Keynesian Follies

No one can challenge the proposition that John Maynard Keynes exerted a major influence on the ideas and events of this century. For me the Keynesian difference carries a negative sign because I retrospectively predict an alternative history that "might have been," a sequence of events that is normatively superior to the history that we experienced. Any such retrospective prediction is, of course, beyond the reach of scientific falsification. Objectively measurable imputation of the effect of any person, whether negatively or positively valued, remains an impossible exercise.

I have chosen my title, "Keynesian Follies," carefully. *Folly* is defined as (1) lack of good sense or of normal prudence, (2) inability or refusal to accept existing reality or to foresee inevitable consequences.[1] Both of these definitions convey something of the policy stance that I associate with the term *Keynesian*. I have put "follies" plurally in my title in order to suggest that several separate but related elements are involved, and, also, to hint that, to an extent, the whole historical episode has theatrical aspects of its own.

The Art and the Science of Political Economy

Keynes states explicitly that the central purpose of the book, the half century's life of which we celebrate at this conference, was to change the percep-

From *The Legacy of Keynes*, Nobel Conference XXII, ed. David A. Reese (San Francisco: Harper & Row, 1987), 130–45.

I am indebted to William Breit, Hartmut Kliemt, Charles Rowley, and Viktor Vanberg for comments on an earlier draft. I should also express my appreciation to the participants in a July 1986 seminar at the Research Department, Federal Reserve Bank of Richmond.

1. *Webster's Third New International Dictionary, Unabridged* (Springfield, Mass.: G. and C. Merriam, 1966), 883.

tion of his fellow economists, his peers among the academic scribblers. In this statement, Keynes indicated his own respect for the influence of ideas on events, and he set out deliberately to modify the mind-set of those whose chief business it was to impose intellectual order on a highly complex social process. He succeeded; by the middle years of the 1940s, economists almost everywhere had become "Keynesians" in their conceptualization of the macroeconomy. They had quickly learned to look at their world through the Keynesian window.

Perception of a reality is not, however, equivalent with reality itself, and the Keynesian follies find their source in the matching failures. Once having taken on the Keynesian mind-set, the Keynesians proved to be notoriously reluctant to change their perception of macroeconomic and political reality even in the face of accumulating empirical evidence throughout the 1940s, 1950s, and 1960s.

Keynes was the consummate artist, and his macroeconomic abstractions were comparable in boldness with those of his painter, poet, and composer peers in the world of high culture that he inhabited. Because his acknowledged purpose is to change perception rather than to explain, the artist must acknowledge the existence of competing perceptions.[2] Further, when perception is used instrumentally for more ultimate purposes, as it was used by Keynes, there would necessarily be some allowance made for appropriately timed switches among alternative perceptions of that which is. But while Keynes may be interpreted as an artist, his economist peers were scientists. His work was not taken as offering a situationally constrained perception of economic reality appropriate to the 1930s but as embodying a generalizable scientific paradigm. Neither Keynes nor any of his early disciples was aware of this fundamental difference that emerges naturally between the artist and the scientist.

This theme perhaps deserves further clarification. The scientist's research program, and any policy implications based on that program, is based squarely on a uniqueness postulate. That which is to be explained is the ob-

2. I have been influenced by Professor William Breit, Trinity University, in suggesting that the competing perceptions notion may apply to economics. For a preliminary statement of his position, see William Breit, "Galbraith and Friedman: Two Versions of Economic Reality," *Journal of Post-Keynesian Economics* 7 (Fall 1984): 18–29.

jective reality that exists, and this reality by its very objectification excludes alternatives. The scientist's research program yields hypotheses that may be falsified, and a sufficiently robust bundle of rejected hypotheses may lead, at some point, to a genuine revolution, the replacement of one research program by another. At any moment, there exists for any scientist only one research program, one of a set of mutually exclusive alternatives. By contrast, the artist offers a personal perception of reality, a perception that is not directly falsifiable. Even within the mind of the individual artist, there may exist alternative perceptions, several "windows" through which reality may be examined. And as among several artists, a multiplicity of competing perceptions is necessarily acknowledged.

