IN DEFENCE OF POLICY-SCEPTICAL KEYNESIANISM (OR THE LONELINESS OF THE LONG-RUNNER)

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There are several Hayek-Keynes debates.

First, there is the published debate that took place in the pages of *Economica* (and a brief series of correspondence between the two named principals) over the course of a few months in the fall and winter of 1931-1932.[1] This debate concerned esoteric matters in theoretical monetary economics, in particular, Hayek's criticism of the way Keynes defined and used concepts like *savings* and *investment* in *A Treatise on Money* ([1930] 1971a and [1930] 1971b), without grounding them upon a firm capital-theoretic foundation. This debate quickly petered out as the two main characters soon exhausted each other's patience. Of the several Hayek-Keynes debates, this is the one that Hayek is thought by many, though by no means unanimously, to have won. It is also the least relevant Hayek-Keynes debate for present purposes

Second, there is the debate, still ongoing, between the respective followers of Hayek and Keynes concerning the comparative adequacy of Hayek's ([1931, 1935] 2012) Austrian Business Cycle Theory (ABCT) *versus* Keynes's ([1936] 1973) macroeconomic theory as explanations of economic recessions and related phenomena. This debate might be dated from Piero Sraffa's (1932) criticism of Austrian capital theory and Hayek's use of Knut Wicksell's concept of the *natural rate* of interest, both core elements of Hayek's version of ABCT. In reaction to Sraffa's (and others') criticisms, Hayek spent much of the next decade unsuccessfully trying to repair Austrian capital theory. *The Pure Theory of Capital* ([1941] 2007) is the rather limp, though mind-bogglingly complex, result of Hayek's labours.

The fortunes of the two theoretical frameworks have waxed and waned over the intervening decades. Keynes died in 1946, but the Keynesian vision reigned supreme in the economics profession for several decades after the Second World War. It was primarily the inflationary (and later stagflationary) episodes of the 1960s and 1970s that undermined economists' confidence in the Keynesian system. For his part, Hayek spent much of the post-war period in the academic wilderness, moving away from pure economics toward social and political philosophy, social science methodology, and sensory psychology. Perhaps ironically, it was during these wilderness years that Hayek developed many of the themes with which his name is most closely associated in the contemporary mind. Though it never returned to the dominant position it briefly enjoyed earlier in the twentieth century, the Austrian School experienced a renaissance in the late 1970s and early 1980s, sparked in part by Hayek's receipt of the 1974 Nobel Prize in Economics (co-awarded to another intellectual rival, Gunnar Myrdal) in recognition of his business cycle work of the 1930s.

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* Written for *K & K*.

1 The published debate and correspondence can be found in Volume 9 of Hayek's (1995) *Collected Works*.

Third, there is the still-unresolved and perhaps never-to-be-resolved debate about the wisdom or lack thereof of the economic policy programmes associated with – which is not to say implied by – the two competing theoretical frameworks.[2] In broad strokes, the Keynesian system is associated with active government intervention in the economy to counter the shortfalls in aggregate demand that, according to Keynesian thinking, constitute recessions. The Hayekian system advises against such intervention to address recessions. Indeed, Hayek argued that active government intervention was often a source of economic instability, more a long-run cause than a short-run cure of the various malinvestments that, according to Austrian thinking, inevitably lead to recessions (see, e.g., Hayek [1975] 2014).

In recent decades, the implosion of the U.S. mortgage bubble, the global financial crisis of 2007-2008, and the subsequent "Great Recession" have contributed to renewed interest in and controversy about these latter two Hayek-Keynes debates.[3] Which theoretical framework offers the most convincing explanation of economic recessions? What, if anything, of a policy nature, should be done to counter them?

The present paper is concerned with the relationship between the latter two debates about the theoretical framework one accepts as a causal explanation of, and the policy programme one believes most effective to counter, an economic recession. In particular, I am interested in the question whether there is any inconsistency in being both a Keynesian about the explanation of economic recessions and a Hayekian about their cure. Is it consistent to adopt both the Keynesian account of recessions and the Hayekian rejection of active government intervention to counter them?

It should be emphasized that the kind of inconsistency I have in mind is less *logical* than *practical inconsistency*. As David Hume (1739-1740) noted long ago, it is impossible to logically deduce an *ought* from an *is*. Even if Keynes's macroeconomic theory is a correct account of how the economy is, it does not follow logically that Keynesians ought to support countercyclical policymaking. This point aside, there is a historical connection between Keynes's theory and the policy advice that he, and his followers, have tended to support, just as there is a historical connection between Hayek's ABCT and the common Austrian rejection of Keynesian demand management. If it is not thought logically necessary for a Keynesian theoretical economist to favour active government intervention to counter a recession, it is surely thought practically necessary. To accept Keynes's theory is all but to prefer Keynes's policy advice. It is this widely-held belief that I mean to challenge in the present essay. The historical connection between this pairing of theory and policy recommendation has contributed to an irrational tendency to associate them more closely than is warranted.

