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Mark G Hayes, *John Maynard Keynes: The Art of Choosing the Right Model*, Polity Press: Cambridge, 2019; xiii + 224 pp., ISBN 9781509528240, AUD$115.95 (hdbk), ISBN 9781509528257, AUD$35.95 (pbk), ISBN 9781509528288, AUD$28.99 (ebook).

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Mark Gerard Hayes, one of the last Marshallian Keynesians, published *John Maynard Keynes: The Art of Choosing the Right Model*, with Polity Press shortly before he died. This is the second book by Hayes that gives a general overview of his reading on Keynes' writings and specifically of *The General Theory*. It comes 13 years after *The Economics of Keynes: A New Guide to The General Theory* (2006a). John King (2007) notes in his review of *The Economics of Keynes* that

> Hayes acknowledges the assistance of Victoria Chick, and his style of writing is rather similar to hers: clear and elegant but also extremely dense, making it almost impossible to summarise the argument without doing serious injustice to it. (p. 121)

This statement remains true for Hayes' recent book, which although addressed to the non-specialist, either the undergraduate student or someone wishing to be first introduced to Keynes' thought, goes into refined technical language from its first chapter. In this effort, Hayes helps the reader by having a glossary of terms before going into his first chapter on 'Why Study Keynes?'. This is followed by a chapter on 'the Classical Theory of Employment, Interest and Money' (chapter 2), then a chapter on 'The General Theory' (chapter 3), followed by two chapters that further elucidate the difference between the classical and the Keynesian position (or world views) which are titled 'The Great Confusion' (chapter 4) and 'The Long Struggle to Escape' (chapter 5). The sixth chapter focuses on international economics, and acts as a bridge between the more abstract, theory heavy preceding chapters, and the last two (chapters 7 and 8) that focus more on a historical narrative and give, also, policy suggestions for current issues. Thus, chapter 7 presents a periodisation of history that compares the Keynesian era with previous and later eras (the gold standard era, the interwar period, the neoliberal era and the austerity era) in key indexes (employment, investment, income, etc.) and the last chapter (8) shows the relevance of Keynes' thought today, and addresses issues like the scope of

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using fiscal and monetary policy, exchange rate and trade policy as well as institutional design of supra-national political and economic entities such as the euro. Hayes gives the reader an idea what a Keynesian mind-frame, as captured and elucidated in this book, can contribute to all these topics, and why such a voice should not disappear from the academic and policy world of today.

This brings us to the core aspect of this book, which is what is this mind-frame, this viewpoint of the world that Hayes constructs out of Keynes' many and diverse writings and then uses to discuss the modern economy. To the reader of the book, it becomes immediately apparent that Hayes is no slavish adherer to any of the various established schools of the post-Keynesian movement and instead forms his own interpretative line. He is eclectic in his sympathies and speaks approvingly of a number of post-Keynesian writers (which include Paul Davidson and Victoria Chick) that share with him key insights. John King (2007) aptly termed Hayes' approach 'a profoundly Marshallian interpretation of Keynes' (p. 121) in relation to his 2006 book, and this carries also to this volume.

A defining feature of Hayes' interpretative line is that he takes very seriously Keynes' (1936) claim in Chapter 1 of *The General Theory* where he writes 'I have called this book the *General Theory of Employment, Interest and Money* placing the emphasis on the prefix general' (p. 3). And Keynes (1936) continues in the famous opening chapter of the GT:

> I shall argue that the postulates of the classical theory are applicable to a special case only and not to the general case, the situation which it assumes being a limiting point of the possible positions of equilibrium. (p. 3)

Any Keynesian knows that a lot hangs on how one interprets these lines. It is not an exaggeration to argue that New Keynesians would find these lines more of a rhetorical trick, an effort to make readers pay closer attention to what they read as Keynes' key message, which are short-term fluctuations from the long-run equilibrium due to frictions in the nominal values of prices and wages. This interpretation, supported by Keynes' occasional tongue-in-cheek style of arguing, inverts his claim making Keynes' message a special case of the classical system, by asserting that departures from any full employment equilibrium are of a transitory nature and can be incorporated within the logic of equilibrium economics. Hayes has no sympathy with this line of interpretation and, in this he follows much of the post-Keynesian tradition when reading *The General Theory*.

