Mr Keynes and the ‘Classics’” Again: A Methodological Enquiry

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Abstract
Keynes is usually interpreted as proposing, or intending to propose an original theory of employment and income. However, this paper shows that Keynes was actually proposing more than a theoretical alternative. He saw himself breaking away from the ‘Classics’ at the connected levels of theory and methodology. This paper thus argues that modern economists going back to the old story of the relation between Mr. Keynes and the ‘Classics’ can learn something about several controversial issues in macroeconomics and methodology like for instance the role of experiments and formal arguments in economics. (JEL B30, B41, E12)

It [Hicks, “Mr. Keynes and the ‘Classics,’”1967a] was written to be given at a meeting of the Econometric Society, held in Oxford in September 1936 and was published in Econometrica in April 1937. It bears the stamp of its origin. It was seeking to explain the Keynes theory to econometrists (and mathematical economists). In that attempt it succeeded, perhaps only too well. For it is no more than a part of what Keynes was saying, or implying, that can be represented in that manner, and it was easy to take it as the whole [Hicks, 1982, p. 100].

I have attempted, on two previous occasions (Hicks, “Mr. Keynes and the ‘Classics,’” 1967a and “The ‘Classics again,’” 1967b), to elucidate the relation between Keynes and those whom he called ‘classics.’ The method that was employed in those papers was analytical; analysis was one of the things that needed to be done; I believe that the analytical method, up to a point, did justify itself. It has nevertheless left me in some ways dissatisfied. The question is not merely analytical, it is also historical. What did the pre-Keynesian writers say, and why did they say it? [Hicks, 1967a, b, c, p. 155].

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Introduction

Almost three decades ago, Clower and Leijonhufvud [1975] wrote a paper to address the central message of Keynes’s *The General Theory of Employment Interest and Money* [Keynes, 1973a] as represented in the standard Keynesian model, the “IS-LM, and all that” as they say. They start the paper complaining about the infinite regress on the meaning of the work of Keynes. They maintain that the debate on “what Keynes meant” will never be settled (but no explanation is provided) and prefer instead to take a critical look at the Keynesian model. But then, with extreme candour, they acknowledge that the state of affairs from this perspective is no more comforting. “To state the case succinctly, the Keynesian model imposes virtually no analytical discipline upon its users and thereby grants them essentially unrestricted analytical license” [Clower and Leijonhufvud, 1975, p. 182]. They speculate that addressing the way individual economic agents coordinate production, consumption, and trading activities is a possible way to impose analytical discipline upon the Keynesian model.

This paper offers a different interpretation of the state of affairs in Keynesian economics. Keynes is usually interpreted as proposing, or intending to propose, an original theory of employment and income [Keynes, 1973b, pp. 492–493]. However, Keynes saw himself breaking away from classical orthodoxy at the connected levels of theory and methods.

For a hundred years or longer English Political Economy has been dominated by an orthodoxy. That is not say that an unchanging doctrine has prevailed. On the contrary.... But its presuppositions, its atmosphere, its method have remained surprisingly the same, and a remarkable continuity has been observable through all the changes. [Keynes, 1973a, p. 31].

Keynes used the term “orthodoxy” or “classical theory” to indicate the economic tradition from Smith and Ricardo through to Marshall and Pigou. This is apparently a rather confusing description. Conventionally, classical economics is used for the economic theory of the period from Adam Smith to the marginalist revolution. But Keynes perceived that what he was really attacking was more than a theoretical tradition. It was the continuity at the level of presuppositions, atmosphere, and methods. His ‘Classics’ were, thus, Smith, Ricardo as well as their methodological neo-classical followers [Hicks, 1967a, b, c, p. 155; Gerrard, 1995, p. 446].

Hicks [1937], Harrod [1937], and Meade [1936–1937] presented different versions of Keynes’s theory at the Oxford meeting of the econometric society. Hicks’s version, “Mr. Keynes and the ‘Classics,’” established what Clower and Leijonhufvud called the Keynesian model [Darity and Young, 1995; Young, 1987]. But, as Hicks later recognised, analysis is only part of the story of the relation between Keynes and the ‘Classics’ [Fontana, 2004; Ambrosi, 2004]. They were indeed saying different things. But how and why did Keynes and the ‘Classics’ say it? Several economists, including Clower and Leijonhufvud, have attempted to answer those questions, but this paper argues that to complete the theoretical discussion, the methodological differences between Keynes and the ‘Classics’ need to be explored. Those methodological differences are relevant, at least in part, in explaining the unrestricted analytical license of the Keynesian model. Furthermore, economists going back to the old story of the relation between Keynes and the ‘Classics’ can learn something about controversial issues surrounding the modern debate on the role of formalism and the role of experiments in economics [Downward and Mearman, 2002].