I take it to be obvious that the opposite conjunction of the Hayekian theoretical explanation and the Keynesian policy programme is in some considerable tension. It is difficult to imagine a coherent thinker believing that government stimulus is both

2 I have argued elsewhere that this third debate is epistemically intractable and, for this reason, not likely ever to be resolved (Scheall 2015a).

3 The two wildly (and weirdly) popular Keynes vs. Hayek "rap battle" videos ("Fear the Boom and Bust" [http://www.youtube.com/watch?v=d0nERTFo-Sk] and "The Fight of the Century" [http://www.youtube.com/watch?v=GTQnarzmTOc]) are perhaps most emblematic of this renewed interest.

4 A qualification is necessary here. On Hayek's ([1931, 1935] 2012) version of ABCT, it is possible for stimulus policies to provide a short-term fillip to a recessionary economy. However, according to the same theory, such policies inevitably sow the seeds of subsequent recessions. Thus, to justify belief in the

necessary cause and potential cure of recessions.[4] But the marriage of the Keynesian explanation of recessions and Hayekian scepticism of the capacity of governments to fix them is less obviously in tension. Justified belief in the effectiveness of Keynesian countercyclical policies requires more than justified belief in the theory; one must also believe in the capacities of policymakers to institute these policies effectively, which is to say, in such a way that the effects posited by Keynes's theory manifest in the real world. But while belief in Keynes's theory is one thing, belief in the relevant knowledge and abilities of policymakers is quite another, completely distinct from the question of the veracity of the theory. The theory may be true, yet policymakers too ignorant or incapable to use it effectively as an instrument of countercyclical policy. There are many reasons to think that, even if a shortfall in aggregate demand constitutes a recession, i.e. even if Keynes's theory is true, countercyclical demand policies are likely to be ineffective at best, and counterproductive at worst, due to the epistemic frailties of human – all-too-human – policymakers. To the extent that an economist recognizes policymakers' cognitive deficiencies and practical incapacities, there is plenty of scope for scepticism about Keynesian countercyclical policies, even if one otherwise accepts Keynes's macroeconomic theory *in toto*.[5] Indeed, not only is there no inconsistency in policy-sceptical Keynesianism, it may also be the most reasonable attitude for Keynesian economists to adopt, at least some of the time.

Hayek's later criticism of Keynesian demand management

Hayek's ([1975] 2014) Nobel Prize Lecture, "The Pretence of Knowledge," may well mark the apotheosis of his thought, synthesizing themes developed in seemingly disparate writings over the course of fifty years. Hayek took the opportunity of a prize recognizing his business cycle writings of the 1920s and 1930s to open a new front in his war against Keynesianism. Hayek's novel argument builds upon the criticism of the effectiveness of central planning that he had developed (expanding on the earlier work of his mentor, Ludwig von Mises) between 1936 and 1945, and the methodology of sciences of complex phenomena, with its attendant critique of the "scientistic" prejudice in economic methodology, that he had developed between the 1940s and 1960s.

The result of this combination of superficially disparate ideas, I have argued, is (a sketch of) a unique business cycle theory that places the causal onus for creating economic fluctuations on the ignorant actions of policymakers (see Scheall 2015b). The chief difficulty of economic policymaking is epistemic. Policymakers typically lack some of the

conjunction of Hayekian economic theory and Keynesian countercyclical policies, an economist would need reasons to believe that these long-run effects will either not manifest or somehow be mitigated through subsequent *ad hoc* policies instituted in a timely and sagacious manner. However, to believe that the long-run deleterious consequences of Keynesian stimulus policies implied by Hayek's theory will not manifest is to deny Hayek's theory, while believing that policymakers are capable of punctually and sagaciously instituting mitigating policies of their own *ad hoc* devising is, if not inconsistent with Hayek's business cycle theory as such, plainly inconsistent with the general policy-sceptical tenor of the Hayekian vision.

5 In the present context, scepticism is to be understood in the weaker ("Humean") sense of *agnosticism*, not in the stronger ("Pyrrhonian") sense of *atheism*. A Humean sceptic about some policy does not positively believe that the policy will succeed, but need not also negatively believe that the policy will fail, as a Pyrrhonian would. A Humean sceptic about some proposition withholds judgment altogether with respect to the proposition.

knowledge required to make countercyclical policies effective. However, policymakers convince themselves otherwise; they convince themselves of the adequacy of their knowledge, and, by intervening in the economy in ignorance of some of the required knowledge, promote rather than prevent economic disorder.

Economic order (in other words, equilibrium) satisfies three conditions (Hayek [1937] 2014). In equilibrium, the plans of individual economic agents are internally consistent (contain no contradictions), interpersonally consistent (do not contradict the plans of other agents), and accurate with regard to circumstances pertinent to the execution of the plan (assume no falsities that would prevent execution of the plan). If these three conditions obtain, then all individual agents can act on their plans for economic activity.