However, Hayes does not stop there. His elucidation of the 'classical theory of employment, interest and money' merges classical and neoclassical elements to construct one unified abstract vision of the economic and social order. He starts, almost provocatively, constructing 'a corn model' in chapter 2, and explains at length, why he thinks classical theory falls short on two accounts if one takes seriously Keynes' message which he summarises as the following: (1) a challenge to the very notion of equilibrium (as defined in classical theory) and (2) that demand matters in the long run as well as in the short. In these two central tenets, he finds that Keynes stands in antithesis to both classical and neoclassical theorising, and – like Keynes in *The General Theory* – finds that it is this new theoretical vision in which classical and neoclassical theories fit as particular cases when dealing with special issues under conditions of full employment.

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This is all very good. But it does not answer the question what does this actually mean? If I understand Hayes right, it means two things. First, a return to the Marshallian toolbox and specifically to the ideas of aggregate supply and aggregate demand which become heavy duty abstract and policy devices for understanding the short-run relation of key aggregate indexes. In chapter 3, Hayes builds a really good model of how different expectations play out by noting that diverse market participants would habitually hold different kinds of expectations depending on the purpose for which they form these expectations. He notes that

> Short-term expectations are the expectations of employers engaged in the production of goods, who specialise in managing the risks of production and generally produce to order. Medium-term expectations are the expectations of dealers or distributors, who specialise in managing the risks of marketing finished goods and customer services. Long-term expectations are the expectations of investors (including employers and dealers) who have to decide what income they can expect in a capital good such as a machine or a building, which yields productive services over a long interval of time. (Hayes, 2019: 42)

To say that a dealer holds an expectation for medium term without having any thought for the short term or the long term is a simplification, but for this book, geared towards the student, such clear exposition is welcome. Hayes does well to argue that this complex framework of divergent, partial expectations formed for specific purposes by market participants is in contradistinction to the classical conception where in expectation this polyphony is anchored to one outcome (the equilibrium position) to which all these expectations are different anticipators and/or articulations of. The breaking of the mirror into fragments means this does not have to be the case in theory and, certainly, is not in reality. Some employers, some dealers, some investors may find that they are in agreement, see their expectations be confirmed both by words and actions in the market place and, yet, this may not mean anything much about the system at large reaching a point of general equilibrium, or having the stability and other characteristics that economists have associated with this concept. Indeed employers may themselves find that while they could hazard (with profit) a good guess on the specifics of employment and production for the immediate run, they are at a complete loss on what to do as investors and in what form, where and, for how long to invest their capital.

Why this is the case brings me to the second key aspect of Hayes' book, which is that a money economy is a very different beast to a simple barter economy, constructed around the concept of a one sector production model. Hayes (2019) notes that Keynes was 'principally a monetary economist' (p. 143). He sees the modern capitalist economy as the outcome of a complex financial system whose contours cannot be reduced to a barter economy example. The idea that we can build an understanding of the modern system by adding complication upon complication to a simple barter model is one that defines the classical conception of the economy but stands in opposition to Hayes' conception of Keynesian economics. Money changes things because it gives rise to individual behaviour and social phenomena that are simply impossible to consider in its absence. To give an example, Hayes compares how the Classical system and the Keynesian view analyse the problem of the future.

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The key (neo)classical concept that links the present with the future is intertemporal consumption choice maximisation. The basic idea is that the individual decides, through the principle of consumption maximisation, the optimal way to distribute their consumption of goods between now and the future. The individual allocates their disposable income over the various time periods taking into account probability expectations of what will happen. The individual can make this calculation and allocate (as best they can) their resources between now and the future in a similar way either in a money or in a non-money economy. Money is seen predominantly as a medium of exchange that translates to tangible goods that are so much wished by this consumer in a future state of the world. It may be argued that money creates some efficiency gains which would be lacking in economies that have not discovered the convenience of a medium of exchange (and would engage in costly transactions when there is not a double coincidence of wants) or as a store of value (saving in land for example may create some liquidity costs when one has to sell it in order to exchange it for a variety of things that may be perishable but only available in the future). But these are complications of the barter economy model which do not depart from its baseline logic. They are refinements of a given conception of the economy and how it operates.

