Keynes on theorising for policy

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Abstract

Keynes made a unique contribution to thought about economic policy in three important respects. First, he spearheaded a new line of thought on macroeconomic theory and policy-making which involved a more active role for the state. Second, he was actively engaged at the centre of economic policy-making in the UK in both the domestic and international spheres. Third drawing on his work in philosophy, the content of his macroeconomics and his experience of policy-making, Keynes developed a distinctive, two-stage, approach to the relationship between theory and policy. This chapter focuses on this third aspect, illustrating it by exploring how Keynes addressed issues such as domestic and international monetary reform. It is argued that Keynes's methodology as a theorist was geared to facilitating policy application. Employing practical reason, Keynes paid particular attention to policy context in order to identify how theory might need to be modified for application rather than seeking universal application. In a further departure from the emerging positivism in economics Keynes kept on the surface the nature and implications of his political philosophy and also the role of social institutions.

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Introduction

For many economists 'Keynesian policy' simply means short-run demand management through fiscal policy. Recent events have revived attention to such a policy stance, but just as a necessary crisis response; within a mainstream framework, 'Keynesian policy' only addresses what are regarded as temporary aberrations from the self-equilibrating norm. Yet the primary expression of Keynes's theory of macroeconomic policy (Keynes 1936) was offered as a *general* theory, of which the mainstream approach was a special case. Indeed, the generality of Keynes's theorising refers to Keynes's understanding of economics as 'a method rather than a doctrine':

> [T]he theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions (Keynes 1983, p. 856).

The focus here will therefore be more on Keynes's approach to theorising with a view to designing policy than on the content of his policy conclusions.

There is a vast literature on Keynes's approach to economic policy and the context in which his ideas were formed. An important aspect of that context was that, as well as being an academic, Keynes was actively engaged in government, with increasing influence on the policy-making process. For example, his early work in the India Office led to membership of the Royal Commission on Indian Currency; his wartime appointment to the Treasury led to his involvement in a range of critical policy debates and international negotiations. This active role continued until his central involvement in the 1944 Bretton Woods conference. While Keynes maintained his academic connections with Cambridge and his drive to pursue academic questions, his main focus was consistently on pressing policy issues (Skidelsky 1992, p. 425).

But perhaps the most important development in Keynes scholarship has been the increasing prominence given to his early work on probability (Keynes 1921). The reissue of this book by Macmillan in 1973 spurred on the pioneering work of Carabelli (1988) and O'Donnell (1989), as well as Lawson and Pesaran (eds, 1985), which in turn propagated a substantial literature on Keynes's philosophy. As a result, it is now conventional among Keynes scholars to see the influence of Keynes's philosophy running through the body of his work in economics. Accordingly, such a perspective is important for understanding the meaning and significance of Keynes's writing on economic theory and policy.

We start therefore with a brief account of Keynes's philosophy. Given his focus on practical reason we move directly to considering the implications for Keynes's views on the process of policy-making. Keynes's philosophy clearly had important consequences also for the content of his theory and its policy implications, but more particularly for the distinctions between theory and policy. The analysis to follow sets out an interpretation of Keynes drawing on an immensely rich body of material where controversy over interpretation is still very much alive. Following a discussion of Keynes's political philosophy, we take domestic and international monetary reform as case studies of how Keynes understood the relationship between economic theory and the theory and practice of economic policy. We conclude with a discussion of the unintended consequences of Keynes's macroeconomics for the way in which the relationship between theory, policy-making and its governance actually evolved.

Keynes's philosophy: ethics, ontology and epistemology

A key early influence on Keynes's philosophical development was G E Moore's ethics, with his injunction to 'be good' alongside the moral injunction to 'do good'. The latter was to be promoted by following rules based on expectations of the consequences of actions. This early period of philosophical development under Moore's influence was to prove critical for Keynes's economics and in particular his approach to economic policy (Davis 1994). While Keynes's adoption of Moore's focus on ethics underpinned his approach to economic policy, it was the ways in which he diverged from Moore that forged the distinctiveness of Keynes's philosophy and economics.