Given that relevant circumstances are in a constant state of flux, necessitating ceaseless changes to individuals' economic plans, a state of perfect economic order is a fiction. Nevertheless, certain observable facts make it apparent that a tendency toward equilibrium, a tendency for the economically-relevant beliefs of individual agents – and, thus, the plans based upon these beliefs – to become better coordinated is at work in market societies (Hayek [1937] 2014, 73). If such a tendency did not operate in market economies, it would not be unusual to see, say, two petrol stations within spitting distance of each other selling otherwise identical gallons of gasoline for wildly divergent prices. That this never happens, that whatever price differences do exist are easily explained in terms of differences in local circumstances, costs of living, transportation costs, etc., is a sign of the tendency toward equilibrium in market economies. It is an indication that the relevant beliefs and economic plans of the owners of proximate gas stations tend to become better coordinated.

Thus, the pertinent political-economic question, Hayek ([1945] 2014) argued, concerned the kind of planning regime – centralized or individualized – that best promoted, or least hindered, this tendency. Would the plans of economic agents tend to become better coordinated if those plans were dictated by central government administrators or decided by the individuals themselves? The answer to this question, according to Hayek, depended on the planning regime that most effectively used the knowledge available in society.

If *scientific* or *theoretical* knowledge, knowledge of *general rules*, were the only kind of knowledge relevant to economic planning, then, Hayek admitted, government planning would better promote the tendency toward equilibrium than individualized planning. If this were the case, promoting the tendency toward equilibrium would be as simple as empowering scientific experts to plan the economic activities of the whole society and its individual members. But knowledge of general rules is not the only – and may not be the most politically relevant – kind of knowledge. There is also *particular* knowledge, *knowledge of the circumstances of time and place*, that must be put to effective use, if the tendency toward economic order is not to be unduly hindered. This is the kind of knowledge that each of us possesses regarding our own unique circumstances and upon which the success of our individual plans often hinges. The knowledge of the office manager about the skills and reliability of her various supervisees, the knowledge of the bar owner about the qualities of her beer taps (and the variable abilities of different beer-tap repairmen), and the knowledge of individual auto workers regarding the specific assembly lines they work on every day, are examples of this kind of particular knowledge. As Hayek noted, the success or failure of a business venture typically depends upon such knowledge.

More to the present point, it is knowledge that cannot be easily conveyed, if it can be conveyed at all, to policymakers. With regard to knowledge of the particular circumstances of time and place upon which the success of their plans ultimately depends, centralized policymakers are at a loss.

However, there is a mechanism in market societies that facilitates the use by individual planners of particular knowledge of circumstances of time and place. The price system communicates to individual economic agents much of the knowledge required to spontaneously coordinate their plans with the plans of other agents (Hayek [1945] 2014).[6] "[T]he chief guidance which prices offer is […] *what to do*" (Hayek [1968] 2014, 311; italics in the original). Prices tell individuals what to do to adapt their plans to changes in relevant data, changes they would otherwise not know about or be unable to interpret. Prices provide, in summary form, knowledge of circumstances that individuals require to coordinate plans that would otherwise be uncoordinated.

However, price data are of limited use to centralized policymakers. They inform policymakers, as they inform every individual, how to adapt their *own* individual plans, but not how to adapt the plans of *other individuals*, to changes in relevant circumstances.

Given this vision of economic order, a likely cause of prolonged economic disorder, such as a recession, is policymaking that encumbers the tendency toward order. Unfortunately, Hayek ([1975] 2014) argued, predominant beliefs about social science promote just such counterproductive economic policymaking. The scientistic methodological attitude encourages policymakers in the erroneous belief that they possess the knowledge required to achieve various social objectives, e.g. to deliberately moderate economic recessions.

The scientistic prejudice assumes without argument or evidence that the complex phenomena of society are amenable to the methods of sciences of much simpler phenomena.[7] However, according to Hayek ([1955] 2014; [1964a] 2014; [1964b] 2014), methods that serve to explain simple phenomena, like those of Newtonian physics, that manifest from a small number of causal factors easily discoverable through controlled experimentation, are not adequate to explain complex phenomena, like those of society and economy, that emerge from the intricate feedback-laden interactions of an enormous number of causes typically not amenable to controlled experimentation.

Effective policymaking requires that policymakers possess (at a minimum, see below) both general and particular knowledge – a theory and data – adequate to realize the relevant goal. In "The Pretence of Knowledge," Hayek ([1975] 2014) argued that the combination of Keynes's theory and the statistical data available to policymakers was inadequate to the task of promoting economic order. The core of Keynes's theory is the posit that there is a "simple positive correlation between total employment and the size of the aggregate demand for goods and services." This encourages the belief among economic policymakers that "we can permanently assure full employment by maintaining total money expenditure at an appropriate level." This correlation may "only be

6 The effective functioning of the tendency toward economic order also requires that individual agents possess some knowledge of prevailing institutional arrangements and of other economic agents, as well as some scientific knowledge of natural phenomena relevant to their plans (Hayek [1961] 2014).

