Have the Early Coordination Failures Models Achieved Keynes's Programme?
by Michel De Vroey

Olivier Favereau

Dans Revue d'économie politique 2005/4 (Vol. 115), pages 437 à 440
Éditions Dalloz

ISSN 0373-2630
DOI 10.3917/redp.154.0437
Have the Early Coordination Failures Models Achieved Keynes’s Programme?
by Michel De Vroey

Comments
Olivier Favereau*

We should all be grateful to Michel De Vroey for concluding this conference with such a stimulating paper. It has the great merit not only of protecting us against the risk of getting bogged down in narrow technical questions but also of enabling us to explore some of our discipline’s most profound questions – philosophical, methodological, moral and political.

* Professeur à l’Université Paris X-Nanterre.

[thanks to John Simpson (OCDE) for revising my English]

The basic thrust of his argument is summarized in Table 1. A clear separation may be drawn between its first item (“involuntary unemployment in the individual disequilibrium sense”) and the others (“system failure”, “price and wage flexibility”, “demand activation as the proper remedial policy”). Let us label the first item “World I” and the combination of the other three items “World II”. The discontinuity between “World I” and “World II” is evident: “World I” is a microeconomic feature, whereas “World II” is a (set of) macroeconomic feature(s). “World II” means, moreover, that overall underemployment is a fundamentally macroeconomic phenomenon, calling for a macroeconomic (i.e. systemic) explanation. Notwithstanding, the existence of “World I” means that this macroeconomic phenomenon has a counterpart at the level of individual behavior (which would appear to include individuals’ feelings). So “World I” is some kind of micro-disequilibrium, and “World II” some kind of macro-equilibrium. The (apparent) conclusion of Michel De Vroey should therefore come as no surprise: “Keynes’ programme is non-feasible; at least one of its elements is too much”. Integrating both “World I” and “World II” is beyond the scope of Standard Economic Theory (even when extended to Coordination Failure Models). Fortunately, this is not necessary for Keynes’ economic policy programme, and Michel De Vroey is perfectly entitled to close his paper with this advice to XXIst century Keynesians: “Get rid of “World I”!”1

* * *

1. The absence of the notion of involuntary unemployment in theoretical models does not of course mean that it does not exist in the real world.

REP 115 (4) juillet-août 2005
In this comment, I will argue that an alternative conclusion may be deduced from his argument, and fortunately so, at least if we want, as economists, to escape the so-called street-lamp syndrome (i.e., searching for one’s lost keys near the street lamp, not because there is any strong reason to expect them to be there, but because it’s the only place that is not completely dark...).

The point of departure, leading to the alternative conclusion, is the following observation: the discontinuity between “World I” and “World II” is linked to the divide between two views of a (the?) Keynesian research programme:

- The first view is “pragmatic”, and could be summarized by the maxim: keep as close as possible to the standard manner of practising economic theory (including Coordination Failure Models). This view therefore excludes “World I”. There should be no disequilibrium in Michel De Vroey’s sense. If we adhere to this “pragmatic” view, then we must hold with Michel De Vroey’s apparent conclusion.

- The second view is “radical”, and can be summarized by the maxim: deal as straightforwardly as possible with the actual facts of economic life, of which involuntary unemployment is undoubtedly one. This view includes disequilibrium belonging to “World I” and since, according to Michel De Vroey’s review of existing Coordination Failure Models, “World I” conflicts with “World II”, it thus calls for new types of Coordination Failure Models. This “radical” view paves the way to the alternative conclusion that I would suggest is also latent in Michel De Vroey’s argument.