First, rather than focusing on the potential conflict between 'being good' and 'doing good', Keynes developed a framework which integrated them. Keynes's economic policy focus on long-term socio-economic improvement (his 'doing good') was addressed to facilitating the pursuit by individuals of the good life: 'being good'. This motivation for policy has been an increasing focus in the Keynes literature, highlighting and explaining this moral and ethical driver of Keynes's thinking on economic policy for the long run (see for example O'Donnell 1999, Skidelsky and Skidelsky 2012, Guizzo 2016, Chick and Freeman 2018).

Second, Keynes was dissatisfied with the way in which Moore derived the rules for 'doing good' from expectations as to the likely consequences of action based on a frequentist notion of probability. For Keynes the necessary comprehensive evidence was not generally available.[1] Keynes rather pursued an alternative, logical approach to probability to provide a moral justification for action which was reasonable even if not demonstrably true. This approach was set out in his *Treatise on Probability* which was eventually published in 1921. The epistemology that Keynes developed there was to prove fundamental to his economic theory and consequent policy analysis.

Where Moore's frequentist approach to probability provided a moral justification for action based on certain knowledge, Keynes explored the absence of certainty as the general case. This followed from the absence of the conditions for certainty.[2] The *Treatise on Probability* is focused on the epistemological level. But Keynes's critique of the frequentist approach to probability refers to ontology, pointing to the organic interdependence of the subject matter, rather than its atomic unity. Particularly when Keynes discussed economic relations in these terms we see an increasingly explicit position which we would now understand as an open-system ontology. Thus, for example he criticises reliance on mathematical models as precluding attention to the 'complexities and interdependencies of the real world' (Keynes 1936, p. 298).

The classical logic of deductive mathematical systems requires certainty as to the truth of premises. But Keynes argued that such truth could not be demonstrated with respect to a subject matter where organic interdependence prevailed. The problem of induction with respect to the truth-value of the premises created a problem with deduction from those premises. In the absence of demonstrative logic, therefore, some other basis was required for reasoned belief as the justification for action. Keynes therefore developed an alternative logic – 'ordinary' or 'human' logic – as the basis for belief. In order to consider how decisions are made, in philosophy, science and in everyday life, without demonstrable proof as to their consequences, Keynes developed a form of rationality – reasonableness – based on argument which was of necessity inconclusive.

Probability was a logical relation, but one which could rarely be quantified (Carabelli 1988, 2021). The *Treatise on Probability* sets out procedures by which reasonable beliefs can be established in the absence of quantifiable probabilities. Different conditions give rise to different capacities for judgement about unquantifiable probability, e.g. as to whether probabilities are nevertheless comparable, i.e. capable of ordinal ranking. Probability is a logical relation with respect to evidence and is in that sense positive. But, since judgement with respect to that relation depends on the evidence and analytical framework available to the subject, probability is subjective.[3]

Separate from the probability judgement itself is the confidence held in it, which depends on weight of argument. Weight increases with the extent of relevant evidence relative to relevant ignorance. Ideas of relevance depend on evolving non-demonstrative knowledge with respect to an evolving subject matter. Thus, not only may availability of evidence change but so may the notion of what is relevant. As Runde (1990) argues, new evidence may reveal ignorance which had gone unrecognised, reducing weight of argument: more evidence need not increase weight.

Since a unified deductive basis for probability judgement is generally unavailable, ordinary logic draws on a plurality of strands of argument to which judgement can be applied. These strands apply different methods, including reasoned analysis of evidence alongside conventional judgement. But, while the rationality of classical logic provides motivation for positive action, the uncertainty of non-demonstrative logic does not.[4] Keynes thus emphasised the role of intuition, conventional judgement and animal spirits as contributors to belief and motivation for action in spite of uncertainty.

As Carabelli and Cedrini (2015) explain, Keynes developed his theoretical logic separately from his logic of action, where it is the latter which is relevant to policy-making. For Keynes, theorising was an exercise in abstraction in order to arrive at general propositions. The abstraction might involve mathematical modelling as an aid to thought:

> It is the essence of a model that one does *not* fill in real values for the variable functions. To do so would make it useless as a model. For as soon as this is done, the model loses its generality and its value as a mode of thought (Keynes 1938, p. 296).

Theorising, which may include models, seeks to illuminate logical causation, i.e. causation in terms of the abstract structure of the theory. Theory in turn acts as a guide to thinking about causation in the real world: ontological causation, which refers to specific circumstances in the real world (Carabelli 1988, ch. 6; Carabelli and Cedrini 2015).

