



**The 'Uncertain' Foundations of Post Keynesian Economics:
Essays in Exploration. By Stephen P. Dunn.**

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3 *The ‘Uncertain’ Foundations of Post Keynesian Economics: Essays in Exploration.* By
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5 **Stephen P. Dunn.** Abingdon and New York: Routledge, 2008, 256 pages, ISBN 978-0-415
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7 **27864-5, \$160/£85 (hardcover).**
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11 This book is a collection of essays, several previously published but revised, arguing that the
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13 distinctive feature of Post Keynesian economics in relation to other schools of thought is the
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15 centrality of fundamental uncertainty in underpinning the core principle of effective demand,
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17 whether as articulated by Keynes (1936) or Kalecki. Stephen Dunn’s methodology is informed
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19 by the Lawson school of Critical Realism (Fulbrook 2009), which he regards as providing the
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21 ontological foundation for the coherence of, and the centrality of uncertainty within, Post
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23 Keynesian economics. Dunn argues that uncertainty is the consequence of a world characterized
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25 by open social systems in contrast with the closed physical systems that can be represented by
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27 mathematical models. He concludes that the historical link of Post Keynesians with Sraffa has
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29 created inconsistency and calls for “the ejection of the Sraffian order from the Post Keynesian
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31 church.” He identifies limitations in Keynes’s own treatment of uncertainty and criticizes the
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33 widespread conflation of uncertainty with bounded rationality, including by many Post
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35 Keynesians. He also outlines specific applications of Post Keynesian thinking: to the area of
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37 health economics, in which he is now a senior UK government advisor, and to the theories of
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39 pricing and the firm.
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47 Although there is much in this book to be agreed with, Dunn’s approach is slightly
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49 reductionist, in the sense that he tends to overstate his case and finds in uncertainty something of
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51 a universal cause. For example, in chapter 4, he follows Davidson in emphasizing the importance
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53 of money contracts, particularly the wage contract, under uncertainty but pushes this to the point
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55 where he appears to be claiming that uncertainty alone (“a necessary and sufficient condition.”
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3 p. 60) can explain the existence of a wage-dependent labor force and unemployment—something
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5 that Kalecki would certainly have taken issue with. This over-emphasis neglects the importance
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7 of the many factors of a historical, sociological and even personal nature that contribute to
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9 explaining why most of us are paid employees. In similar vein, in chapter 5, he takes Keynes to
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11 task for treating uncertainty as a *deus ex machina* and neglecting the roles of competition and
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13 innovation, as emphasized by Shackle, Davidson and Loasby, in creating the future and therefore
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15 creating uncertainty as an endogenous process. My observation would be that while it is true that
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17 Keynes largely treats uncertainty as exogenous, yet he has good reason to do so. There are
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19 several other important things that he treats likewise, such as the degree of competition, the
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21 social structure and the distribution of income and wealth. Instead, Keynes recognizes that it is a
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23 mistake to try and model uncertainty itself as part of his formal General Theory rather than
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25 keeping in mind the many non-economic forces that also operate, alongside competition and
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27 innovation, to make the future unpredictable.
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35 Dunn is on firmer ground when he draws his clear and important distinction between
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37 bounded rationality and fundamental uncertainty. Bounded rationality may be understood as
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39 relating to “a specific view of behavior,” of the response of individuals to their limited ability to
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41 process complex information. Fundamental uncertainty is understood as relating to “a specific
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43 view of time and choice,” of the nature of the reality encountered by the individual and of the
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45 kind of choice this permits. Broadly, these terms refer to the two different categories of
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47 epistemology and ontology respectively, and Dunn is therefore quite right to insist on their
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49 separation.
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54 When Dunn turns to the future of “Post Keynesianism” (sic), the paradoxical conclusion
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56 arises in the mind of this reviewer that not only the Sraffians but Keynes himself must be ejected
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3 from the church. For Dunn regards as incompatible with Post Keynesianism all the main aspects
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5 of neoclassical methodology, including the use of equilibrium analysis and the assumptions of
