

*Keynes' Economics: Methodological Issues.* Edited by TONY LAWSON and HASHEM PESARAN. Routledge, London. 1989. 265 pp. £12.95.

*Kaldor's Political Economy.* Edited by TONY LAWSON, J. GABRIEL PALMA and JOHN SENDER. Academic Press, London. 1989. 283 pp. £14.95.

These two collections have much in common. They have similar titles, they share an editor (Tony Lawson) and two authors (Tony Lawson, Geoff Hodgson), they both refer to great Cambridge political economists, and both have been sponsored by the *Cambridge Journal of Economics*. The Keynes volume is the paperback edition of the proceedings of a 1984 conference, and the Kaldor volume derives from a special issue of the journal. The titles of the volumes are also similar. I will argue below that they share some other features as well; but there are also important differences between them. The Keynes volume is concerned solely with Keynes's methodology, especially

in the *General Theory* and in his controversy with Tinbergen, while the Kaldor volume is concerned with all aspects of his economics, including his role as an economic advisor.

Let me first start with the volume on Keynes. Its articles can be divided into three groups. The first three articles (by Hodgson, Dow and Dow, Wren-Lewis) are concerned with the treatment of expectations; the next four (by Klant, Pheby, Lawson, Pesaran and Smith) are concerned with Keynes's methodological position in the controversy with Tinbergen, and then there are four more specialized papers on topics such as 'Cause, Chance and Probability' (Carabelli), 'Keynes, Marshallian Analysis and Liquidity' (Boland), 'Wages and History' (Chick) and 'Keynesianism in Germany' (Backhaus). Most of the articles are written in a crisp but at the same time scholarly manner (a credit to both editors and authors), although a few of them (Hodgson, Carabelli and Backhaus) are longer than I would have liked, given their substantive content. The section of the book that I enjoyed most was the one on Keynes's views on induction and econometrics, but this may just reflect my own interests.

There is little point for a reviewer to start arguing with the specific points made in each of the articles, especially in view of the diversity of views expressed.

In fact, the lack of a serious attempt to reconcile some of this diversity of views appeared to me as one of the weaknesses in this volume, especially as there is no attempt to offer a comprehensive examination of the methodology of Keynes, and the interpretations of his position offered by the various authors are sometimes conflicting. This is not the case for the section on Keynes and Tinbergen. The differences in interpretation are acknowledged by the editors, but this is not much help to the reader. The editors' introduction is a very good summary of the papers, but does not attempt to resolve the differences. As for the papers themselves, there are very few cross-references. One way in which this problem could have been mitigated would have been to assign papers to discussants, and have published the discussants' comments.

One could also take issue with the lack of discussion of Keynes's methodology in relation to contemporary philosophy of science. The main exceptions are the papers by Klant, Pheby and Lawson, but even these are confined to the relation between Keynes's views, falsificationism (Popper) and instrumentalism (Friedman). The growth of knowledge tradition associated with Kuhn, Feyerabend and Lakatos is hardly utilized. This is very surprising, given that this book tries to assess the methodology of someone who is widely seen as having brought about a revolution in economics. Kuhn and Lakatos manage only two and three passing references respectively (by Klant and by Pheby) in a book on methodological issues. Feyerabend is not even mentioned. As B. Caldwell observes, 'The most significant contribution of the growth-of-knowledge philosophers was the demonstration that the quest for a single, universal, prescriptive scientific methodology is quixotic. Confirmationism provides no logically compelling algorithm of choice. Instrumentalism is viable only in those situations in which predictive adequacy is the sole goal. And Popper's falsificationism, though it recognizes the problem of induction and seeks only to eliminate error, runs into problems in application when interpreted strictly, and loses prescriptive force when interpreted loosely' (*Beyond Positivism*, Allen & Unwin, 1982, (p. 244). For an economist as eclectic as Keynes, the growth-of-knowledge tradition may be able to throw more light on some of the issues addressed in this book.