Keynes thus made a clear distinction between theory and policy, between his 'apparatus of thought' and his 'apparatus of action'. In *The General Theory* Keynes (p. 297) emphasised the need to keep in mind what had been abstracted from in theorising so that it could be brought back into analysis with a view to application. It is uncontroversial that policy implementation in a specific context requires consideration of institutional and (possibly non-numerical) empirical detail. But for Keynes the modifications to provisional theory in order to design policy were a matter of logic and prior to considering the specifics of implementation. Any theory was just the starting point for application, not a universal prescription. The next necessary step was to take into account interdependencies between variables which had been classified as either endogenous or exogenous (independent) for the purposes of the abstract model. A key focus of Keynes's (1936, p. 257) critique of the (neo-)classical approach was therefore that theoretical assumptions as to independence were retained, without acknowledgement, when theory was applied with a view to policy (Carabelli and Cedrini 2014b; Carabelli 2021, p. 91).

Keynes's 'two-stage' approach to the logic of economic policy design thus required first abstraction then relaxation of abstraction:

> [A]fter we have reached a provisional conclusion by isolating the complicating factors one by one, we then have to go back on ourselves and allow, as well as we can, for the probable interactions of the factors amongst themselves (Keynes 1936, p. 297).

We turn now to consider more widely Keynes's views on policy-making, drawing on his two-stage approach.

Keynes on the policy-making process

The account here started with Keynes's ethics, not just because of the chronology of his philosophical development, but also because it was foundational to his economics. A distinction between positive, normative and applied economics had been a notable contribution of Keynes's father's work on economic methodology. But he regarded the interrelationships between the three as being linear. Theorising was positive, establishing economic laws: 'matters of fact' (J N Keynes 1891, p.21); values would then be applied in order to guide policy; finally, policy implementation required arts, including drawing in factors (often non-economic factors) from which economic theorising had abstracted.

Whether positive economics is even possible is an issue in itself; normative notions of market freedom, and of social welfare, etc., imbue mainstream theory even though it purports to be value-free. Indeed, for J M Keynes, economics was, in the Classical tradition, a moral science and his stance on social justice was a moral one which imbued his economic analysis. The ultimate motivation for pursuing knowledge of the economy was ethical – the promotion of the good. But in any case, as far as J M Keynes was concerned, the distinctions between theory, ethics and application took on a different character from the apparently separable and sequential distinctions drawn by his father:

> It would be a mistake to presuppose a somehow linear relation from theory to policy in Keynes's economics, with the corollary that external events—the real world, or even experience—would de facto dictate shifts in theoretical approaches and therefore in policy suggestions (Carabelli and Cedrini 2015: 510).

The theoretical stage in pursuing ethical goals involved abstraction designed to tease out logical causation relevant to pursuit of these goals. O'Donnell (1989, p. 331) distinguished between Keynes's theorising and his economic policy as follows: 'The ultimate goal of theoretical reason was truth (whether of primary or secondary propositions), while that of practical reason was the attainment of greater goodness'. This truth is relative to the abstract theoretical structure, referring to correct logic. But theorising is not independent of the logic of application since the abstractions which allow derivation of theoretical statements need to be capable of relaxation. For Keynes, theory is constructed with a view to application and is provisional with respect to relaxation of abstractions, where the abstractions are selected for their relevance to the problem at hand. Models are designed to segregate the semi-permanent or relatively constant factors from those which are transitory or fluctuating so as to develop a logical way of thinking about the latter, and of understanding the time sequences to which they give rise in particular cases (Keynes 1938, pp. 296–7).

The positivist approach to theorising purports to be general by abstracting from particularities. But Keynes objected that (neo)classical theory was a special case, particular with respect to the panoply of assumptions on which it rested without these all being laid out. Keynes accordingly challenged the direct application of theory to policy without attention to the nature and implications of the assumed abstractions.

The intrinsic interconnectedness of theory and policy for Keynes is evident in his list of attributes required of an economist. He set these out in his memoir of Alfred Marshall in terms which could well be applied to himself:

> [T]he master-economist must possess a rare *combination* of gifts. … He must be mathematician, historian, statesman, philosopher—in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near to earth as a politician (Keynes 1924a: 321-2, emphasis in original).