Considered as an artist's perception, the Keynesian model of the macroeconomy takes its place alongside alternative perceptions. It is neither "true" nor "false," neither "right" nor "wrong," since these are descriptive attributes that simply do not apply. The Keynesian perception offered original insights that may have been helpful in interpretations of the macroeconomy of the 1930s. As many who knew him have suggested, the perception might have been replaced by others in response to the shift in the economic and political environment.[3]

The Keynesian follies emerged only when the perceptions of Keynes as artist were falsely interpreted as a research program of Keynes as scientist. In the sections that follow, I shall discuss several elements in this scientistic ossification of the basic Keynesian perception. Matters of money, full employment, functional finance, fine-tuning, political process—these are subjects that require separate treatment. I hope to show that each of these areas of inquiry may be viewed in a somewhat different light when placed in the context of the artist-scientist comparison that I have suggested.

3. Keynes wrote explicitly for the purpose of changing the perception of his economist peers. This instrumental motivation of his whole enterprise may allow critics, who accept my artist designation, to array Keynes-as-artist alongside those artists whose efforts are pursued within the context of an inclusive ideology, whether voluntarily or under coercion. In this sense, Keynes-as-artist would be quite distinct from the artist who seeks only to discover "truth" in his perception. For my part, I am willing to take it as given that Keynes was himself writing within his own current perception of reality rather than utilizing his intellectual resources to play upon the naivete of his peers.

Matters of Money

The Keynesian model, that presented in *The General Theory of Employment, Interest and Money*,[4] was subjected to very early and continuing criticism on the grounds of its relegation of money and monetary institutions to secondary importance in the operation of the real macroeconomy. In the interpretation I have advanced above, Keynes himself may be defended from these charges. In earlier works, he had presented alternative perceptions of the workings of the macroeconomy that embodied a central role for money in stabilization of the macroaggregates. The new book was deliberatively different; it was a new canvas upon which was placed a model aimed to draw attention toward nonmonetary relationships. So interpreted, the folly lies not in the initial Keynesian presentation of the alternative model but in the scientistic inference that the model represented—indeed, a revolutionary switch between research programs. Admittedly here my argument suffers from the rhetoric of Keynes himself, since this rhetoric seems to have been explicitly intended to convey the mutual exclusiveness between the new model and the old. In any case, rhetoric or no, the scientistic interpretation was placed on the effort. Keynes was read as having advanced the falsifiable hypothesis that money matters little if at all, a hypothesis that was clearly rejected by events as early as the middle 1940s.

A more important implication for the political economy of policy was the shift of attention away from monetary institutions as the potential targets for change. Interpreted as advancing the hypothesis that money matters little if at all, Keynesian economics tended to support an acquiescence in the sometimes jerry-built monetary regimes that were in existence in the 1930s. The rational constructivism of the Keynesians was directed toward alternative targets that were much less amenable to feasible reform.

As noted above, the inefficiency of money as a relevant macroaggregative variable in early Keynesianism was quickly recognized, and attempts were made to reckon with this apparent gap in the analysis. The shift in perception had been so total, however, that these attempts were almost universally car-

4. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace & Co., 1936).

ried out *within* the basic Keynesian framework of analysis rather than in the form of substitution of an alternative perception of the macroeconomy. This emphasis on a single model of the macroeconomy was directly traceable to the scientistic mind-set of the Keynesian advocates. There seemed to be little or no appreciation of the possible side-by-side existence of alternative models of economic process, each one of which might yield helpful insights, and each one of which might prove more or less appropriate in differing situations. The artist claims no monolithic legitimacy for his own perception; the scientist, by contrast, brands as heresy any perception that does not seem consistent with the prevailing research program. The whole mid-century history of economics and political economy might have been quite substantially different had economists proved more willing to tolerate the simultaneous existence of competing models of reality. Rather than "money does matter and can be readily incorporated in the basic Keynesian research program," we might have had the Keynesian real-variable models in existence alongside the non-Keynesian monetary theories of the business cycle. The disciplinary dominance of the Keynesian program, even as the relevance of money came to be incorporated within the models, ensured the continued neglect of basic reform in monetary institutions, a neglect that need not have occurred in the alternative competing programs scenario suggested. It seems, therefore, fully appropriate to label this institutional neglect as having resulted, in part at least, from "Keynesian folly."