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7 perfect competition and optimization. Once again Dunn over-reaches himself, since he neglects
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9 Keynes's distinction between the short- and long-term, between production and investment.
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11 Ambrosi's (2003) argument that the Cambridge Keynesians failed to understand Keynes's
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13 rejection of stationary state theory indeed supports, as a corollary, Dunn's contention that it was
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15 a mistake to ally themselves with the Sraffian long-term, long-period equilibrium approach. Yet
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17 Keynes's principle of effective demand (which Dunn accepts as the cornerstone, if not the
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19 foundation, of Post Keynesian economics) can be understood in very neoclassical, Marshallian
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21 terms as a species of temporary competitive equilibrium. In Lawson's terms, Keynes may be said
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23 to offer a model of a quasi-closure, being the state of short-term expectation generated by the
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25 principle of effective demand at a point in time. While Dunn, following Chick and others, insists
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27 on bringing fundamental uncertainty into production (as may be realistic), Keynes himself
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29 appears to abstract from it in his formal theory and to consider fundamental uncertainty of
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31 importance mainly for long-term investment. Dunn cites several Post Keynesian authors in
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33 support of his own position and it is true that many Post Keynesians now work with Kalecki's
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35 simpler version of the principle of effective demand. Yet in excluding all forms of competitive
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37 equilibrium analysis, Dunn goes far beyond Keynes and that suggests his demarcation of Post
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39 Keynesian economics is drawn too tightly.
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49 The "ism" is important too. For Dunn associates Post Keynesian economics with a
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51 particular ideological position, as when he writes in his chapter on health economics, that "Post
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53 Keynesianism starts from the proposition that everyone should be given the opportunity to
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55 participate fully and flourish in society ... [and] access to health and healthcare, like access to
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3 employment, is a basic right” (p. 186). These may be sound propositions, but do they follow
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5 uniquely from Post Keynesian economic analysis? There is a jump from explaining how the
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7 world works to prescribing how the world should be. That is not the approach of Keynes in *The*
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9 *General Theory*, whose policy prescriptions are tentative and indeed politically rather
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11 conservative.
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15 So the logic of Dunn’s position is that “Post Keynesian economics” is a misnomer, or at
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17 least the emphasis should be firmly on the “Post” and Keynes’s own theoretical contribution
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19 regarded as of essentially historical value, beyond his foundational insight into the nature of
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21 uncertainty. Dunn’s further conclusion follows: that Post Keynesians should proudly range
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23 themselves among the heterodox and not waste further time attempting to engage an indifferent,
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25 if not hostile, mainstream establishment. This recommendation abandons Keynes’s own avowed
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27 objective of integrating the theories of money and value, of redefining rather than abandoning
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29 the theory of value. Keynes set out to show why Classical economics (in the sense he used) was
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31 a special case even on its own terms and his argument has still not been received by the
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33 profession. If Keynes was wrong about this, Post Keynesians should either pack up their bags or
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35 change their name. If not, the future progress of economics (at least in economics departments)
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37 depends upon finding a common language. Dunn has made a substantial contribution towards
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39 that progress by grounding uncertainty in social ontology and clarifying the difference in its
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41 nature from bounded rationality, but he is in my view too hasty in abandoning Keynes’s project,
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43 even 75 years on. Nevertheless the attempt to maintain dialogue with mainstream economics is a
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45 minority endurance sport and should not detract from positive efforts to develop Post Keynesian
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47 thinking along the lines Dunn suggests, among others.
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3 The book is written at research level and although it is constructed from a series of papers that
4 sometimes cover similar ground, Dunn has introduced signposts to allow the reader of the book
5 as a whole to avoid repetition, while the reader of an individual chapter will find it self-
6 sufficient. The cover bears a clever and attractive illustration painted by the author himself. The
7 book will make a valuable part of a Post Keynesian research collection and is an important
8 contribution to the debate on the nature of our research program.
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18 M. G. Hayes

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