The focus of Keynes's thinking was grounds for belief as a justification for action, where beliefs had particular applicability to policy circumstances. He saw his role as economic adviser, building such knowledge, sharing it with policy-makers ('inner opinion') and persuading as to its worth. But then there was a duty to share with, and persuade, the general population ('outer opinion').

Keynes's political philosophy

Keynes brought to his thinking on economic policy a particular political philosophy. He was influenced by Edmund Burke to consider the implications of policy design based on limited, because undemonstrable, knowledge. But while the resulting uncertainty encouraged Burke to be cautious about policy action, Keynes did not hold back, seeing it as a moral duty to apply such knowledge as there was for the social good.

There is debate about how to classify Keynes's political philosophy, particularly with respect to socialism (O'Donnell 1989: 322ff, 1999; Fuller 2019; Dow 2017). Keynes (1932: 500) himself specified his political principles as follows (see also Keynes 1925a):

> liberal socialism, by which I mean a system where we can act as an organised community for common purposes and to promote social and economic justice, whilst respecting and protecting the individual – his freedom of choice, his faith, his mind and its expression, his enterprise and his property.

Keynes's advocacy of liberal socialism rather than state socialism exemplifies his epistemology in that it referred to contemporary circumstances and what they allowed (O'Donnell 1989, ch. 14). For Keynes, assigning functions to the state was a matter of judgment. 'True socialism' for him involved deciding where the individual and where the social spheres apply (Keynes 1924b: 222).

> I have said that it is of the essence of state planning to do those things which in the nature of the case lie outside the scope of the individual. It differs from Socialism and from Communism in that it does not seek to aggrandise the province of the state for its own sake. … Its object is to take hold of the central controls and to govern them with deliberate foresight and thus modify and condition the environment within which the individual freely operates with and against other individuals (Keynes 1932: 88).

With state planning assigned to those areas outside the scope of the individual, the benefits of individualism could still be enjoyed: efficiency, safeguard of personal liberty and variety of life.

> The political problem of mankind is to combine three things: *economic efficiency, social justice, and individual liberty*. The first needs criticism, precaution, and technical knowledge; the second, an unselfish and enthusiastic spirit, which loves the ordinary man; the third, tolerance, breadth, appreciation of the excellencies of variety and independence, which prefers, above everything, to give unhindered opportunity to the exceptional and to the aspiring (Keynes 1926: 311, emphasis added).

From a positivist perspective economic efficiency is separable from social and political goals. Keynes rather emphasised their interdependencies: efficiency takes its meaning from the goals to which it is applied, goals to be traced back to ethics. Further, for Keynes, the interdependencies arise from the central economic roles of institutions and conventions.

Keynes's economic policy stance arose from his theorising about the nature of finance capitalism, with its prioritisation of financial accumulation over well-being. In particular such a system was unable to generate a full-employment level of investment. While 'Keynesian policy' is popularly identified with his advocacy of particular short-run fiscal policy measures, his long-run focus was on establishing institutions to contribute to the state's necessary involvement in the economy, especially with respect to capital investment and income distribution (Davis 1994, ch. 6). These were semi-governmental institutions, like the Bank of England and the universities, which were state-owned, run by state appointees and answerable to parliament but otherwise independent (O'Donnell 1989, ch. 14). These institutions would extend the role of expertise and 'inner opinion'.

In addition to formal institutional arrangements, Keynes saw the role of conventions as central to the promotion of economic efficiency, social justice, and individual liberty. Conventions had both a positive and a negative role to play. On the positive side, socio-economic systems function by means of formal institutional arrangements but also by conventional practices. Thus, in the absence of 'true' risk measures and thus 'true' market pricing, economic stability is promoted by habitual behaviours. One such is price and wage stickiness on the part of companies. Another is trust, notably in the expertise and good intentions of government and semi-governmental institutions.

But conventions, particularly with respect to knowledge in financial markets, could be highly damaging. Keynes was particularly concerned with the scope for conventional judgement in aggregate to be precarious and thus to destabilise economic activity. In particular he was concerned that conventional judgement would discourage investment finance and thus consign the economy to habitual slumps (Carabelli 2021, ch. 2). In the absence of reliable knowledge recourse is made to conventional opinion as a basis for action (Keynes 1937). In financial markets the outcome may be a cost of finance for real economic activity which exceeds the level required for full employment.