Full Employment

Keynes is largely responsible for elevating employment (and/or output) to a position as an explicit objective for policy. As I have emphasized, Keynes sought to change the basic perception of the economic process; he sought to bring employment, as such, onto center stage as a variable subject to direct manipulation. He sought to overthrow the classical model of market equilibrium in which employment is determined only as an emergent result or consequence of the interaction among the demand and supply choices made by market participants.

Once again in this respect, Keynes was too persuasive. By elevating full employment to explicit consideration as a policy target, and thereby generating neglect of both monetary and market institutions, the Keynesian emphasis ensured the eventual stagflation that we experienced in the 1970s. The scenario might have been quite different if the Keynesian effort had been recognized for what it was rather than for what it was not.

The folly of full employment can best be discussed with reference to an early Chicago-based criticism of the theory of Keynesian macroeconomic policy. Attributed initially to C. O. Hardy, but taught to many of us by Henry Simons, the criticism was to the effect that a market economy (closed) could be characterized by any two of the following three conditions, but that all three conditions could not be met simultaneously: (1) full employment of the labor force; (2) stability in the value of the monetary unit; (3) noncompetitive labor markets. There need be no inconsistency between the satisfaction of the first two desired conditions if labor markets are competitive, but until and unless competitive wage adjustments are observed, either (1) or (2) must be violated. Concentration on (1) as a macroeconomic target must, therefore, ensure that (2) is not satisfied.[5]

Keynes himself would not have denied the elementary validity of this central Chicago proposition, interpreted as a set of mutually inconsistent equilibrium conditions. What Keynes argued was that the macroeconomy of the 1930s could not be and should not be perceived in terms of the classical market-clearing research program that the Chicago proposition embodies. In this respect, the long-continuing debate over whether the Keynesian analysis is an equilibrium or a disequilibrium theory seems to have missed the mark. The Keynesian analysis is an equilibrium theory, but it is one that is *constrained in its temporal setting of the 1930s.* That environment embodied an expectational chaos in which existing monetary arrangements seemed to have lost all equilibrating pressures toward the downside satisfaction of (2). The "animal spirits"[6] were cautious to an extreme, and the simplistic model of a highly elastic aggregate supply function did indeed capture a feature of that economy that was.

The economy that was in the 1930s, however, was not the economy that was in the 1940s and beyond. Hard evidence was available as early as 1946 to

5. This framework for presenting the policy conflict may be interpreted as a mid-1940s version of the Phillips curve relationship. The discussion implicitly presumed that full employment might be achieved by sacrifice of monetary stability. There was no hint of the post-Phillips notion of a natural rate of employment.

6. Cf. Keynes, *General Theory,* chap. 12, particularly p. 162.

the effect that the supply function sloped upward. As with money, however, the Keynesian success had proved to be so sweeping that the accumulating supply-side evidence was incorporated within the aggregative Keynesian model of the macroeconomy as opposed to the restoration of a competing classical program. In terms of policy targeting, the Phillips curve trade-off of the late 1950s and 1960s replaced the more naive full employment objective that had been earlier advanced. Only with the natural-rate hypothesis of the late 1960s did most economists finally discard the basic Keynesian research program. For the best part of three decades, therefore, economists tried to use a perception designed to isolate features of a macroeconomy in deflationary expectational chaos to look at a macroeconomy in postwar boom. The supreme folly of the Keynesians was perhaps the genuinely held but arrogant opinion to the effect that the surge in employment and output was itself a consequence of the application of the Keynesian policy tools.

Functional Finance

The policy instrument used to generate employment-output expansion in the Keynesian blackboard construction (or in the hydraulic machine model displayed widely in both Britain and the United States in the early postwar years) is government spending, the *G* in the simplified algebra. An exogenous increase in *G* adds to aggregate demand and directly or indirectly creates new employment and additional output. But how can government spending be increased exogenously? Governments, like persons or firms, must finance their spending. There are three alternatives available: (1) taxation, (2) money creation, and (3) borrowing.