7 Scientism is "an attitude which is decidedly unscientific in the true sense of the word, since it involves a mechanical and uncritical application of habits of thought to fields different from those in which they have been formed. The scientistic as distinguished from the scientific view is not an unprejudiced but a very prejudiced approach which, before it has considered its subject, claims to know what is the most appropriate way of investigating it" (Hayek 1952 [2010], 80).

approximate, but as it is the *only* one on which we have quantitative data, it is accepted as the only causal connection that counts" (Hayek [1975] 2014, 363; italics in the original).

Thus, according to Hayek, economic policymakers do not possess the theoretical knowledge that promotion of economic order requires, but the scientific façade of Keynes's theory, married to the scientistic prejudice in favour of scientific façades, encourages the false belief that the theory is adequate to the task of effective countercyclical policymaking.

Similarly, the statistical data available to policymakers is a pale shadow of that particular knowledge of circumstances of time and place that they really need to effectively manage economic order, but statistical data have a scientific sheen that encourages policymakers in the pretence of their adequacy for policymaking purposes.[8] The relevant particular knowledge of circumstances of time and place is fragmented and dispersed among the minds of millions of individual market participants (Hayek [1937] 2014; [1945] 2014), and cannot be conveyed to policymakers. Aggregate statistics fail to express the information that effective countercyclical policymaking requires: "[i]nformation about aggregates or statistical collectives is of little use for deciding what particular people should do [i.e. how they should adapt their plans to relevant changes in the data] at particular moments which is what they would have to be told by the central authority. The statistician, in order to arrive at his aggregates, must largely abstract from those very details which will decide what particular individuals ought to do" (Hayek [1961] 2014, 424).

However, it is not just that the particular knowledge required to maintain economic order cannot be communicated to policymakers; as Hayek ([1968] 2014) argued in "Competition as a Discovery Procedure", some of this knowledge does not exist in the absence of market competition, competition that is to an extent overridden by interventionist policymaking. In other words, maintaining economic order via countercyclical policies would require policymakers to evaluate various counterfactuals about what would occur in a possible world without countercyclical policies. But policymakers cannot peer into merely possible worlds to observe their dimensions or dynamics.

Thus, because the particular knowledge that does exist cannot be conveyed to policymakers and because some of this particular knowledge simply does not exist to the extent countercyclical policies override the competitive process, policymakers cannot acquire the data that effective countercyclical policymaking would require. But aggregated statistical data are easily collected and, like Keynes's theory, appear paradigmatically scientific. The conjunction of the scientistic prejudice, Keynes's theory, and aggregate statistical data lead policymakers into the false belief that their knowledge is adequate to institute successful countercyclical measures. By acting on this pretence of knowledge, economic policymakers set forces in motion that interfere with the price system's epistemic function, its capacity to coordinate the knowledge dispersed among market participants, and thereby contribute to, rather than counter, economic disorder. Such is Hayek's "epistemic theory of industrial fluctuations" (Scheall 2015b).

8 Hayek had argued for the causal irrelevance of statistical aggregates, at least in his 1931 review of Keynes's *Treatise of Money*: "Mr. Keynes' aggregates conceal the most fundamental mechanisms of change" (Hayek [1931] 1995, 128). He reiterated the same point in 1966: "the artificial simplification necessary for macro-theory [...] tends to conceal nearly all that really matters" (Hayek [1966] 1978, 289, also 285-286). The famous "Lucas critique," according to which the future effects of a change in policy cannot be accurately predicted on the basis of backward-looking aggregated data (Lucas 1976), is related to Hayek's criticism.

For present purposes, it is merely necessary to note that the problem of the causal adequacy of Keynes's theory is independent of the question of the causal adequacy of aggregate statistical data. Acceptance of the adequacy of the Keynesian posit of a correlation between employment and aggregate demand does not compel acceptance of the adequacy for policy purposes of national income statistics. One can believe in the first without believing in the second (and, I suppose, *vice versa*). Indeed, even if one accepts the causal adequacy of aggregated data in general, one need not accept the adequacy of a particular set of statistics. That is, one might accept both Keynes's theory and the general value for policy purposes of aggregate statistics, but worry that some particular set of statistics has been miscalculated or otherwise fails to express pertinent economic facts at the time relevant to countercyclical policymaking.

There is room for policy scepticism among those economists who, *contra* Hayek, accept that Keynes's theory is more than a mere approximation of the complex causal structure of economic fluctuations. One can accept the theory, but reject the adequacy of the available statistical data, either in general or in some particular instance.