The policy implication was for greater state involvement in promoting capital investment. This could be implemented directly, or indirectly by improving confidence in expectations. Rivot (2021) argues that fiscal policy is directed at the first, aiming to enhance expectations as to investment prospects. Monetary policy on the other hand strengthens the weight of argument in favour of such assessments in relation to the prospect of the long-term interest rate. Keynes advocated the maintenance of a low and steady long-term interest rate which would underpin capital investment planning in the private sector. By sustaining expectations of such a rate, monetary policy would defuse the liquidity preference fostered by financial instability, thus reducing the liquidity premium, making it easier to maintain a low rate.

Domestic and international monetary reform: a case study

We have seen that Keynes's approach to economic policy was not to treat it as separable from theory, but rather to *theorise with a view to devising policy*. In particular this required the abstractions of theory to be such that they could be relaxed, including any assumptions of independence between variables. Carabelli and Cedrini (2015) show how Keynes implemented his two-stage approach to policy in the way he structured his work: separating theory from application in the two volumes of the *Treatise on Money*, and in the division between chapters 1-17 and chapters 19-21 of *The General Theory* with respect to theory and application respectively (chapter 18 being transitional). They also illustrate the approach in terms of specific areas of policy discourse, such as Keynes's assessment of Lerner's functional finance proposal. Keynes would assess theoretical propositions in terms of whether they were workable in particular real circumstances. Workability would depend substantially on the ability to incorporate interdependencies that had been assumed away in theoretical abstraction.

Keynes's ideas on monetary reform provide a good case study of the application of his two-stage approach to policy-making. Carabelli and Cedrini (2010, 2014a) demonstrate the consistency of Keynes's methodological approach to analysing monetary reform, from *Indian Currency and Finance* to the *Tract on Monetary Reform*, to the *Treatise on Money*, to his plans for an International Clearing Union.[5] Yet this consistent approach could lead in different directions in different circumstances, as is evident from his treatment of domestic monetary reform in *The General Theory* compared to his plans for international monetary reform at Bretton Woods (Dow 2017, 2018). Considering this difference serves to illuminate his two-stage approach.

Keynes (1936, pp. 353-8) gave detailed consideration to Silvio Gesell's (1916) proposal for domestic monetary reform. Their political philosophy had much in common and, like Keynes, Gesell was concerned about the effect on effective demand of hoarding money. Since Gesell identified the absence of carrying costs as the cause of hoarding he proposed that a cost be imposed by government – effectively a negative interest rate. A stamp would periodically be required to be attached to government-issued notes as long as they were held (Dow 2016). Keynes took Gesell's proposal seriously, appreciating Gesell's emphasis on effective demand and the monetary nature of the rate of interest. But, while Keynes (1936, p. 357, emphasis added) thought that '[t]he *idea* behind stamped money is sound', nevertheless he rejected it as a workable policy.

This difference of opinion stemmed partly from the fact that Keynes was concerned primarily with the short run and the need to stabilise the economy at full employment while Gesell had a long-term focus. Keynes looked to fiscal measures to stabilise economic conditions, which would address high liquidity preference more effectively than monetary reform.

Their differences as to whether monetary reform could be effective stemmed more fundamentally from a difference of approach. Gesell's approach accords with the (neo)classical approach to which Keynes objected. He believed his argument to be demonstrably true and universally applicable. He extrapolated from the apparent success of a range of small-scale experiments to predict success for a general application. Further, money was whatever it was declared to be by the state; it was independent of any other variables that might change as a result of his policy.

Keynes's (1936, pp. 357-8) critique referred to the unwarranted preservation by Gesell of independencies.[6] First Keynes pointed to the way in which liquidity preference responded to uncertainty. Without attention to the need for short-run stabilisation a negative interest rate might not deter hoarding if liquidity preference is very high. Second the asset(s) which are regarded as money are not fixed but rather reflect how far they have the characteristics of money (as set out in chapter 17 of *The General Theory*). It is not only state money that has a liquidity premium. A negative rate of interest on government-issued cash therefore would divert demand to other liquid assets which did not have a negative return. The issue of hoarding would then transfer to what became the safest asset. Further, such a shift would occur within the context of financial innovation, specifically the emergence of new liquid assets, which itself can be prompted by actions by the authorities.