In retrospect, it seems surprising (in 1986) that any attention at all was devoted to (1), that is, to the macroaggregative effects of tax-financed increments to rates of government outlay. Nonetheless, books as well as articles were devoted exclusively to analyses of balanced-budget multipliers that attempted to compare the expansionary effects of incremental governmental spending with the offsetting contractionary effects of incremental taxation. Given the level of expositional simplicity involved, the commonly stated value of unity for the balanced-budget multiplier is not to be criticized. What remains surprising, however, is the apparent failure of the economists who worked with these models to recognize that, within the structure of the models necessary to generate the unit value result, there is no normative argument for the levy of positive taxes. In order to produce a value of unity for the multiplier, the share of the tax dollar that would otherwise have gone into personal or corporate saving must represent a net drainage from the economy's spending stream. But the value of the multiplier can be increased severalfold by the simple expedient of spending without taxing. Were the analyses here subconsciously motivated by a desire to increase the relative size of the public or governmental sector, quite apart from macrostabilization objectives? Some such motivation combined with the underlying prediction that the macroeconomic objectives called for continuous expansionary stimulus rather than contraction may have been present. Once government spending was introduced as an instrument for the achievement of employment and output targets, attention was necessarily diverted from the allocative decision between the private and public sector that must always be made through some collective choice process.

The center of attention in the whole Keynesian theory of economic policy was, of course, on unbalanced rather than on balanced budgets. From the outset, the emphasis was placed on the use of government spending to expand employment and output, with this spending financed from nontax sources. The Keynesian approach to policy was, and has continued to be, associated with deficit financing. Formally, the models require that a budgetary regime involving deficits and surpluses be utilized, but the underlying predictive thrust is on the need for employment-output expansion, and, hence, on budgetary deficits. The increase in *G* is to be financed by (2) or (3).

It is at precisely this point that I have been mystified by Keynesian policy discourse, a mystification that has continued for forty years and that is shared by all Chicago-trained economists of my generation. Why have the Keynesians concentrated their policy analysis on the financing of spending by government borrowing rather than on the money issue alternative? Why has the textbook thrust of Keynesian policy embodied the bond financing of either expanded spending rates or reduced tax rates? Note that the superiority of money issue to finance deficits does not depend in any way on the relevance or irrelevance of money, as such. We can remain within the simplest of early Keynesian models, in which only rates of aggregate spending matter, and still conclude that money issue dominates government borrowing as a means of financing spending. This result follows so long as any share of the funds borrowed might have entered the spending stream. The money financing of budget deficits is superior even if attention is exclusively concentrated on the efficacy of the instruments in securing the employment-output objectives.

Among the many Keynesian economists, only A. P. Lerner consistently recognized the distinction between money creation and borrowing as the means of financing deficits, and his idealized regime of functional finance embodied compensatory budget adjustments accompanied exclusively by the required issue or destruction of money, and, hence, neither net government borrowing nor government debt retirement for macrostabilization purposes.[7] Had other Keynesian advocates followed Lerner in this respect, another Keynesian folly might have been avoided because the subject matter need never have emerged as relevant to the macropolicy debates.

The Keynesian emphasis was, however, placed on the *debt* financing of budget deficits. As a result, Keynesians felt it somehow obligatory to demonstrate that the creation of public debt, generally and apart from any particulars of macroeconomic policy, involved no temporal displacement of payment for the public spending that is so financed. Further, the Keynesians felt obliged to argue that public borrowing is categorically different in effect from private borrowing. The network of intellectual-analytical confusion in the elementary theory of public debt was the direct target of one of my first books, and I shall not devote space here to a repetition of old arguments.[8] The Keynesian intellectual "fog," for that is what the whole discussion surely reflected, was motivated, in part, by the underlying purpose of securing widespread public and political acceptance of an activist fiscal policy regime. To convince the noneconomist public to abandon the classical precepts of fiscal prudence, the Keynesians felt that they needed to show that public debt did not matter because, after all, "we owe it to ourselves." How simple it would have been to make the straightforward Lerner-Keynesian argument to the effect that *neither* taxation *nor* debt is an appropriate means of financing the deficits called for by an activist fiscal policy regime. The classical analysis

7. See Abba P. Lerner, *The Economics of Control* (New York: Macmillan, 1944), especially pp. 305–10.

8. See James M. Buchanan, *Public Principles of Public Debt* (Homewood, Ill.: Irwin, 1958).

of public debt could have remained within the filing cabinet labeled public finance orthodoxy.