The argument from policymaker ignorance and countercyclical policymaking

Ludwig von Mises' ([1920] 1935) original argument in the German-language socialist calculation debate against the possibility of effective centrally-planned socialism shares a general form with Hayek's subsequent extensions of this argument in the English-language socialist calculation debate (see Hayek 1997) and its later application, described in the previous section, to Keynesian countercyclical policymaking. The general form of the *Mises-Hayek argument from policymaker ignorance* is as follows:

1. In order for policy *P* to realize its objective(s), *O*, any policymakers, *PMs*, who would institute *P* in order to realize *O*, must possess knowledge *K*.[9]
2. If *PMs* cannot acquire *K*, then *P* will not realize *O*, and *O* will be realized only if spontaneous forces intervene to compensate for the goal-undermining consequences of *PMs*' ignorance of *K*.
3. *PMs* cannot acquire *K*
4. Conclusion: Therefore, *O* will be realized only if spontaneous forces intervene to compensate for the goal-undermining consequences of *PMs*' ignorance of *K*.

In Mises's original socialist calculation argument, *P* was centralized economic planning, *O* was, at a minimum, economic equilibrium (though, as is well known, many socialists had loftier ambitions for central planning; the phrase "socialist paradise" comes to mind), the *PMs* were government economic planners operating in a context of full collectivization of the means of production, and *K* was knowledge of the prices of the means of production and other intermediate goods. Though it took a long time to emerge,

9 It should be emphasized that the argument assumes a broad conception of knowledge that encompasses both propositional and non-propositional knowledge, i.e. both *knowledge-that* and *knowledge-how* ("know-how"). Thus, knowledge includes knowledge of facts and theories, as well as capacities, talents, powers, and abilities. See Scheall 2020.

I think it is fair to say that there is now a consensus that this particular application of the argument is sound: the effectiveness of central planning in a context of full collectivization requires that central planners possess knowledge of the prices of factors of production, knowledge that they cannot acquire (because no such prices exist in a context of full collectivization). So, central planning cannot realize economic equilibrium (forget about a socialist paradise) in a fully collectivized context unless spontaneous forces emerge to compensate for the consequences of central planners' ignorance.

In Hayek's "Pretence of Knowledge" argument, *P* was Keynesian countercyclical policies, *O* was avoidance (or mitigation) of economic recessions, the *PMs* were economic policymakers, and *K* was 1) theoretical knowledge of Keynes's theory and 2) particular knowledge of relevant circumstances of time and place. Assuming, as any true-believing Keynesian would, the correctness of one's knowledge of Keynes's theory, I argued in the previous section that there was room for policy scepticism among those Keynesians who doubt the adequacy, either in general or in some particular case, of statistical data.

The general form of the argument from policymaker ignorance is obviously valid; its conclusion follows from its premises. Whether any particular instance of the argument is sound, whether its premises are true in some particular case, depends on the circumstances of the case. I have argued elsewhere that the first two premises are both generally true (Scheall 2020). Successful policymaking is always knowledge-dependent. In order for policymakers to deliberately realize some end via policy means, they need knowledge (including practical knowledge or "know-how") adequate to deliberate realization of the end.[10] They need to possess all of the knowledge and abilities necessary to, in effect, cause certain states of affairs to obtain in the world. They need to be societal puppet-masters. To the extent that ignorance or incapacity prevents them from successfully puppet-mastering society, the ends they aim to realize through policy means will be realized only if spontaneous considerations beyond their ken and control intervene to compensate for the consequences of their ignorance. This is essentially a tautology that follows from the complementary meanings of the concepts of *deliberate* and *spontaneous realization of a goal*. That is, if one's knowledge is adequate, one can deliberately realize a goal; if one's knowledge is deficient, spontaneous forces must intervene to compensate, if the goal is to be realized despite this ignorance. This is just how the relevant concepts are defined. Thus, the soundness of the argument in any particular instance ultimately hinges on the truth of the third premise in the case at hand.

Do economic policymakers possess all of the knowledge – including general and particular knowledge, and practical know-how – required to deliberately use countercyclical policy measures to actually achieve the goal of countering the business cycle, correcting recessions, etc? More to the point of the present paper, *what is one justified in believing about economic policymakers' knowledge and ignorance*? Is one justified in believing that

10 By adopting a conception of knowledge that includes know-how, my work merely explicates an assumption seemingly implicit in Mises's and Hayek's original arguments. Mises emphasized the need for knowledge of particular facts, i.e., knowledge of the prices of factors of production, given an otherwise adequate theory of central planning, but I doubt that he believed such knowledge would be sufficient for effective central planning. He likely recognized that central planning could still fail due to the practical incapacities of central planners, even if their theoretical and empirical knowledge were otherwise adequate. Similarly, Hayek, who emphasized the need for knowledge of the circumstances of time and place, given an otherwise adequate macroeconomic theory, likely also knew that deficiencies in policymaker know-how could hinder the effectiveness of countercyclical policies. I assert no claims of great profundity or originality.