The alternative is an understanding that the future is unknown in degrees that range from mildly unknown (where some sophisticated guess of the outcome and its probability can be made) to simply unimaginable from today's vantage point. The solution to the problem of dealing with these different kinds of risk and uncertainty is the existence of money. In general, liquid assets held by individuals are not the solution of the consumption problem yielding specific, almost pre-ordered goods at some determinate future date, but instead the way individuals hedge against this unknown future. This type of activity cannot be reduced to anything that approximates it in a barter conception of the economy.

This is because it recasts the problem of the relation between the present and the future into entirely new lines. The act of saving is an act to increase a general fund that makes at present no specific claim to any single future product. This makes sense not only because demand in the future may change, but because the kind of products that may exist are unknown at present – unless the future in question is immediate.[1] In fact, the very amount of this fund in aggregate is determined in the Keynesian system after other variables as investment, income, consumption and employment through the multiplier are determined. For the individual, the future purchasing power of saving would be dependent on some unknowns about the future – both in the case of saving in cash and in more complex financial products. The fortune of these assets depends on the state of the economy now and in the future, and this relates immediately to aggregate economic indexes and the decisions of big institutional players (the central bank, the government, international organisations and even big private firms). In this understanding of the economic system, the simplification a Keynesian economist does is not to start from a very rarified and analytically precise abstract model and add complications that appear relevant in order to be able to do precise predictions, but instead, to posit that the system is extremely complex and see what major factors need to be considered and what the interplay of these factors would be, knowing full well that this is a very rough approximation of what is happening.

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This allows us to envision behaviour that would simply be incoherent within the mind-frame of the classical system. People save without having arrived to any clear decision about their future needs and wants, wisely allowing these decisions to be taken in the future when they will have enough information to make them. They can save even in these impossible conditions because money and other liquid assets allow them to make general provision for the future, and because they hold some expectation about the general shape this future will take. As Hayes reminds us 'For Keynes, causation starts with expectation' and indeed in this situation even wrong expectations, or expectations that individuals know full well will never be fulfilled but are the best they can do at present, are good enough to act as basis for action.

This fundamental understanding completely reshapes the economist's view of the nature of economic society. It is not any more the interplay of individuals whose aggregate behaviour is simply the addition of their actions, but instead a complex organism that shapes and is shaped by these socially embedded individuals. Institutions and other social processes become constitutive elements of society which form and transform social existence and its economic conditions.

This leads me to my only disagreement with Hayes' deep and thought-provoking book. In the section on Keynes' relevance for today, he writes that a government's chief objective should be employment policy by noting that 'employment policy should come first, since for Keynes full employment represents the purpose of other policies' and adds a few pages later the following interesting observation 'for Keynes, unemployment is a problem for society as a whole and not simply the responsibility of the individual worker' (Hayes, 2019: 153). However, do we have the institutions today to deliver this mandate? In this Hayes here gives a mixed response. He writes that

> It is difficult to avoid the conclusion that the present Anglo-American macroeconomic policy framework – the golden rule (whether followed by accident or design); cheap money; inflation targeting; the fiscal response to the 2008 crash – is broadly Keynesian, if this term is meant to describe Keynes's own thought. There are significant differences between Keynes himself and the Keynesians of all vintages. (Hayes, 2019: 156)

