

Title: Keynes's methodology and policy prescription

Author: Andy Denis, City University, London, UK

Abstract

The paper argues that Keynes shares the holistic approach of Smith and Hayek, but without their reliance on invisible hand mechanisms. If spontaneous processes cannot be relied upon to generate desirable social outcomes then we have to take responsibility for achieving this ourselves by establishing the appropriate institutional framework to eliminate macroeconomic prisoners' dilemmas.

In previous papers I have tried to show, firstly, that in a world of partially overlapping and partially conflicting interests there is good reason to doubt that self-seeking behaviour at the micro-level will spontaneously lead to desirable social outcomes at the macro-level. And, secondly, that some sophisticated economic writers who would like us to rely on the spontaneous interaction of self-seeking agents, writers advocating a *laissez-faire* policy prescription, have proposed various 'invisible hand' mechanisms which can, in their view, be relied upon to 'educe good from ill'. Smith, I argued, defended the 'simple system of natural liberty' as giving the greatest scope to the unfolding of God's will and the working out of 'natural', providential processes free of interference by 'artificial' state intervention – the expression not of divine order but of fallible human reason. Hayek, adopting a similar policy stance, based it in an evolutionary process in which those institutional forms best adapted to reconciling individual interests would, he believed, spontaneously be selected for in the inter-group struggle for survival.

The purpose of the present paper is to cast a light on this issue from another direction by displaying an example of the policy consequences of adopting an alternative methodological stance. The argument of the paper is that (a) staying within the holistic framework of Smith and Hayek, but (b) rejecting their invisible hand mechanisms, leads (c) to the rejection of their reductionist *laissez-faire* policy stance as well.

The paper reviews Keynes's view of the historical role of capitalism and his analysis of its pathology, rooted in what we would now refer to as the prisoners' dilemma. It draws attention to the fundamental significance of his methodological standpoint. Then his policy prescription is considered, spelling out Keynes's call for planning, and explaining exactly what he meant by this. The paper examines Keynes's *class* standpoint, showing the critical role he expected his own class, the 'educated *bourgeoisie*', to play in the reform process he mapped out. A distinction, but also an intimate connection, is highlighted between, on the one hand, micro-level individualism (the 'Manchester System'), and, on the other, the macro-level collective action ('planning') required to preserve it. Finally Keynes is considered in relation to the themes of Smith and Hayek, holism, reductionism and the invisible hand.