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BOOK REVIEW

Backhouse, R.E., Bateman, B.W.: Capitalist revolutionary. John Maynard Keynes

197pp. Harvard University Press, Cambridge, Mass., London 2011. Hardcover, £19.95

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This excellent book is exactly what a reader has been waiting for who demands comprehensive explanations about how the economy works and why economic crises are inherent to capitalistic economies. In both his early and late writings Keynes explained that economic crises are not rooted in crises of imperfect mechanical adjustments but rather in a significant loss of people's confidence in economic interactions, hence, in monetary relations. Keynes analyses the important role of money, interest rate and expectations in a money-based and finance-led market economy; the negative effects of inflation and deflation, which are basically driven by expectations and how a decrease of confidence and fragility of trust will undermine the monetary relations of creditors and debtors. The agent's expectations are embedded in changing contexts and circumstances. Expectations are not linear transformations from point in time (x) to point in time (z). Expectations are not mental states but rather articulation and thus actions. Keynes discusses the interdependency of short and long term effects and its influence on expectations. The central idea of his oeuvre can be best summarized by the postulation that any economic activity is based on the confidence that actions will lead to the expected positive results. This is why Keynes discusses economic activity as linked to fundamental philosophical considerations. People will start to act if they expect the action to lead to beneficial outcome.

What does this new book add? The goal of the book is to replace the "worst stereotypes" (ibid, 19) of Keynes' theory by a comprehensive understanding of what Keynes was writing (ibid, 115). Starting with the underlying assumption that there is no doubt about the relevance of Keynes today, the authors succeed completely in clearing up the major crucial misunderstandings and misinterpretations of Keynes' theory. They also offer a unique reading of famous passages by Keynes' work. This method of

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introduction strengthens the reader's perception that Keynes has not lost his power of explanation. So why do Backhouse and Bateman call their book "Capitalist Revolutionary"? Keynes objects to the supposed self-regulated market mechanism which is often used synonymously with capitalism. He elucidates why a conceivable decrease of confidence is always accompanied by a significant loss of the acceptability of capitalist market system itself. The common meaning of capitalism can be summed up by the term "market economy". This term encompasses different markets, in which agents are used to make a rational choice regarding selling or buying as free traders. But traders, too, as Keynes stresses, act within changing circumstances in order "to beat the gun" (C.W., Vol. 7, chapter 12). It is valuable to mention at this point that the term "rational" in Keynes' theory is linked to well-grounded individual judgment and decision-making under uncertainty and therefore also linked to real-space possible actions and interactions in changing contexts. Therefore, the question "Keynes Return, but which Keynes?" is meant to focus on the economy, but not as a model pre-defined by formal concepts and definitions. It is the return of a specific analysis to the economy as a field of socially-embedded economic activities of heterogeneous agents in specific markets in which money is not neutral. Backhouse and Bateman consequently refer in the second chapter, "The rise and fall of Keynesian Economics", to central explanations and controversies especially since the World War Two to account for the fact that Keynes's theory has been maliciously reduced to simplified notions, like "the multiplier" or "deficit spending". The fact is that his work has simply been ignored by much of the scientific community, for instance, the important parameters of the international monetary relations and central banking. Backhouse and Bateman outline in the second chapter the negative consequences of this misunderstanding and ignorance which were the result of a purposeful disregard of Keynes' work and *not* a consequence of Keynes' faulty analyses and explanation.

Although Keynes did not work explicitly on a definition on capitalism, as Backhouse and Bateman outline in chapter 3, "Keynes as a Moral Philosopher", he did characterize the capitalist system as a non-stable, a non-mechanical, a non-self-regulated system which is basically driven by motives, experience, expectations, and decision-making under uncertainty. The focus of his writings is the accentuation of the interdependence between the self-reflecting and self-responsibility of the individual, individual judgment, and the context of an individual acting, the i.e. conventional judgment. There is no chance to escape the interdependence of debtors and creditors because the finance-led economy is entirely different from a barter economy. Keynes objects therefore to the constitutive presumption of the classical and neoclassical theory in which money is neutral due to its role as a "veil of barter".

In Keynes' theory a person always act in contexts which are changeable through times. From this philosophical perspective, however, every action implies that the person has to act in a way which would still be rational and intelligible to the future self whatever it is like. His view on a person's action is in accord with fundamental philosophical consideration as discussed, for example, in Kant's practical philosophy and theory of action (see Muchlinski 1996).[1] "Most, probably, of our decisions to do

[1] Richard McCarty (2009) *Kant's Theory of Action*. Oxford: Oxford University Press.

something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits—of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities" (Keynes 1936, C.W., 7, 161).

In chapter 4, "Keynes as Physician: Developing a theory of a capitalist economy", Backhouse and Bateman describe how Keynes's work on capitalism is rooted in his experiences as an editor and journalist, business man, and government advisor during decades of economic crisis. Therefore he does not elaborate answers to the view that the market inherently tends to achieve equilibrium at any times and "in the long run". "Economics is being a moral science (…) it deals with introspection and judgments of value. I might have added that it deals with motives, expectations, psychological uncertainties. One has to be constantly on guard against treating the material as constant and homogeneous" (Keynes (1938 C.W., 14, 300). Although Keynes was a mathematician he does not reduce judgment to mathematical language (ibid, 132). As he emphasizes, economists often confuse theoretical analyses with formal deduction. The reference to an economic model is the reference to a defined formal language (Muchlinski 2011). Keynes distances himself from the attempt to build up economic theory as formal models. A model a logical step, however a first step of any analysis, which also generates logical or deductive solutions. Backhouse and Bateman insist correctly in chapter 5 that Keynes was opposed to the economic profession to solve economic problems by mathematical modelling only (ibid, 136). It is worth mentioning that the authors mercilessly uncover great misunderstandings of Keynes' theory. The book breaks with much that has been said on the topic, for instance, fiscal policy. A common statement these days is that the debt crises are *caused* by so called "Keynesian" deficit spending. The opposite is true. Keynes never argued in favour of a disastrous fiscal policy (ibid, 137). The "relevance of Keynes today" therefore is, as Backhouse and Bateman in chapter 6 cogently expound, indubitably the power of explanations found in Keynes' oeuvre. Most opponents of the so called "Keynesianism" are not well-grounded in Keynes' work. This book is great.[2]

References

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[2] I would like to thank Susan Hechler for her help with the English version of this review.