The introduction of an activist fiscal policy regime of budgetary adjustment did require that the classical precepts of fiscal prudence be abandoned, and specifically that budgetary balance be dethroned as a central and overriding policy constraint (I shall defer discussion of this displacement until later). The activist regime of fiscal policy did not require any shift in the classical analysis of public debt, either positive or normative. Because of the widespread failure of economists to make the appropriate distinction between budgetary imbalance on the one hand and the means of financing such imbalance on the other, an unnecessary source of confusion, ambiguity, and argument was introduced.

We can go a bit further in this speculation about the "might have beens" if the Keynesians should have followed Lerner's lead in making the clear distinction between debt issue and money creation. The questionably productive research program engendered by Robert J. Barro's 1974 paper entitled "Are Government Bonds Net Wealth?"[9] might have been avoided. Following up Martin Bailey's earlier suggestion,[10] Barro sought to demonstrate the inefficacy of a fiscal policy shift from tax to bond financing of government outlay. The Bailey-Barro effort was directly stimulated by the claims of the Keynesians of the 1960s to the effect that the tax-to-bond shift was expansionary in the macroeconomic sense.

If the Keynesians should have adhered consistently to Lerner's norms for functional finance in their treatment of policy, there would never have been cause for the Bailey-Barro reaction, at least in the same form that it took in the 1970s. Even the most zealous of the rational expectation theorists could scarcely make a counterclaim to the Keynesian argument that an unanticipated tax-to-money shift is expansionary.[11]

9. Robert J. Barro, "Are Government Bonds Net Wealth?" *Journal of Political Economy* 82 (November 1974): 1095–1117.

10. Martin Bailey, *National Income and the Price Level* (New York: McGraw-Hill, 1971).

11. The rational expectation theorists have developed the distinction between anticipated and unanticipated changes in money creation as a part of the general argument that any systematic policy program must incorporate money issue responses that may be anticipated. This distinction is, however, quite different from the Barro-Ricardo argument concerning the nonexpansionary effect of the substitution of debt for tax finance. In this

Fine-Tuning

My discussion of the folly of fine-tuning can be brief, since this deficiency in the Keynesian theory of macroeconomic policy has been more widely recognized than any of the others that I examine in this paper. Indeed the very concept of "fine-tuning" the economy through compensatory budgetary adjustment is antithetical to the initial thrust of the Keynesian model, as advanced by the Cambridge master. In the macroeconomic environment of the 1930s, the model did yield useful insights, and policy implications may be gained from the modified perception of the economic reality that then existed. The compensatory budgetary adjustments called for by the initial Keynesian perception reflected "broad-tuning," rough-and-ready, catchall, revolutionary shifts in any parameters deemed subject to immediate political control. The folly lay with the post-Keynesians who converted the broad strokes of the master with the implied time-constrained shifts in budgetary flows into a highly sophisticated, if naive, analytical structure from which idealized budgetary adjustments were derived in apparent independence of the expectational setting. To have believed sincerely that budgetary fine-tuning (even in the absence of the political realities to be discussed later) would have been efficacious for stabilizing employment and output over the possible swings of ordinary economic cycles seems, in retrospect, beyond the limits of academicized isolation. Yet, such was the state of the Keynesian intellectual epoch.

Ordinary Politics

The most significant folly that has been widely attributed to Keynes and the Keynesians involves the presumed neglect of the workings of ordinary politics and political institutions in the implementation of any activist stabilization policy, and notably any use of spending and taxing as instruments. In his biography of Keynes, R. F. Harrod refers to the "presuppositions of Harvey Road," which he defines as the attitudes toward politics and government

case, even if the switch from tax to bond financing is completely unanticipated, the Barro argument carries through due to the alleged ability of persons to capitalize fully future tax obligations embodied in debt.

held by the Keynes who wrote *The General Theory of Employment, Interest and Money* in 1936.[12] These attitudes embodied a disregard for ordinary politics, based on a belief that Keynes's own powers of persuasion were indeed such as to ensure that any government would follow his lead, along with those of his economist peers, in policy matters.