Finally, while Gesell favoured a radical approach to introducing reform, Keynes (1936, p. 378) favoured a gradual approach: 'the necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society'. Keynes was acutely aware that dramatic policy change can set in train a series of unintended consequences due to the interdependence between variables endogenous to an abstract theory and those from which theory temporarily abstracted. Accordingly, Keynes's approach to monetary arrangements was pragmatic rather than dogmatic.

Keynes's motivation was the same when it came to international monetary reform: to consider monetary arrangements that would promote economic stability at full employment along with international equity. He was concerned consistently, dating from his work on India (Keynes 1913) and continuing in his *Tract on Monetary Reform* (Keynes 1923), with the propensity to hoard international liquidity in the form of precious metals at the domestic and national levels. Whether this propensity could actually be exercised depended on relative economic power, further exacerbating imbalances of power. Keynes was thus critical (at least as far as the context of the early part of the twentieth century was concerned) of the abstract gold standard model which portrayed international flows of precious metals as an equilibrating mechanism. That model fit the neoclassical pattern of establishing a universal principle whereby any independencies were preserved in its application. Rather, understanding the gold standard in terms of the key interdependency of power relations, Keynes argued that it was both economically inefficient and violated principles of social justice (Dow 2018).

For Keynes what was required was a new international currency administered at the international level to take the place of precious metals. While this would mitigate to some extent the force of international imbalances of power, a mechanism was required to discourage hoarding. Keynes's (1942) plan was therefore to set up an International Clearing Union (ICU) which would issue and centrally manage an international money called bancor. The ICU would discourage the need to hoard on the part of countries prone to payments deficits by providing credit to tide them over temporary imbalances. At the same time, it would impose charges on credit balances above a given level held by surplus countries, thus discouraging hoarding on their part too. Given the mutuality of surplus and deficit positions, the ICU would encourage simultaneous adjustment on both sides of the balance sheet.

By advocating a charge on credit balances at the ICU Keynes seems to be offering a Gesellian solution. Why would he reject this solution at the domestic level and then advocate it at the international level? The answer lies in his philosophy of deriving policy from theory. As we have seen this involves drawing into the analysis the interdependencies from which theory has abstracted. In the case of domestic reform this included the scope for increasing liquidity preference to outweigh a negative interest rate and for financial innovation to change the relative attractiveness of existing and new financial assets as money.

The international monetary system in the post-war period was very different, not least because of the legacy of currency inconvertibility and capital controls. These circumstances allowed the kind of fresh start which Gesell had tried to impose on a pre-existing open financial system. Indeed, it was not until the 1970s, with the burgeoning power of international financial markets, that it was accepted that the international monetary system was not international-state-run. In the 1940s, virtually all international transactions were routed through central banks, within what was effectively a closed monetary system. Some of these transactions might be speculative capital flows, but Keynes advocated controls on such flows as part of his plan (de Cecco 1979). Such a measure would reinforce efforts to discourage hoarding for protection against speculative attacks. Keynes was proposing a new international money for which there would be no credible substitutes. He argued for an ICU as an economically-efficient system which also addressed the social injustice of international imbalances of power. His plan reflected his focus on building up semi-governmental institutions in order to pursue policy goals. It also reflected his confidence that these institutional arrangements would prevent the interdependencies arising that he saw as making the Gesell plan unworkable.

Concluding remarks: some unintended consequences

This chapter started with a reference to the popular (mis)understanding of Keynes's contributions to macroeconomic policy which has persisted in large part due to inattention (outside the specialist Keynes literature) to Keynes's philosophy, with consequences that Keynes had not intended.

First, when Keynes is seen through the mainstream methodological lens it is assumed that the atomic hypothesis applies. The policy of deficit finance to bolster aggregate demand and ward off recession, popularly regarded as the core principle of Keynesian macroeconomics, is thus popularly understood to have universal application. The principal of effective demand is indeed central to Keynes's macroeconomics, but how that is to be applied in particular circumstances requires that attention be paid to the relevant interdependent factors at work. The principle is just the (provisional) start – an aid to thought. Chick (1983, 2018) demonstrates how Keynes's macroeconomics can be adapted to guide policy relevant to two very different subsequent contexts.