My final point is concerned with the distinct anti-neoclassical undercurrent running through some of the papers in this volume, especially the ones dealing with the treatment of expectations, and the analytical method of Keynes. To a large extent I share the scepticism of the authors about neoclassical economics. However, I could not help feeling that I would like to have seen something more than just an appeal for a more institutionalist approach (Hodgson), and calls for greater emphasis on the impossibility of prediction (Dow and Dow) or for a resurrection of the wage unit as a way to reconcile historical time with static analysis (Chick). Institutions display hysteresis, and thus depend on initial conditions and the timing of shocks. However, they also depend on more fundamental factors, including preferences and technology. More and more economists now adapt largely neoclassical models, to allow, among others, for externalities and increasing returns. In these models there are typically multiple equilibria, and expectations can be self-fulfilling. I have in mind the growth models

discussed by Romer (in R. J. Barro, *Modern Business Cycle Theory*, Harvard University Press, 1989) and the cycle models in Chapter 5 of Blanchard and Fischer (*Lectures on Macroeconomics*, MIT Press, 1989). Can these models solve the tension between rational expectations and Keynes's animal spirits? Are external economies and increasing returns the way in which history will be married with economics? Nicholas Kaldor seemed to think so. It is to the book on Kaldor that I now turn.

*Kaldor's Political Economy* contains an impressive array of contributions on a number of diverse themes, and almost does justice to the wide range of contributions, interests and activities of the great man. There are papers on constant returns to scale (Hicks), welfare (Graaff), growth and distribution (Pasinetti, Tobin and Hahn) and abstraction tendencies and stylized facts (Lawson). There are also papers on Kaldor's interests in applied economics, and his advising activities by Singh (de-industrialization), Thirwall (Kaldor as a policy adviser), Reddaway (tax reform in the United Kingdom), Kitson and Solomou (protectionism in the 1930s), Desai (monetarism), Toye (tax reform in LDCs), Spraos (commodities), Griffith-Jones (international monetary reform), Chakravarty (India) and Palma and Marcel (Chile). The contributors make a good job of conveying to the reader both the greatness but also the limitations of Kaldor's achievements. The authors of the papers on applied economics demonstrate how relevant all of the issues with which he was concerned still are. The editor's introduction is well written and provides a good summary of the various papers. Some authors choose to refight previous battles (Hicks, Pasinetti and Tobin), others attempt objective evaluations of Kaldor's theoretical contributions (Graaff on welfare economics, Hahn on growth), but the great majority of the papers deal with applied economics.

One theme that runs through almost the entire volume is the special role that Kaldor assigned to increasing returns to scale. It is from this premise that most of his policy prescriptions followed. His advocacy of the expenditure tax, protectionism and reflation can be to a large extent attributed to his deeply held belief that a push of savings and investment will become self-sustained because of increasing returns, and will therefore lead to a virtuous cycle. On the other hand, a negative investment shock will also become self-sustained. This belief can be traced back to the influence of Allyn Young, who taught at the LSE in the late 1920s. It is a great pity that Kaldor abandoned his theoretical endeavours before demonstrating conclusively how far-reaching the implications of his intuition were. His technical progress function (discussed by Hahn) was not a very satisfactory way of demonstrating the importance of increasing returns, and it did not catch on, especially as an early version of it was shown to be integrable to a Cobb-Douglas production function. Arrow's 'learning by doing' formulation, inspired by Kaldor, had more concrete foundations, but even that led to a steady state. Although the various authors on the applied economics aspects of Kaldor bring out the significance of the increasing returns assumption for his policy conclusions quite clearly, as Hahn observes, Kaldor 'did not succeed' (p. 49) in conclusively fashioning the concept of increasing returns to scale into a theory of growth. His failure adequately to formalize his ideas, and therefore to convince lesser mortals, should not detract from his contribution. Kaldor's intuition seems to have been right. The recent work of P. Romer and others (surveyed in the Romer work referred to above) suggests that many of his conclusions can be shown to follow in formal models of growth with external increasing returns. One cannot criticize Kaldor for being ahead of his time, and for not being able to invent the technology that would allow him to express his ideas in a formal extension of neoclassical economics and carry the profession with him. It is a pity that he did not live to witness the wide acceptance that these ideas are now gaining in the profession. It is also a pity that the papers that gave rise to this book were written before the extent to which Romer's work justifies Kaldor's views had become apparent. But maybe this can be the theme of another volume.

These books are worthwhile additions to one's library. I learned a lot from both of them. However, if I had to choose one subject to a budget constraint, I would certainly go for the book on Kaldor's political economy.