economic policymakers can deliberately realize the goals of countercyclical policymaking? As Hayek noted, even if one believes that their knowledge of Keynes's theory is adequate, one need not also believe – and there may good reasons to *not* believe – that their data are adequate, that no assistance from spontaneous considerations is required, to realize the goals of countercyclical policymaking. What's more, even if one believes that both their theoretical and factual knowledge are adequate, it does not follow that one is also justified in believing that policymakers possess the practical know-how required to deliberately apply this otherwise adequate knowledge. General and particular knowledge relate to the *design* of countercyclical policies, not to their *implementation* or *administration*. The adequacy of both Keynes's theory and aggregated statistical data imply nothing about the adequacy of the government's apparatuses of policy implementation and administration. The first two may be adequate, but the latter two quite deficient, to deliberately counter a recession. In which case, said recession will not be effectively countered without the spontaneous intervention of considerations beyond the ken and control of economic policymakers. To avoid policy scepticism under such circumstances, the Keynesian economist would have to positively evaluate the prospects for such spontaneous intervention, i.e. the economist would have to believe that the given countercyclical policy measure will achieve the goal of the policy despite relevant policymakers' ignorance of knowledge required to deliberately realize the goal of the policy.

The imprecision of the Keynesian policy programme

To determine the appropriate epistemic attitude to hold with respect to the policies associated with the Keynesian theoretical framework, we need to determine which policies qualify as properly Keynesian. The Keynesian theoretical framework apparently implies that *some* kinds of government intervention in a recessionary economy *can* help close an output gap, but there are many – in fact, infinitely many – possible forms of intervention, not all of which are equally likely to successfully mitigate a recession. "[S]ecretly scuttling a treasure ship in the Marianas Trench in the hope that it will be discovered and the booty spent is probably a bad way to stimulate the economy" (Scheall 2015a, 7). Which forms of intervention are, according to the Keynesian theoretical framework, more and less likely to succeed? Which of the infinity of possible stimulus policies are Keynesian and which are not? Answering this question is easier said than done.

In his writings, Keynes's policy advice typically takes one of two forms, neither of which lends itself to epistemic confidence in the effectiveness of the policies recommended.[11] Keynes's prescriptions are either specific to a particular place and time (and, thus, may not be – and may not have been thought by Keynes to be – appropriate outside the context to which they were intended to apply), or rather too nebulous, i.e. they suggest that *some* kind of policy *might* help mitigate an output gap, without specifying details necessary to design, implement, and administer an effective policy.

11 On the relationship between Keynes's economic theory and political *obiter dicta* see Moggridge and Howson (1974), Clarke (1988), Clarke (2009), Hirai (2008), and the relevant volumes of Keynes's *Collected Writings*.

In the first case, optimism about the prospects for a context-specific policy suggestion might be appropriate to the extent that the Keynesian economist possesses empirical evidence that both 1) the policy succeeded in the specific context for which it was originally intended, and 2) the new context in which the policy is untried is sufficiently similar in ways relevant to the success of the policy to the original context in which it succeeded. In the absence of both of these pieces of evidence, lacking evidence that the policy succeeded in its original context or that the new context is sufficiently similar to the old one, scepticism about the likely effectiveness of the policy in the new context would seem to be the appropriate epistemic attitude. Without the relevant evidence, the Keynesian economist need not believe that the policy advice will *fail*, but she has no grounds beyond the theoretical framework itself, the adequacy of which is in dispute, for believing it will succeed, in the new, untried, context. In the absence of the relevant evidence, in other words, optimism about new applications of Keynes's more context-specific policy suggestions is only so much question begging.

In the second case, optimism with regard to one of Keynes's vaguer policy suggestions may be justified to the extent that its potential success is an implication of the Keynesian theoretical framework and the Keynesian economist has empirical evidence that the relevant policy can be adequately designed, implemented, and administered.

With regard to policy design, the would-be Keynesian policy optimist needs evidence that policymakers know both the extent of the recessionary ("output") gap that needs to be closed and have designed a stimulus policy adequate to close it (ideally, without being so extensive as to exceed the size of the gap and create inflation in the policy's wake). However, there is considerable disagreement within the Keynesian camp regarding the kind of policy best supported by the theoretical framework. There has never been consensus, much less unanimity, among Keynes's followers with regard to the advisability of fiscal rather than monetary modes of economic stimulus.[12] Thus, there is scope in the logical space for scepticism within the camp of fiscalist Keynesians about the policies advocated by (and designed according to the principles of) monetarist Keynesians, and *vice versa*.

Indeed, there is scope for scepticism about fiscal stimulus policies even within the fiscalist Keynesian camp. It is essential, if a fiscalist Keynesian's belief in the effectiveness of a particular fiscal stimulus policy is to be well-justified rather than an article of mere faith, that she have reason to believe that the fiscal multiplier – the rate at which "every dollar spent by the government ... create[s] several dollars of income" (Lerner, 1943/1983, pp. 302 and 303) – required to close a given output gap has been accurately estimated. In the absence of such evidence of the correctness of an estimated multiplier (or, more carefully, of the relevant community's marginal propensity to consume, from which the fiscal multiplier is derived), our fiscalist Keynesian will lack ample grounds for optimism.