Further the mainstream economics version of Keynes ignores his ethical motivation and political philosophy. Macroeconomic goals are conventionally couched in neoclassical terms of social welfare, presented as if value-free. Economic efficiency is pursued with respect to optimising social welfare in this sense rather than in Keynes's sense of the 'good life'. The mainstream approach associates individual liberty with the free-market activities of atomistic economic agents, while any consideration of social justice is treated as the object of separable enquiry. Yet these ethical concerns underpinned Keynes's critique of financial capitalism.

Keynes is also popularly identified with an increased role for the state, but we have seen that Keynes had a well-developed political philosophy drawing on his ethics whereby economic activity was a means of action with a view to enjoying the good life, rather than as an end itself. Guizzo (2016) argues that this activity is therefore a form of self-governance facilitated by governance by the state. Yet she argues that Keynes's economic policy has been translated into an exercise solely of government by the state. This involves a form of independence, or separation, characteristic of mainstream economics, of the state from the private sector. For Keynes there was a fundamental interdependence.

Keynes's views on the role of the economist have tended to reinforce the independence position, seeming to support the role of economist as expert. Skidelsky (1992) explains Keynes's self-confidence in championing the role of reason in economic policy-making, tellingly subtitling this volume of his Keynes biography 'The Economist as Saviour'. As a product of his times, Keynes sought 'to restore the expectation of stability and progress in a world cut adrift from its nineteenth-century moorings' (ibid., p. *xv*). 'The simple message of Keynes's economics seems to be that, when a society's self-governing mechanisms break down, it needs more governing from the centre' (ibid., p. *xxviii*).

Expertise takes its form from epistemology, and here again we see the importance of disregarding Keynes's philosophy. For Keynes, propositions relevant for policy-making were in general non-demonstrable, given the nature of the subject matter and the ensuing uncertainty. Theories were aids to thought, but, as abstractions, they required fleshing out with analysis of the interdependencies from which the theories had abstracted. This was an exercise in logic prior to an exploration of the material particularities relevant for policy implementation. From a mainstream perspective the aim is for theory to be universal, with the institutional and empirical detail for implementation separable from the theory itself. For Keynes theorising was one stage but the second stage of using the theory as an aid to analysing the interdependencies relevant to the context demonstrated that the two were not separable.

It is well known that Keynes was particularly critical of theory being regarded as universal on account of its mathematical formulation. He was also critical of spurious quantification; his theory of probability specified the limited scope for quantifiable probability. Yet he understood the rhetorical power of quantification: '[t]he statistical result is so attractive in its definiteness that it leads us to forget the more vague, though more important considerations which may be, in a given particular case, within our knowledge' (Keynes 1921, p. 356). For Keynes, reliable knowledge under uncertainty is built up using an incommensurate range of methods and strands of reasoning, put together with judgement. But where there is a pervasive lack of confidence in judgement, economic experts can be encouraged to narrow their focus to the apparent safety of quantifiable measures. Keynes was not at all averse to statistical evidence, nor to building models. But the import of his approach to policy-making is that much of importance is unquantifiable and models by their nature exclude the 'complexities and interdependencies of the real world' (Keynes 1936, p. 298). Thus, while data and models can be useful they are subject to serious limitations.

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[1] Keynes's concerns with inductivism mirror those of Hume, whose work was a significant influence (Meeks 2003).

[2] There is debate about the basis of Keynes's epistemological stance, in particular how far it is grounded in a particular ontology, i.e. in a particular understanding of the nature of the subject matter. See Lawson (2003, ch. 7) for the argument that Keynes's epistemology is ontologically grounded and Carabelli (2021) for the counterargument.

[3] There is debate as to whether or not Keynes was a subjectivist, but drawing sharp distinctions between subjectivism and objectivism is typical of the dualism of the deductivist approach. As with so many of these dualities, both duals are evident in Keynes's thought (Carabelli 1988).

[4] Keynes discussed the investment decision in the former terms in chapter 11 of *The General Theory* and in the latter terms in chapter 12.

[5] Keynes's motivation to address monetary reform stemmed from his moral critique of a monetary system which rewarded financial accumulation: the 'love of money' was the 'moral problem of our age' (Keynes 1925b).

[6] Arguably these interdependencies were less significant for the small rural communities where experiments with a Gesellian system appeared to have been successful, compared to a national context dominated by a more advanced financial system.