

## Séminaire GREDEG 12/05/2022

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**TITLE: « Peter Howitt's 'Keynesian Recovery' and Keynes: An Assessment »**

### **ABSTRACT:**

“What were the main substantive claims that Keynes was making in his (General Theory)? On this question I have little new to say beyond what is in Patinkin's (1976) authoritative account” (Howitt 1986, p. 627).

In our opinion, Peter Howitt's own appraisal of what constituted in his views the 'central message' of Keynes' General Theory (1936) in his “Keynesian Recovery” dated 1986 should not probably be taken at face value. For it is not only that Howitt departed from Patinkin's appraisal on several basic issues. It is also that what Howitt identified as key elements of Keynes' opus in his 'Keynesian Recovery' were both original and consistent in comparison to the general accepted views about Keynes' achievements 50 years after the publication of the General Theory. Even more strikingly, his understanding of Keynes' 'central message' permeates Howitt's own theoretical apparatus. Accordingly, the aim of the paper is to assess Howitt's achievements in the field of macroeconomic theory with regard to his reading of Keynes' General Theory.

The first part of the paper is dedicated to Howitt's appraisal of Keynes' central message regarding the functioning of a decentralised monetary economy. When he argued that Keynes' central message primarily addressed the issue of the micro-foundations of macro-theory, Howitt took a radical stance that was the opposite to the commonly accepted views about the 'ad hoc' character of Keynes' macroeconomic theory. He also challenged the standard interpretation of involuntary unemployment that considered sticky money wages as the source of involuntary unemployment. Hence Howitt's concern for flexible wage and price policy that are very likely to prove destabilising. And his insistence on investment as an autonomous component of effective demand driven by pervasive uncertainty drew the attention towards intertemporal coordination issues.

The second part of the paper investigates Howitt's assessment of Keynes' legacy, from his critiques of the IS-LM neo-classical synthesis towards the theoretical developments made by Clower and Leijonhufvud, which Howitt considered as earlier promising Keynesian alternatives that still deserved attention. Howitt established several tracks of research claiming to pursue Keynes' original programme, some of them being in his views more fruitful and faithful to Keynes than others. Regarding the IS-LM framework, three weaknesses were identified by Howitt. First and most importantly, the IS-LM framework passed over the dead-ends regarding the Walrasian approach to markets functioning. Second, its research programme wrongly based its approach to unemployment on wage stickiness and nominal rigidities at large. Last, despite a cursory concern for investment volatility, the IS-LM framework got rid of a serious account for uncertainty and by the way intertemporal coordination issues. On this basis, both Clower and Leijonhufvud offered in Howitt's eyes fruitful alternatives – precisely because of their respective strong concern for micro-foundations of macroeconomic theory. In that perspective it is noticeable that Howitt worked closely with Clower and Leijonhufvud. On the one hand, Clower (who had a significant influence on Leijonhufvud), developed a disequilibrium approach thanks to his 'dual decision' hypothesis'. This allowed him to handle with possible failures of Walras law due to the lack of potential corrective forces. On the other, the tools developed by Clower helped Leijonhufvud to develop a theoretical framework of out-of-

dynamics of an 'income-constrained' process. Accordingly, Leijonhufvud is mainly praised by Howitt for having developed a disequilibrium approach to macroeconomics, based on his 'cybernetic approach', according to which there is no presumption that the system might equilibrate.

Third, from his appraisal of Keynes' General Theory towards the lineage he drew from Clower and Leijonhufvud, the last part of the paper investigates Howitt's own theoretical achievements with regard to his understanding of Keynes' General Theory. Considering that price are not the main equilibrating variable in a decentralised system naturally raises concern for quantity adjustment and effective demand failures, especially in case a market economy suffered a large and protracted shock. It also resuscitates Keynes' idea in Chapter 19 of the General Theory that wage and price flexibility might be destabilising. Besides, the strong concern developed by both Clower and Leijonhufvud for market processes well explains Howitt's reservations about the multiple equilibria approach to macroeconomic theory, for this literature merely evades the issue of how economic agents achieve their coordination and leaves aside the issue of micro-foundations of market results. Together with his appraisal of the General Theory as mainly concerned with the micro-foundations of macroeconomics, this also well explain that Howitt shifted his attention for agent-based models in the recent period.

## REFERENCES

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