume and the orthodox consumption function.

Major differences exist. Although using a general functional form, Keynes' consumption theory is not expressed as a specific mathematical equation, but as a symbolic or conceptual representation. The term 'consumption function' apparently arose in 1938, but Keynes never accepted it. He only referred to it as 'my so-called "consumption function"', and the name 'consumption function' only occurs in the titles of his replies to criticism (*CW XIV*: 268). On all the available evidence, it is virtually certain that Keynes never used the term 'consumption function' in *any* of his own writings, so that Asimakopulos (1991: 91) is quite mistaken in saying Keynes used the two terms 'consumption function' and 'the propensity to consume' interchangeably. This distortion in secondary commentary is now nearly ubiquitous.

Keynes's propensity to consume involves a matrix of temporal variability, whereas 'consumption function' carries implications of constancy, especially in mathematical models where functions are invariant until exogenous change is imposed. Only in one minor respect does Keynes's propensity to consume *resemble* the orthodox consumption function, namely, that it posits a stable *C*-*Y* relation under certain conditions. These conditions are highly restrictive, however, and ongoing stability is destroyed by endogenous variations in some of its determinants over time. The different arrangement of determinants (*Y*, OF, ID, SF *versus* endogenous and exogenous variables), the respective roles of these determinants in the economy's journey through time, the lack of *C*-*Y* dependability outside the stipulated conditions, and the properties of Keynes's long-period equilibria where all determinants become constants without any associated long-period consumption function, all underline the different theoretical foundations.

(14) Implications for dynamics and statics

Given its temporal structure of determinants, Keynes's consumption theory fits perfectly with the Marshallian dynamics–statics framework of change and stasis. As the economy travels through time, *Y* alters during disequilibria, but then settles into constancy in either short or long period equilibria. χ also experiences change or constancy depending on its determinants. In the short period, it remains constant, but alters during transitional intervals due to changes in ID_1 and OF (especially windfall gains, interest rates and fiscal policy; 95–96). However, when all change has finally ceased, the economy settles into a long-period stationary state in which all determinants, and hence C, become constant. Any subsequent changes in SF (the givens) then throw the economy into disequilibrium, introduce a new χ and start the economy on another adjustment path through time.

These broad patterns of change and stasis in *Y*, χ and *C* that eliminate any notions of universality are (schematically) summarised below, with * indicating constancy:

General, expanded form of	$C = \chi(\mathrm{Y})$ $C = \chi'(Y, OF, ID_1, ID_2, SF)$ [Keynes's theory]
Short intervals, normal conditions	$C = \chi'(Y, OF^*, ID_1^*, ID_2^*, SF^*)$ [Keynes's 'law']
Longer intervals, normal conditions	$C = \chi'(Y, OF, ID_1, ID_2^*, SF^*)$
Abnormal conditions	$C \neq \chi'(Y, OF, ID_1, ID_2, SF)$
Stationary state	$C^*, Y^*, OF^*, ID_1^*, ID_2^*, SF^*$

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Note that the *mpc* also displays temporal variability. First, changes in *Y* can change the *mpc* for given χ (120–121, 127), and second, changes in χ due to changes in the non-income determinants, particularly OF and ID_1, will change the *mpc*.

(15) The historical specificity of Keynes's analysis

Many passages attest to this, but only a few will be mentioned. Keynes always indicated that he was *not* discussing all possible economies but the 'economic society in which we actually live' (3), the 'economic society we presume' (109), the 'world in which we live' (249) and the 'modern world' (250), and also that his psychological rule was relevant to 'any modern community' (97) and 'contemporary human nature' (250).

The object of analysis in the *GT* was 'an entrepreneur economy', also called a monetary production economy. He defined the former in a 1933 draft of the *GT* as follows:

> We conceive the economic organisation of society as consisting … of a number of firms or entrepreneurs possessing a capital equipment and a command over resources in the shape of money, and … a number of workers seeking to be employed. (*CW XXIX*: 62–64)

This was followed by the declaration that it 'is obvious … that it is in an entrepreneur economy that we actually live today' (*CW XXIX*: 78; see also *XIII*: 410; *XXIX*: 66, 79). Thus, it was this type of economy that he theorised in the *GT* using his monetary theory of production (*CW XXIX*: 67–68, 79). Marx's 'pregnant observation' that M-C-M′ was the relevant concept of circulation, not the C-M-C′ of orthodoxy, was also a key point in the development of his analysis (*CW XXIX*: 81; Rymes, 1988: 3, B13–14). Such remarks plainly indicate his exclusive focus on *capitalism*, not on any other socio-economic form of organisation, let alone on all possible forms.[19]

Then, in 1939, in a remark specifically related to his fundamental law of consumption, he explicitly and unmistakeably drummed home its historical specificity: 'one speaks of there being a law, when one means a law of the society we live in rather than a law of any conceivable society' (*CW XIV*: 276).