The alternative conclusion would appear to take the opposite course to Michel De Vroey’s apparent conclusion: “Enrich your Coordination Failure Models of “World II” in order to make them compatible with “World I”!” This is not to suggest that there is any lack of coherence in Michel De Vroey’s argument: at issue here are only the recommendations drawn from it. What I want to suggest is that Michel De Vroey may be too pessimistic about the future of Keynes’ program. Pessimism is usually linked to prudence. Perhaps not here: the expert reader will have noticed that “World I” corresponds to chapter 2 of the “General Theory” (“The postulates of the classical economics”) and that “World II” corresponds to chapter 3 (“The principle of effective demand”). If we credit Keynes with at least minimal analytical coherence it is then extremely implausible to suppose that there does not exist an essential link between those chapters (two adjoining chapters in the same book!)?

This being the case we are led to examine how the possible pillars of a theoretical bridge between “World I” and “World II” might be strengthened (rather than cut). Moreover, in that enterprise, should we not use some of the views implicitly expressed by Keynes, scattered among his book and, for whatever reason, unexploited (the most obvious reason being their incompatibility with respect to mainstream economics)? Let us offer four hints for progressing along these lines towards our alternative conclusion suggested by the “radical” view of the Keynesian program. These four hints are derived from the views implicitly expressed by Keynes on justice, feelings, democ-
racy and institutions; they will give rise to as many questions for Michel De Vroey.

*(i) Justice*: unemployed people are, and employed people are not, in “dis-equilibrium”. Unemployed people are not, moreover, responsible for the lack of jobs. So, for Keynes (i.e., when joining “World I” and “World II”), unemployment is above all a problem of justice. This raises a first question for Michel De Vroey: Why not broaden our conception of (macro) equilibrium in parallel to our conception of homo oeconomicus in order that room might be made for (moral) values along with prices?

*(ii) Feelings*: unemployment, as a disequilibrium, is obviously a painful experience; this is the first step towards building a meaningful theoretical conception of “involuntary unemployment”. For Lucas (1978), this kind of thing is irrelevant to economic analysis. He may be right, at least within a methodology of “explanation”\(^2\) – but he is certainly wrong within a methodology of “understanding”, as it is defined, for instance, by this famous extract from Levi-Strauss’ preface to the collected works of Marcel Mauss: “We cannot be certain of having grasped the meaning and the function of an institution unless we are able to reproduce its incidence on individual consciousness.” For Keynes, unemployment is a “Fait Social Total”, in the sense of Marcel Mauss. Here, then, is our second question for Michel De Vroey: Why not, when theorizing about unemployment, broaden our methodology in order to make room for homo oeconomicus’ mental representations?

*(iii) Democracy*: capitalist economies are heteronomous societies: no economic agent, either individual or collective, is self-sufficient. If we give any credit to points (i) and (ii) above, then we must conclude that one of the primary responsibilities of a democratic state, in a capitalist system and in peace-time, lies in striving to get as close as possible to full employment. This gives rise to a further question: Why not broaden our professional deontology as economists, when advising public administrations, in order to make (more) room for the “ardente obligation” of full employment\(^3\)?

*(iv) Institutions*: Michel De Vroey rightly pinpoints that the Keynesian insight, according to which “the government has an active role to play”, “received no precise content in the “General Theory””: demand activation is lazily supposed to proceed from public finance, or wage increases. Now taxes, and even wages, come from rules, either public or private, and rules infrequently apply in isolation. Their major influence comes through their being grouped within coherent sets or bunches, more usually called “institutions”. So the question of demand activation should be generalized. Why not broaden our analysis of the sources of effective demand in order to examine which institutional change will be the most efficient in generating supplementary effective demand –and promote the macro-side of institu-

---

2. Indeed it does not seem to be the case, according to Solow (1980).
3. To borrow President De Gaulles’ words (about ...planning!)
tional economics (of which we already have the micro-side, with incentive models)? This will be our fourth question for Michel De Vroey.

I am well aware of the unfairness of my questions, none of which can be answered while staying on the side of the history of economic thought. Indulging in such unfairness may nevertheless be the best way of testifying to the stimulating power of Michel De Vroey’s argument, one which commutes memory of the past into impatience for the future.

References