This is a startling conclusion for many reasons, but it is worth reflecting on one main one. Is it possible for a framework or more broadly for an institution to have come into existence by academics and practitioners trained in the classical mind-frame and now serve an entirely different set of real objectives? One cannot discount the possibility that when theory is operationalised, policy questions take a life of their own. And yet, it is difficult to imagine how we are so close to Keynes' vision in terms of institutional behaviour and policy instruments when we are so far in relation to theory. I think some of this apparent relation is epiphenomenal. Keynesian inspired institutions would have evolved different ways of dealing not only with macroeconomic management under normal conditions – for example, done more in-depth study on the nature of unemployment and underemployment in modern economies than simply be concerned with its relation to an aggregate inflation index – but also during abnormal times and especially in periods of crisis. The 2008 crisis betrayed an inability in management by governments exactly because existing institutions did not have a refined idea how to behave in these situations, what actions would effectively resolve it, or deal swiftly with the fallout. The long-term outcome (more than a decade later now) meant significant changes in the constitution

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of employment and its compensation in most western economies, and therefore, a significant change to the political economy of these countries. I do not think this crisis management would have had Keynes' approval. But as Hayes observes, such is the distance of time from Keynes', that to say what he would or would not agree with amounts to nothing more than rhetorics.

This disagreement, however, does not lessen the pure joy that reading this book has been. It is a refined and thought-provoking initiation to Keynes, his structure of thinking and argument. Hayes has produced a first-rate book for use in class in undergraduate study, or even for graduate students who have not been initiated to the post-Keynesian literature. Even among his post-Keynesian readers, Hayes' voice is distinctive and thought-provoking and adds new insights. By distancing himself from other Cambridge post-Keynesians,[2] he offers another convincing interpretative line of Keynes' thought, which does not forsake its Marshallian roots. His elegant and precise prose makes his arguments the more compelling.

Finally, it is very sad to record that Mark Hayes passed away on 15 December 2019. This book adds to a substantial corpus of work that is worth reading and revisiting (see Allain et al., 2013; Hayes, 2006a, 2006b, 2006c, 2006d, 2007a, 2007b, 2008a, 2008b, 2010a, 2010b, 2012a, 2012b, 2012c, 2013a, 2013b, 2017, 2018a, 2018b for some of his contributions). Mark's contributions to the academic community extended beyond his writings as he was the Secretary of the Post Keynesians Economic Society from 2006 to 2016, a vital role that Mark performed with commitment, devoting substantial amounts of time in its activities. He was an active member of the post-Keynesian community in Cambridge, where he was Fellow and Director of Studies in Economics at Robinson College and an Affiliated Lecturer in the Faculty of Economics, before moving to Durham University where he was the inaugural holder of the St. Hilda Chair in Catholic Social Thought and Practice. He devoted a substantial part of his life to research and teaching and had a successful career in finance. This book is the outcome of years or reflection and refinement of thought as a teacher, researcher and market practitioner. It is a fine legacy to the post-Keynesian movement.

Notes

1. We can thus return to the problem of why *The General Theory* encompasses the classical view-point, by adding that the kind of intertemporal calculus that neoclassical theory advocates is relevant only for specific decisions concerning the future. For example, if you know when and where you need a specific good, under maybe some specific eventuality (i.e. want to buy an umbrella, in a week, if it rains), then you can set money aside (or buy a future contract, depending on what kind of markets exist) for this purpose. But this kind of decision is not a good descriptor of behaviour in general. Hayes in chapter 4 ('The Great Confusion') quotes Keynes' (1936) line:

   > An act of individual saving means – so to speak – a decision not to have dinner today. But it does not necessitate a decision to have dinner or to buy a pair of boots a week hence or a year hence or to consume any specific thing at any specified date. (p. 210)

2. Hayes notes that most post-Keynesians turned away from Keynes' Marshallian framework of competitive supply and demand. He writes that the work of Michal Kalecki (1899–1970)

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and Piero Sraffa (1898–1983) was instrumental in this change, moving post-Keynesian theory towards more classical concerns and formulations. Chapter 7 (The Keynesian Era) does not only give a history of the different periods but also discusses the intellectual history of Keynesian economics and, gives an indication where Hayes' work can be situated vis-à-vis the Keynesian literature.

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