Keynes's methodology of exposition

Keynes was well aware that the exposition of economic theories is always verbally incomplete. Not all relevant matters are expressed on every occasion and definitions may have penumbra, so that theorists rely on the goodwill of readers *not to jump hastily to conclusions based on words or sentences taken in isolation* (especially regarding novel and unfamiliar work). A 1934 draft preface to the *GT* is highly relevant.

> Whilst it is [the economist's] duty to make his premises and his use of terms as clear as he can, he never states all his premises and his definitions are not perfectly clear-cut. He never mentions all the qualifications necessary to his conclusions. He has no means of stating, once and for all, the precise level of abstraction on which he is moving … [T]he essential nature of economic exposition [is] that it gives, not a complete statement, which, even if … possible, *would be prolix and complicated to the point of obscurity but a sample statement … out of all the things that could be said, intended to suggest to the reader the whole bundle of associated ideas, so that, if he catches the bundle, he will not in the least be confused or impeded by the technical incompleteness of the mere words which the author has written down, taken by themselves.*

[19]For my present argument, it is sufficient to claim that Keynes's theory deals with the capitalist economy and not all economies. On whether the *GT* possesses even greater historical specificity, see the contrasting perspectives of Crotty (1990) who argues for its applicability to a particular stage of capitalist development, and of Dequech (2003), who contends that it applies to capitalism in general. Here I side largely with Dequech, provided that capitalism in general is understood as having sufficient institutional structure to correspond to the *GT*'s basic theoretical categories. Key questions concern how capitalism, institutions, and Keynes's phrase, the society 'in which we actually live', are conceptualised.

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> This means… that an economic writer requires from his reader much goodwill and intelligence and … co-operation; and that there are a thousand futile, yet verbally legitimate, objections which an objector can raise. (*CW XIII*: 470, emphasis added)[20]

5. Did Keynes deliver what he promised?

Hodgson's answer (2001: 222) is in the negative: 'Keynes did not in fact deliver what he had promised: a general theory', the last term understood in the universalist sense. An attempt is then made to show that Keynes had placed himself in an impossible situation. He 'could not show how psychological propensities worked out in practice except by introducing an … institutional framework', the reason being that 'Human psychology has to play out its part on some specific institutional stage', and has 'to be applied to quite specific institutional structures, such as financial markets, state money and legal contracts'. That is, universal propositions need institutional channels for their expression, such channels are always specific, and this specificity conflicts with any asserted universality. Apart from its inapplicability to the *GT,* this is an internally inconsistent argument. If behaviour is universal, it is expressible in *all* institutional structures, so that the fact that it is channelled through a particular institution or set of institutions does not invalidate its universality. Even the pure general theory of orthodoxy that Hodgson takes correctly as an exemplar of a universal theorising has an indispensable (minimalist) institutional structure.

The accurate answer is yes. Keynes did deliver what he had promised, a general theory in his sense, one reposing, not on universal applicability across time and space, but on a range of possibilities relating to one historical economic system. The non-universalist OTM he deployed provides an analysis of an abstract capitalist monetary production economy that then becomes a theory applicable to all the variants of this type of economy distinguished by different sub-institutional frameworks (as with 1936 Germany). This is utterly different from a theory claiming universality and institutional non-specificity in its assumptions and conclusions.

