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# J. M. Keynes on History and Convention

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## J.M. KEYNES ON HISTORY AND CONVENTION

*John B. Davis*

In 1938, two years after the publication of *The General Theory*, Keynes read a paper to the Memoir Club gathered at Tilton entitled 'My Early Beliefs', in which he criticized many of his early philosophical attachments. He confessed that when it came down to disagreements between his friends over knowing which states of mind might be thought intrinsically good, it was not 'a matter of direct inspection, of direct unanalysable intuition about which it was useless and impossible to argue', but '[i]n practice' a matter of 'who could speak with the greatest appearance of clear, undoubting conviction and could best use the accents of infallibility' – G.E. Moore being the acknowledged master of the art (*C.W.* X: 437–8).<sup>1</sup> Keynes's 1938 critique, however, was not only aimed at the early concept of intuition he had inherited from Moore's *Principia Ethica*. In his early attachment to intuition as certain, unfailling direct insight into the nature of what was real, Keynes had also gone on to deny that general rules and conventions played any significant role in judgement: 'we repudiated entirely customary morals, conventions and traditional wisdom' (*C.W.* X: 446). This was hardly in keeping with the answer he had recently given in *The General Theory*, in his famous twelfth chapter on long-term expectation, to the question, 'How then are these highly significant daily, even hourly, revaluations of existing investments carried out in practice?': 'In practice we have tacitly agreed, as a rule, to fall back on what is, in truth, a convention' (*C.W.* VII: 152, 152). Here I shall not attempt to account for how Keynes came to abandon his early philosophical thinking about intuition and judgement, a task I have pursued at length elsewhere (Davis 1994a). Rather, I shall set out Keynes's new philosophical thinking about convention as it appears in *The General Theory*, and then attempt to chart the likely post-*General Theory* path of development of the concept of convention in Keynes's thinking. This is arguably a task of considerable importance in the interpretation of Keynes's later economics, since the genuinely revolutionary positions found in *The General Theory* appear to depend in important respects upon the new views Keynes developed there regarding history and conventions.

The concept of convention is the primary philosophical concept of Keynes's later philosophical thinking. Yet because it emerged in Keynes's overall thinking more as a product of decisions made regarding non-philosophical matters, in connection with the problems of argument encountered in the writing of *The General Theory* in the 1930s, the concept of convention never received the systematic investigation from Keynes that his early philosophical notions had when philosophy and ethics were his chief preoccupation. As a result, because the concept has always been seen as an economic concept – and then with an uncertain pedigree – it has gone unappreciated as a specifically philosophical contribution of *The General Theory*. The lack of attention the concept of convention received from Keynes may also be due to his being influenced by Ludwig Wittgenstein's thinking about convention. Keynes may have felt that Cambridge was already producing a clear philosophical understanding of the nature of the concept, and that Wittgenstein was better suited to take on primary responsibility in that effort. I explore the connections between Keynes and Wittgenstein in regard to the concept of convention briefly at the end of the discussion below (pp. 218–21). In any event, whatever the relationship between Keynes and Wittgenstein, Keynes's failure to take rules and conventions seriously in his early philosophy left him without a clear account of the nature and workings of convention when he turned to the topic in *The General Theory* and was chiefly concerned with economic argument. In a second edition of the book he might have chosen to amplify those passages where the operation of conventions was central to his argument. But what was ultimately most needed was a careful elaboration of the central ideas he believed were involved in the concept. On account of his early death and the tremendous demands upon his time of policy and economic debate in his last years, this elaboration never occurred. Accordingly, it is necessary to reconstruct how Keynes's argument and thinking about convention might have proceeded in light of the foundations laid down for the concept in *The General Theory*.