This stance of Keynes can, on the one hand, be directly interpreted as a reflection of the isolated intellectual elitism that was characteristic of Cambridge early in this century. And there seems no question but that elements of such elitism were present; Keynes was no small-*d* democrat, despite his early philosophical liberalism. On the other hand, a somewhat more favorable interpretation may be placed on this characteristic of Keynes himself when we recognize that his work was aimed at changing the economic perception of his colleagues in extraordinary times, when the politics as well as the economics might have been expected to be nonusual, nonordinary. We need only to recall our own U.S. history in this respect. When Franklin Roosevelt assumed office in early 1933, the ordinary institutions of politics were, in effect, suspended. The checks and balances ceased to function, so extreme were the times, and politicians stood ready and willing to implement sweeping changes almost without regard for consideration of the permanent consequences and with little apparent regard to the special interests of their constituencies. Keynes had not, of course, published the book by 1933, but he may have had something like the early New Deal setting in mind as an idealization, modified, as appropriate, for the political structure of his own country.

If we interpret Keynes as the artist who sought to change perception with broad-brush abstractions in the environmental parameters of depression, there need be no inference concerning the extension of the perception to the workings of the economy or the polity in ordinary times. Once again, this interpretation suggests that the folly lies with the Keynesians, who imposed the scientistic straightjacket too readily on Keynes's work, and who failed to sense that the word *general* in the title of the book should not have been understood to convey the notion of an unchanging economic-political environment.

In any case, whether we attribute the folly here directly to Keynes or to the

12. R. F. Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951), 192–93.

Keynesians who followed, the record is there to be observed. Ordinary politics in democracy prevents implementation of the policy norms emerging from the Keynesian theory of macroeconomic management, independently of the analytical difficulties that have been previously noted. That is to say, even if there should be no problems inherent in the Keynesian explanatory model, the attempt to stabilize the macroeconomy by compensatory budgetary adjustment would have failed. In ordinary times, political decision makers, ever responsive to constituency pressures, are driven by a natural proclivity to expand rates of spending and to reduce rates of taxation. The Keynesian policy model seemed to offer an intellectual-moral argument for expanded public spending financed by debt (or money). But ordinary politics fails almost totally when the other side of the Keynesian policy norms are required for macroeconomic purpose. Political decision makers cannot increase taxes so as to generate compensatory budgetary surpluses. The bias toward deficits emerges directly from the most elementary application of public choice principles.[13]

In this context, the net contribution of the whole Keynesian half century must be evaluated negatively. It is represented best by the regime of massive and continuing budgetary deficits that we observe, deficits that bear no relationship to any alleged macroeconomic purpose, and that are almost universally acknowledged to have adverse consequences for the economy as well as for the moral bases of modern society. These deficits emerged because the Keynesian impact was to dislodge almost totally the precept of budget balance from the effective fiscal constitution. Once the budget was introduced as an instrument of policy adjustment, there was no means of avoiding the non-Keynesian consequences. Even here, however, the negative impact would have been severely constrained if the Lerner norms had been adopted. It seems unlikely that even the irresponsibilities of the fiscal politics of the 1970s and 1980s could have been achieved by money financing of deficits of the magnitudes observed.

13. For extended discussion of the material of this whole section, see James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977). See also James M. Buchanan, Charles Rowley, and Robert Tollison (eds.), *Toward the Political Economy of Deficits* (Oxford: Basil Blackwell, forthcoming).

Conclusions

The Keynesian follies that I have discussed—matters of money, full employment, functional finance, fine-tuning, ordinary politics—these summarize familiar criticisms of the whole Keynesian enterprise. What I have tried to do in this paper, however, is to incorporate these criticisms in an interpretation of the Keynesian effort that may offer an insight into the intellectual history of the half century. My theme is that Keynes was essentially an artist, offering others a new perception of the economic reality of his time, a perception that he may have deemed necessary to draw out inferences for the dramatic policy action that he felt governments should undertake. The economic reality need not have been presumed invariant over time, and in this respect my interpretation is fully consistent with that of Shackle, who has always emphasized the subjectivist element in Keynes's vision.[14] The economic reality of the 1930s, characterized by expectational chaos, could not be understood properly modeled as if it were an economy in periods of expectational stability.