6. Keynes and institutions

Although Keynes did not theorise in the general manner of institutionalist economists, he was nevertheless fully cognisant of, and engaged with, institutions throughout his entire career. This involvement had two sides. On the theoretical side, he assumed them, made them foundational in his theorising, and analysed their behaviour. On the practical side, he upheld them, criticised them, suggested improvements, rejected them, and proposed new ones. Institutions thus form a vital and constant theme in his economics – from his thoughts on the Indian financial system, a proposed Indian central bank, the Versailles peace treaty, his engagement with the 'barbarous relic' of the Gold Standard, his analyses of monetary systems and management in the *Treatise on Money*, the entrepreneur economy informing the *GT*, and his final work on the international arrangements for a post-war world.[21]

In the *GT*, institutions play explicit and essential roles, theoretically and practically. In the lead-up in 1932 and 1933, he distinguished three types of economies: (1) a barter, real exchange or cooperative economy, (2) a neutral money economy, and (3) a money wage or entrepreneur economy (later called a monetary production economy). The first two institutional forms underpinned orthodox theory while the last informed his own.[22] This differentiation *by itself* is sufficient ground for rejecting the views that his general theory was advanced as a universal theory applicable to all economies, that 'he did not start from the specific institutions of capitalist society' or that his general theory was a failure because he deliberately excluded barter (Hodgson, 2001: 220–221).

[20]Much else in this document has high relevance to the matters presently under discussion.

[21]His earliest encounters were at Eton where institutions, past and present, were central to his history and classics subjects. Concerning the *Treatise on Money*, see *CW V*: ch. 1 and *CW VI*: Bk *VII*.

[22]See *CW XIII*: 381, 396–397, 408–412, 420–421; *CW XXIX*: 66–68, 76–102; Rymes (1988: A1–A4, B11–B12, D2–D4, E2–E5, G1–G6, I1–I2, J9, M3–M5, N4–N5).

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There is not the slightest interest in the *GT* concerning other types of historically specific economies, whether hunter–gatherer, barter, gift, tribal, slave, feudal, sharing, centrally planned or utopian. It only theorises one type, a capitalist monetary production economy. As such, it abounds with historically specific institutions underpinning its analysis explicitly or implicitly, including private property, entrepreneurial control of production, wage labour, wage bargaining, unions, banks, money markets, bond markets, joint stock companies, stock markets, legal systems for contracts, exchange and fair dealing, a monetary system, a central bank, fiat money and a state replete with existing institutions such as taxation, revenue and transfer mechanisms, and a capacity to introduce new institutions to ensure adequate investment such as a national investment board and semi-autonomous corporations. Also underpinning this institutionalist perspective are the mixed economy and the concept of radical uncertainty that Hodgson views as essential to institutionalism. Keynes is certainly not captured by remarks such as the following:

> General theorists do not recognize the problem of historical specificity because they believe that economics can proceed entirely on the basis of universal and historically unspecific assumptions … [G]eneral theorising [cannot] do adequate credit to the problem of historical specificity. (Hodgson, 2001: 28; 2007: 126)

Hodgson's earlier views, largely abandoned in his later position, are far more accurate regarding Keynes. Hodgson (1999a: *xvii*, 11, 26, 246, 258) makes a variety of astute remarks, including that the search for better theories 'must' involve Keynes among others, that Veblen's thought combined with insights from Schumpeter and Keynes provide key raw materials in generating better economic theory, that Keynes advocated the institution of a mixed economy, that Keynes's ideas fit the required 'evotopian' perspective, and that Keynes recognised the presence of moral judgement in economics. The overall assessment of Hodgson (1999b: 231) that, 'In the writings of Keynes … there is generally a degree of emphasis on specific institutions and structures and an attempt to relate the analysis to specific economies rather than ahistorical generalities', is fully endorsed here.[23] A return to these views is consistent with the view that in the *GT* general theorising and historical specificity are compatible bedfellows.

Synthesising general theorising and historical specificity

The rejection of universalist general theorising and the advocacy of historical specificity means that MTM is almost certainly antithetical to institutionalism. On the other hand, OTM and *GT*-institutionalism compatibility remain open for consideration. Although this important topic will be addressed in more detail in the subsequent paper, two things can be said at this stage. First, it is mistaken to suggest that general theories *per se* are incompatible with historical specificity and institutions. The OTM model deployed by Keynes is a clear example. Second, the central issue is actually not whether institutions are merely included in some sense in general theorising, but whether they are *endowed with power as determinants* of behaviour and temporal paths in the theories in which they are embedded. Keynes's theory is set in an overall institutional context, within which sub-institutions play determining roles and are not relegated to insignificance. One instance out of many is the stock exchange's influence on investment decisions: whether to purchase new capital equipment or acquire an existing listed company.

