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The ‘Uncertain’ Foundations of Post Keynesian Economics: Essays in Exploration. By
27864-5, $160/£85 (hardcover).

This book is a collection of essays, several previously published but revised, arguing that the
distinctive feature of Post Keynesian economics in relation to other schools of thought is the
centrality of fundamental uncertainty in underpinning the core principle of effective demand,
whether as articulated by Keynes (1936) or Kalecki. Stephen Dunn’s methodology is informed
by the Lawson school of Critical Realism (Fulbrook 2009), which he regards as providing the
ontological foundation for the coherence of, and the centrality of uncertainty within, Post
Keynesian economics. Dunn argues that uncertainty is the consequence of a world characterized
by open social systems in contrast with the closed physical systems that can be represented by
mathematical models. He concludes that the historical link of Post Keynesians with Sraffa has
created inconsistency and calls for “the ejection of the Sraffian order from the Post Keynesian
church.” He identifies limitations in Keynes’s own treatment of uncertainty and criticizes the
widespread conflation of uncertainty with bounded rationality, including by many Post
Keynesians. He also outlines specific applications of Post Keynesian thinking: to the area of
health economics, in which he is now a senior UK government advisor, and to the theories of
pricing and the firm.

Although there is much in this book to be agreed with, Dunn’s approach is slightly
reductionist, in the sense that he tends to overstate his case and finds in uncertainty something of
a universal cause. For example, in chapter 4, he follows Davidson in emphasizing the importance
of money contracts, particularly the wage contract, under uncertainty but pushes this to the point
where he appears to be claiming that uncertainty alone (“a necessary and sufficient condition.”
p. 60) can explain the existence of a wage-dependent labor force and unemployment—something that Kalecki would certainly have taken issue with. This over-emphasis neglects the importance of the many factors of a historical, sociological and even personal nature that contribute to explaining why most of us are paid employees. In similar vein, in chapter 5, he takes Keynes to task for treating uncertainty as a *deus ex machina* and neglecting the roles of competition and innovation, as emphasized by Shackle, Davidson and Loasby, in creating the future and therefore creating uncertainty as an endogenous process. My observation would be that while it is true that Keynes largely treats uncertainty as exogenous, yet he has good reason to do so. There are several other important things that he treats likewise, such as the degree of competition, the social structure and the distribution of income and wealth. Instead, Keynes recognizes that it is a mistake to try and model uncertainty itself as part of his formal General Theory rather than keeping in mind the many non-economic forces that also operate, alongside competition and innovation, to make the future unpredictable.

Dunn is on firmer ground when he draws his clear and important distinction between bounded rationality and fundamental uncertainty. Bounded rationality may be understood as relating to “a specific view of behavior,” of the response of individuals to their limited ability to process complex information. Fundamental uncertainty is understood as a relating to “a specific view of time and choice,” of the nature of the reality encountered by the individual and of the kind of choice this permits. Broadly, these terms refer to the two different categories of epistemology and ontology respectively, and Dunn is therefore quite right to insist on their separation.

When Dunn turns to the future of “Post Keynesianism” (sic), the paradoxical conclusion arises in the mind of this reviewer that not only the Sraffians but Keynes himself must be ejected
from the church. For Dunn regards as incompatible with Post Keynesianism all the main aspects of neoclassical methodology, including the use of equilibrium analysis and the assumptions of perfect competition and optimization. Once again Dunn over-reaches himself, since he neglects Keynes’s distinction between the short- and long-term, between production and investment. Ambrosi’s (2003) argument that the Cambridge Keynesians failed to understand Keynes’s rejection of stationary state theory indeed supports, as a corollary, Dunn’s contention that it was a mistake to ally themselves with the Sraffian long-term, long-period equilibrium approach. Yet Keynes’s principle of effective demand (which Dunn accepts as the cornerstone, if not the foundation, of Post Keynesian economics) can be understood in very neoclassical, Marshallian terms as a species of temporary competitive equilibrium. In Lawson’s terms, Keynes may be said to offer a model of a quasi-closure, being the state of short-term expectation generated by the principle of effective demand at a point in time. While Dunn, following Chick and others, insists on bringing fundamental uncertainty into production (as may be realistic), Keynes himself appears to abstract from it in his formal theory and to consider fundamental uncertainty of importance mainly for long-term investment. Dunn cites several Post Keynesian authors in support of his own position and it is true that many Post Keynesians now work with Kalecki’s simpler version of the principle of effective demand. Yet in excluding all forms of competitive equilibrium analysis, Dunn goes far beyond Keynes and that suggests his demarcation of Post Keynesian economics is drawn too tightly.

The “ism” is important too. For Dunn associates Post Keynesian economics with a particular ideological position, as when he writes in his chapter on health economics, that “Post Keynesianism starts from the proposition that everyone should be given the opportunity to participate fully and flourish in society … [and] access to health and healthcare, like access to
employment, is a basic right” (p. 186). These may be sound propositions, but do they follow uniquely from Post Keynesian economic analysis? There is a jump from explaining how the world works to prescribing how the world should be. That is not the approach of Keynes in *The General Theory*, whose policy prescriptions are tentative and indeed politically rather conservative.

So the logic of Dunn’s position is that “Post Keynesian economics” is a misnomer, or at least the emphasis should be firmly on the “Post” and Keynes’s own theoretical contribution regarded as of essentially historical value, beyond his foundational insight into the nature of uncertainty. Dunn’s further conclusion follows: that Post Keynesians should proudly range themselves among the heterodox and not waste further time attempting to engage an indifferent, if not hostile, mainstream establishment. This recommendation abandons Keynes’s own avowed objective of integrating the theories of money and value, of redefining rather than abandoning the theory of value. Keynes set out to show why Classical economics (in the sense he used) was a special case even on its own terms and his argument has still not been received by the profession. If Keynes was wrong about this, Post Keynesians should either pack up their bags or change their name. If not, the future progress of economics (at least in economics departments) depends upon finding a common language. Dunn has made a substantial contribution towards that progress by grounding uncertainty in social ontology and clarifying the difference in its nature from bounded rationality, but he is in my view too hasty in abandoning Keynes’s project, even 75 years on. Nevertheless the attempt to maintain dialogue with mainstream economics is a minority endurance sport and should not detract from positive efforts to develop Post Keynesian thinking along the lines Dunn suggests, among others.
The book is written at research level and although it is constructed from a series of papers that sometimes cover similar ground, Dunn has introduced signposts to allow the reader of the book as a whole to avoid repetition, while the reader of an individual chapter will find it self-sufficient. The cover bears a clever and attractive illustration painted by the author himself. The book will make a valuable part of a Post Keynesian research collection and is an important contribution to the debate on the nature of our research program.

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REFERENCES