I undertake this project in a number of steps. First, turning to the passages of *The General Theory* where convention is central, I map out the structure of the concept there, making very brief reference to the changes in Keynes's philosophical thinking that were afoot subsequent to his earlier exchange in the 1920s with Frank Ramsey on the meaning of probability. Second, I discuss how Keynes's treatment of the concept of convention was opaque yet also susceptible of some clarification. The topic here lends itself to the idea of a second edition of *The General Theory*. In such a work it would surely have been Keynes's intention to preserve the essential integrity of the original work so as to maintain the power of its conclusions. Though the concept of convention is very central to Keynes's later economic thinking, most readers would no doubt have seen further discussion of the concept as a distracting digression. As has long been

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appreciated, the basic ideas of the book were too revolutionary to be easily absorbed, and thus it would not pay to complicate an argument which many already found difficult.<sup>2</sup> Third, I proceed to further possible developments in the concept of convention that Keynes might have undertaken in a more peaceful later life. 'My Early Beliefs' signals Keynes's intention to set the record straight about his early philosophical thinking, but it goes little beyond this. Moreover, Keynes's post-*General Theory* writings do not add significantly to our understanding of Keynes's thinking on the subject. Thus, my strategy in this section of the chapter is to examine the shortcomings of Keynes's *General Theory* view of convention together with indications of the likely direction of his thinking to construct a case for the development of his later thinking on the subject. Finally, in the last section of the chapter, the influence of Wittgenstein and the confluence of Keynes's and Wittgenstein's thinking on convention are investigated in an effort to isolate key philosophical issues involved in the concept.

### THE STRUCTURE OF KEYNES'S *GENERAL THEORY* CONCEPT OF CONVENTION

To understand the role the concept of convention plays in Keynes's thinking we need to understand how Keynes believed that less than full employment equilibria were possible in the economy. This in turn is perhaps best understood in the context of the principal misinterpretation of Keynes's thinking in the years after the publication of *The General Theory*. Economists trained in what Keynes had called classical thinking, yet who label themselves Keynesians (or neoclassical Keynesians), generally agree that equilibrium unemployment is only possible when there are frictions or imperfections in the economy. This mistaken interpretation of Keynes's views centres most often upon the labour market (but also the bond market) where it is typically said that workers may suffer money illusion, or an inability to distinguish real and money-wages. However, in the 1980s this view was found unpersuasive by many economists when rational-expectations theorists argued that rational agents would not make systematic expectational errors. Without systematic errors in expectation, it was then argued, equilibrium unemployment simply could not occur, and Keynes's equilibrium unemployment view (or what it had been taken to be by neoclassical Keynesians) was said to be based upon a misunderstanding of the process of expectation formation.

Overlooked in this history of reception was the fact that Keynes himself had never employed the idea of money illusion or indeed argued that economic agents, rational or otherwise, made systematic expectational errors.<sup>3</sup> Indeed, in Keynes's view, if workers were willing to reduce their money-wage demands in pursuit of employment, worker incomes might well fall sufficiently that firms would withdraw employment in the face of

falling sales. In such circumstances, the economy was, as it were, locked into a low-level circuit of wage payments and consumption expenditures that still left a portion of the workforce unemployed. An additional source of demand was consequently needed if full employment were to be achieved; and among the questions that preoccupied Keynes during the time he was working through the drafts of *The General Theory* in the 1930s were: why investment expenditure could not be counted on to provide the additional demand a full employment economy required, and how this investment insufficiency related to the character of investment as a form of conventional activity. In important respects, then, Keynes's understanding of unemployment equilibria depended upon his thinking about conventions. Accordingly, we need to be able to explain how conventions functioned, and how they determined levels of activity among individuals making investment decisions, to be able to explain unemployment equilibria for Keynes. This in turn suggests that, because conventional behaviour is by nature an interactive sort of activity, we need to begin by looking at how Keynes understood behaviour generally.