Hodgson's account posits myriad problems in the *GT*, among which the following:

(1) A more general theory can have less explanatory power.
(2) To have explanatory strength a theory may need to be a special theory.
(3) The theory of a monetary economy has to be a special theory and cannot be a general theory.
(4) Keynes's theory is conflicted, being more general in one direction and less in another.

[23]See also Hodgson (1999c).

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(5) A barter economy can be considered more general because it allows more exchanges than a monetary economy.
(6) It is difficult to say whether Keynes's theory or orthodox theory is the more general.
(7) Keynes's non-homogeneity of data over time undermines generality.
(8) General theorising necessarily conflicts with historically specific theorising.
(9) Keynes fostered and exemplified a neglect of historical specificity.
(10) The historical evolution of institutions (specifically banking and finance) invalidates Keynes's general theory.
(11) Keynes was infected with his own form of 'Ricardian vice'.
(12) Specific policies cannot be derived from general theories.
(13) Methodological failures in the *GT* lead to oppositions between its general theory and historical specificities.
(14) Post-Keynesians need to escape from *three* key aspects of the *GT*: its title, its first chapter, and its universal psychological laws.[24]

Once it is realised, however, that Keynes is deploying entirely non-universalist conceptions of general theory and psychological law, all such problems vanish as fatal flaws, and the door remains open, as it always was, to a combination of general theorising, institutions and historical specificity. Hodgson's critique is relevant to universalist non-institutionalist theorising and methodologies, but not to the *GT*. As he also notes (Hodgson, 2004: 385–386), many of last century's institutionalists were well aware of the relevance to institutionalism of Keynes's contributions.

Keynes's *GT* is general, not because it claims universality, but primarily because it claims generality and truth *vis-à-vis* a rival theory – it allows all magnitudes for equilibrium output in a capitalist economy whereas orthodoxy allows only one. By contrast, orthodoxy's claim is one of *absolute* generality and truth independently of any other theories that might exist; if aspects of these theories have any validity at all, they are merely special cases capable of derivation using MTM. Keynes's claim of generality is *relative* to one dominant, opposing theory, not all theories. Further, as noted, Keynes's analysis is set in a specific historical institutional context; the overall institution and its set of inter-locking sub-institutions help determine agent behaviour and the outcomes and temporal paths of the system. The policies generated by his general theory, moreover, are designed to alter this institutional structure so as to significantly improve the performance of the new institutional arrangement. In the *GT*, institutions have determinacy over outcomes and are not merely casual intrusions.

The root cause of the problem is conflation of the generality of the *GT* in the context of the (real) institutional form it analyses with the universal generality of pure orthodoxy in the absence of any (real) forms of institutional specificity. Once the generality/universality conflation and the fundamental/universal conflation are removed, the *GT* is the friend, not the enemy, of institutionalism, and can be advanced as an exemplar of how general theorising can be fused with historical specificity. What is impossible under the one framework becomes straightforward under the other. Hodgson's (2001: 232) 'barren universality' applies elsewhere, but not to Keynes.

7. Conclusion

This account of Keynes's thought concerning general theorising, consumption, institutions and historical specificity leads to the following important propositions concerning institutional economics:

(1) While rapprochement is impossible with neoclassical economics, synthesis with Keynes's alternative conceptual framework is straightforward.
(2) Far from neglecting or undermining institutions and historical specificity, the *GT* exemplifies and supplements arguments for their necessary roles.

[24]Although some of these have not been discussed for reasons of space, they are all related to the propositions that have been examined.

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(3) Institutionalism is strengthened by the natural compatibilities between historical specificity and general theories in Keynes's sense.
(4) Keynes provides a clear example of how economic theory in the narrow sense can be combined with institutionalist theory in the broad sense, so contributing a powerful argument against the claim that institutionalism is anti-theoretical in the narrow sense.
(5) With Keynes, it is not a case of general theorising *versus* historical specificity, or of theory without institutions *versus* theory with institutions, but a case of general theorising *with* historical specificity that embraces theory *and* institutions.
(6) Other methods of giving theoretical determinacy to institutions exist alongside the more thorough methodology of institutionalist economics.

Contrary to Hodgson (2002b: 56, 60), the *GT* provides a theory that is general, non-universalist and historically specific to capitalist economies. Keynes thus makes a valuable contribution 'to the task of constructing an institutionalism for the future' (Hodgson, 2004: 11). He did not participate, wittingly or unwittingly, in the Great Forgetting, the Great Rejection or the Great Abandonment.

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