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Keynes After the Economics of Conventions\textsuperscript{1)}

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Abstract

The “economics of conventions” is a research program in social science (including economics) emerging at the end of the 1980s—but the first (and the greatest) conventionalist economist is Keynes, when he attempted to give a new account of the 1929 crisis, in his major work *The general theory of employment, interest and money* (1936). Some of its most innovative features could not have been perceived before the retrospective look offered by the “economics of conventions.” By stressing the role of conventions, the conventionalist economists make it clear, for the first time, that 1929 crisis must be traced back in Keynes’s thought to twin “bad” conventions, one about the link between the financial system and the productive system, and another one about the link between the “ideas” distilled by mainstream economic theory and the ruling ideas within the political, economic and social spheres. This duality between economy and economics seems to apply as well to the present crisis, which suggests that its roots may be deeper than generally thought- and the solutions more difficult.

**Key words:** conventions, orthodoxy, unemployment, language-game, ideas.

1. Introduction

I will start by quoting at length four pieces of the *General Theory of Employment, Interest and Money* [GT] (of which three are well known, if not well exploited, and one seems to be a purely methodological one). These four excerpts (together) are the keys towards reaching the objectives of the present paper:

\[1)\] Establish that the meaning in depth of the GT could only be understood by stressing the role of conventions in the coordination of economic activities and of “ideas” about economics.

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(ii) Revisit historical research about the writing of the GT, including the distinction of a “radical” and a “pragmatic” project, and the investigation of a possible deep methodological influence of Wittgenstein.

(iii) Suggest that the economics of conventions resumes the ‘radical project’ at least by explaining how academic economists become prisoners of an orthodoxy which works like a convention, but a bad one, redefining the reality within inefficiently narrow limits.

(iv) Bring to the fore some fundamental analogies, along with some substantial differences, between the great depression of 1929 and the present crisis.

Through these objectives, my hope is to make clearer and more explicit the Keynesian foundations of the conventionalist research program (see the references in Wilkinson, 1997; and in Favereau and Lazega, 2002).

2. Four Keys from the General Theory of Employment, Interest and Money

Some words or sentences will be either underlined by me, or marked by the symbol *, in order to be used infra as building pieces of the notion of “orthodoxy”, as a convention.

KEY 1: Chapter 1, The General Theory, § unique

“I have called this book the General Theory of Employment, Interest and Money, placing the emphasis on the prefix general. The object of such a title is to contrast the character of my arguments and conclusions with those of the classical* theory of the subject, upon which I was brought up and which dominates the economic thought, both practical and theoretical, of the governing and academic classes of this generation, as it has for a hundred years past. I shall argue that the postulates of the classical theory are applicable to a special case only and not to the general case, the situation which it assumes being a limiting point of the possible positions of equilibrium. Moreover, the characteristics of the special case assumed by the classical theory happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience.” [underlined by me]

KEY 2: Chapter 12, The state of long-term expectation, § 4

“In practice we have tacitly agreed, as a rule, to fall back on what is, in truth, a convention. The essence of this convention—though it does not, of course, work out quite so simply—lies in assuming that the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change. This does not mean that we really believe that the existing state of affairs will continue