12 Consider Leijonhufvud's (1968, pp. 404 and 405) argument that Keynes's context-specific scepticism about monetary policy has been misinterpreted by several of his followers as a general rejection of this mode of economic stimulus. See Bateman (2006) on the relationship between Keynes and his followers on theoretical and policy matters. Bateman (1996) argues against the view that Keynes, as opposed to his followers, recommended interventionist policy measures to "fine tune" the economy. Also see Chapter 14 of Hirai (2008) for a summary of various readings of the policies associated with the Keynesian theoretical framework. Meltzer (1981) also discusses various interpretations and further complicates the literature with his own idiosyncratic reading.

With regard to implementation, the would-be Keynesian optimist needs evidence that policymakers have chosen a method of injecting the necessary stimulus funds into the economy that is adequate to manifest the effects which the Keynesian framework attributes to stimulus policies. Optimism is unwarranted if, say, policymakers have chosen to inject the stimulus by covertly scuttling a treasure ship with the necessary funds in the Marianas Trench, or by some similarly absurd mode of implementation.

Finally, the would-be Keynesian optimist needs empirical evidence that the relevant stimulus programme will be administered well enough to manifest the effects which the Keynesian theoretical framework attributes to stimulus policies, that monies will not be misspent or otherwise wasted through bureaucratic incompetence, or graft. Without these latter pieces of evidence, the Keynesian economist again lacks grounds beyond the theoretical framework itself for believing that some recommended stimulus policy will successfully mitigate the relevant output gap.

There are many reasons internal to the logic of the Keynesian theoretical framework that an economist convinced of the explanatory adequacy of the framework might nevertheless be sceptical of the effectiveness of policies associated with it. An economist might accept the theory, but also believe Keynes's specific policy suggestions to be too sensitive to contextual considerations to be effectively applied in new situations in which they are previously untried. A Keynesian who believes fiscal policies to be best supported by the theoretical framework might doubt the effectiveness of monetary countercyclical policies, and *vice versa*. A fiscalist Keynesian might be sceptical about a particular programme of public works because she believes it to have been built upon a misestimation of the prevailing multiplier. And any Keynesian whatever might accept the theory, but doubt a particular countercyclical policy programme on the grounds of perceived deficiencies in its design, implementation, or administration.

The scope for policy-sceptical Keynesianism is quite broad.[13]

Concluding remarks: To what extent was Keynes a policy-sceptical Keynesian?

I have argued that there is considerable scope for scepticism about the policies historically associated with the Keynesian theoretical framework, even among those who accept it. In the first place, belief in the adequacy of the theory as an explanation of recessions, depressions, and inflationary episodes does not compel belief in the (general or particular)

13 Veronica Bateman (2018, 149; emphasis added) notes the problems that confront otherwise true-believing Keynesians in her excellent chapter on Keynes in the recent anthology *Great Economic Thinkers*:
"[W]hilst Austrian economists in many ways agree with Keynes that the future is unknowable, they argue that it is just as unknowable to the policymaker as it is to the private sector. Trusting in government to guide investment in the economy could therefore very easily take us in the wrong direction [...] The policymaker cannot tell what the future holds and so may end up ploughing taxpayers' money into a series of white elephant projects. Whilst economists working in the standard free-market tradition questioned the motives of policymakers and politicians, with public choice theory showing that they cannot be assumed to be benevolent, it is policymakers' inability to predict the future that presents just as much of an obstacle to the practical application of Keynesian thinking, according to the Austrian School. *Even if the state is trustworthy and uncorrupt, it cannot be expected to know what the future holds.* Whilst Keynes presented a believable attack on the market, he did not accompany it with a convincing enough case that governments can do much better."

adequacy for policy purposes of the aggregate statistics that must be plugged into the theoretical framework if it is to generate predictions useful for the purposes of policy design. In the second place, belief in the adequacy of both the theory and the available data, and belief in the knowledge required to design an adequate policy, does not require belief in the adequacy of the governmental apparatuses needed to transform an otherwise well-designed policy into a realized policy goal. Finally, I have argued that much of the scope for policy-sceptical Keynesian is a consequence of the fuzziness of and the resulting disagreement among Keynesians about the policies properly associated with the theoretical framework.