Argument may, of course, be joined over whether or not Keynes, even if interpreted as suggested, failed to foresee the consequences of the widespread acceptance of his own time-constrained perception. Indeed we may go so far as to suggest that the elementary folly of Keynes lay largely in his presumption of too much intellectual sophistication on the part of those whom he sought to convince and/or too much arrogance concerning his

14. See G. L. S. Shackle, *The Years of High Theory* (Cambridge: Cambridge University Press, 1967). See particularly pp. 129–34. The Shackle statement excerpted below comes close to the general interpretation I have tried to develop in this paper.

> Keynes's whole theory of unemployment is ultimately the simple statement that, rational expectation being unattainable, we substitute for it first one and then another kind of irrational expectation: and the shift from one arbitrary basis to another gives us from time to time a moment of truth, when an artificial confidence is for the time being dissolved, and, we, as business men, are afraid to invest, and so fail to produce enough demand to match our society's desire to produce. Keynes's *General Theory* attempted a rational theory of a field of conduct which by the nature of its terms could only be semi-rational. *But sober economists gravely upholding a faith in the calculability of human affairs could not bring themselves to acknowledge that this could be his purpose.* They sought to interpret the *General Theory* as just one more manual of political arithmetic. (p. 129; italics supplied)

own powers of repersuasion, particularly posthumously. But the Keynesian follies emerged, for the most part, from the failure of those who followed the master to sense the critical dependence of the whole perceptual apparatus on the presumption of fixity in the reality that was being perceived.

This is not the place for extended treatment of the differences between the natural and the human sciences, or of the differences between the science of economic behavior, on the one hand, and the science of the macroeconomy, on the other. The nonfalsified propositions in economics are, at best, very few in number, only in part due to the familiar difficulty in setting up controlled experiments. As I have suggested elsewhere,[15] men are like rats only in some aspects of their behavior. To the extent that they are not ratlike, their behavior is unpredictable. At best, imaginative economists, whose interests transcend the boredom of rat-maze experimentation, can hope to isolate and abstract elements of uniformity in particularized expectational-institutional circumstances.

I end with a simple question: In an imagined economy characterized by an effectively operating commodity-based monetary standard would the Keynesian enterprise have been a part of our intellectual history?

15. See James M. Buchanan, "The Domain of Subjective Economics: Between Predictive Science and Moral Philosophy," in Israel Kirzner (ed.), *Method, Process, and Austrian Economics: Essays in Honor of Ludwig von Mises* (Lexington, Mass.: D. C. Heath, 1982), 7–20.

Socialism Is Dead but Leviathan Lives On

I appreciate the opportunity to give this John Bonython Lecture, and especially to follow in that very distinguished succession of previous lecturers, all of whom are friends of mine.

More than a century ago, Nietzsche announced the death of God. Behind the drama of its presentation, this statement was intended to suggest that the omnipresence of God no longer served as an organising principle for the lives of individuals or for the rules of their association, one with another. If we can disregard the revival of fundamentalism, notably in Islam, we can refer to this century as one "without God." And, indeed, many of the horrors that we have witnessed find at least some part of their explanation in the absence of human fear of a deity's wrath.

I want to suggest here that, since Nietzsche, we have now passed through an interim period of history (roughly a century) during which, in one form or another, the God pronounced dead was replaced in man's consciousness by "socialism," which seemed to provide, variously, the principle upon which individuals organised their lives in civil society. And I want to match Nietzsche's announcement with the comparable one that "socialism is dead." This statement seems much less shocking than the earlier one because it has been and is being heard throughout the world in this year, 1990. I suggest, further, that the gap left by the loss of faith in socialism may, in some respects, be equally significant in effects to that which was described by the loss of faith in the deity. In a very real sense, the loss of faith in socialism is more dra-

The John Bonython Lecture, CIS Occasional Paper 30 (Sydney: Centre for Independent Studies, 1990), 1–9. Reprinted by permission of the publisher.