It remains to briefly consider a question only indirectly, if intriguingly, related to the topic of the present paper, i.e., the extent of Keynes's own scepticism about the policies with which his name is associated. A reader familiar with Keynes's canon might be struck by two seemingly inconsistent themes that appear in his writings. First, there is the fact (if the argument of the present essay is sound) that many of the policy recommendations Keynes offered at various times, as well as the programme of countercyclical policies historically associated with his name, require for their effectiveness either the performance of heroic feats of cognition, competence, and capability on the part of policymakers, or the intervention of spontaneous forces to compensate for the nature and extent of relevant policymaker ignorance. Second, there is the litany of withering remarks about particular policymakers that can be found scattered throughout his writings (see, esp. the "Conference" chapter of *The Economic Consequences of the Peace* [Keynes (1919) 1971] and the "Sketches of Politicians" chapters of *Essays in Biography* [Keynes (1933) 1972]). How could someone who held in utter contempt many of the policymakers he personally knew over the course of his life also believe these same policymakers, or others quite like them, capable of the gargantuan epistemic achievements required to make countercyclical policymaking effective?

Keynes's elitism has frequently been discussed in the literature. His friend and biographer, Roy Harrod (1951), coined the phrase "the presuppositions of Harvey Road" (Keynes's childhood home in Cambridge was located on Harvey Road) to describe the assumptions that seemed to inform his policy recommendations. "One of these presuppositions may perhaps be summarized in the idea that the government of Britain was and could continue to be in the hands of an intellectual aristocracy using the method of persuasion. […] Keynes tended till the end to think of the really important decisions being reached by a small group of intelligent people" (Harrod 1951, 192-193). According to Arthur Smithies (1951, 493), another friendly commentator, "Keynes hoped for a world where monetary and fiscal policy, carried out by wise men in authority, could ensure conditions of prosperity, equity, freedom, and possibly peace."

In fact, the nature and extent of policymaker ignorance does not depend on membership in an "intellectual aristocracy" or "a small group of intelligent people," or, for that matter, on anything that can be profitably described as "intellect" or "wisdom." One might be a highly-educated Cambridge don, initiated into the loftiest of fashionably intelligent circles,

full of wisdom and brimming with intellect, yet nevertheless fail to possess the causal knowledge that successful deliberate policymaking requires. The general, much less the particular, knowledge required to design effective policies is not typically taught at elite universities. The effectiveness of government apparatuses of policy implementation and administration does not depend on whether their levers and pulleys are worked by the

well-bred, rather than the vulgar. The strings required to puppet-master society are not distributed with diplomas from Cambridge, Oxford, Yale, and Harvard. Ignorance of social-causal knowledge is not confined to the low-heeled rabble.

Be this as it may, Keynes apparently believed, if only implicitly, that solving (or, at least, mitigating) the problems of policy design, implementation, and administration – was just a matter of putting the *right people* in charge of these processes. Deliberately realizing policy goals might be difficult where policymaking was directed by the unenlightened, but comparatively easy where the privileged few were in charge. Consider Keynes's (mostly positive) reaction to Hayek's *The Road to Serfdom* ([1944] 1994). More government intervention in the economy was unlikely to be dangerous, Keynes (1980, 387) argued, provided it was conducted by policymakers "rightly oriented in their own minds and hearts to the moral issue." Apparently, from Keynes's perspective, the problems of policymaking were primarily ethical, not epistemic.

Keynes's confidence in his own knowledge and abilities, particularly his powers of persuasion, has also been frequently noted. Keynes was a "great manipulator of public opinion," according to Hayek. "That was his great conceit. […] He was convinced he could play public opinion like an instrument" (Hayek 1994, 92). During what was apparently their final meeting before Keynes's death, Hayek reports, "I mentioned what Mrs. [Joan] Robinson and [Richard] Kahn were doing on monetary theory. He [Keynes] burst out, 'They are just fools. You know, my ideas were frightfully important in the 1930s. There was no question of combatting inflation. But you can trust me, Hayek, my ideas have become dated. I'm going to turn public opinion around like this [snapping his fingers]'. Six weeks later he was dead. I think he might have done it" (Hayek 1994, 92).

If Hayek's recollection is accurate, it reveals two facets of Keynes's personality relevant to the present argument. It shows his overweening self-confidence, but it also displays his recognition of the context-sensitivity of the advisability of the Keynesian policy programme, his willingness to apportion his degrees of belief to his evaluation of relevant circumstances.[14] The policy programme that was necessary in the 1930s was ill-advised in the mid-1940s. The optimism about this programme that, from Keynes's perspective, was justified during the Depression was, after the war, ungrounded.

Keynes was open, to some degree at least, depending on his perception of prevailing circumstances, to policy-sceptical Keynesianism. His belief in the veracity of his theory as an explanation of recessions probably never wavered, but he recognized that belief in the associated policy programme was justified only if certain conditions obtained. Among these requirements, it is probably not too impudent to suggest, was that economic policymakers believe, reason, and decide like John Maynard Keynes – and other well-bred intellectual elitists like him – believed, reasoned, and decided.

14 Keynes is often credited (perhaps apocryphally) with saying, perhaps in response to one of Winston Churchill's jibes, "When the facts change, I change my mind – what do you do, sir?" Even if apocryphal, it sounds very much like something Keynes could have said to Churchill.

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