Before turning to what Keynes had to say in *The General Theory* about the behaviour of economic agents in a general sense, it will be helpful to review briefly his well-known exchange with Ramsey over Keynes's understanding of intuition in his 1921 *A Treatise on Probability*. At issue is Keynes's theory of judgement, an important component of a theory of decision-making and action, and a topic which received serious attention in the *Treatise on Probability*. In his early philosophy Keynes had applied the theory of intuition, developed first by Moore and then by Bertrand Russell at the beginning of the century, to the analysis of probability judgements. In Keynes's view he believed himself to be extending Moore's and Russell's philosophical revolution against the philosophical idealism of F.H. Bradley, Bernard Bosanquet and J.E.M. McTaggart. But Keynes's view was also original in departing from the then widely accepted frequency theory of probability, which made probability judgements out to be empirical statements about the relative frequencies of events. Keynes argued first in his early unpublished Apostle paper, 'On Ethics in Relation to Conduct' (1904) and later in the *Treatise on Probability* that the frequency theory presupposed general rules whose application itself presupposed acts of judgement. This seemed to give a special place to direct, unmediated intuitive judgement, or intuition, and Keynes went on to conclude that probability judgements were ultimately founded upon our intuiting abstract but real probability relations. Ramsey, however, was altogether sceptical of both the idea of intuiting metaphysical relationships and of the notion that individuals possessed a capacity for insight into the nature of the real. He concluded that

a fundamental criticism of Keynes's views, is the obvious one that there really do not seem to be any such things as the probability relations he

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describes. He supposes that, at any rate in certain cases, they can be perceived; but speaking for myself I feel confident that this is not true. I do not perceive them, and . . . moreover I shrewdly suspect that others do not perceive them either . . .

(Ramsey 1978: 63)

When Keynes finally came to reply after Ramsey's death, he simply agreed: 'I think he is right' (*C.W.* X: 338—9).<sup>4</sup> This does not imply, it should be emphasized, that Keynes overthrew the whole of his early reasoning in the *Treatise on Probability* about the forms assumed by probability judgements. As argued by Jochen Runde (1994b, 1994c), Keynes almost certainly retained his general comparative probability conception that emphasized ordinal comparisons, while discarding the Platonic relations metaphysics meant to explain the meaning of probability, which Ramsey had found an easy target.

The significance of this for Keynes's later economics and thinking about convention is that abandonment of a role for intuition in the Platonic sense changed the conceptual foundations of Keynes's philosophical thinking about decision-making and action. Since the judgement involved in agent decision-making could not be explained in terms of an unmediated intuitive apprehension of timeless qualities and relations, it necessarily possessed a historical character. Judgement exercised by individuals in economic life reflected their being historical individuals reasoning in terms of concrete circumstances created by past patterns of events. Practically speaking, this meant that we looked to individuals' dispositions, tendencies and propensities to explain their behaviour. The social economic world exhibited a variety of forces and causes operating upon individuals, and we could at best sort out individuals' tendencies to respond to these forces and causes. Keynes was clear about this in his summary of his model, in Chapter 18 of the *General Theory*, 'The General Theory of Employment Re-stated'. We begin, he asserts, by identifying the factors that are given, the independent variables, and the dependent variables, where chief among the 'ultimate independent variables' are 'the three fundamental psychological factors, namely, the psychological propensity to consume, the psychological attitude to liquidity and the psychological expectation of future yield from capital assets' (*C.W.* VII: 246—7). These variables of course reflect levels or states of activity associated with demand in different spheres of the economy. Thus to understand aggregate demand we needed to understand the dispositional character of human behaviour as a set of tendencies to respond to the complex historical forces impinging upon individuals.

In *The General Theory*, then, Keynes turned away from the more episodic conception of judgement and behaviour that he had adhered to in his early philosophical intuitionism. In its place, he drew upon another tradition in philosophy at Cambridge that regarded economics as a moral science.

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Writing to Roy Harrod in 1938 in a letter critical of Lionel Robbins's natural science conception of economics, Keynes stressed the need to understand the complex character of human motivation to explain the distinctively social behaviour studied in economics:

I . . . want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. 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.

(*C.W.* XIV: 300)

Contrary to Robbins's view that a few simple principles were involved in economic behaviour, decision-making in economic life was a complex affair with many factors entering into individual judgement. The determinacy natural science seeks in its conclusions is unavailable in economics, which as a moral science combines analysis of human motivation with an account of the historical circumstances in which individuals find themselves. Thus, there is no simple account of human judgement available to us, as Keynes had once thought possible in regarding judgement as intuition. Historical individuals' intuitions, in fact, were 'intuitive' in the ordinary sense of the term: rather unpredictable responses to complex circumstances resulting from a variety of competing motives.

From this perspective, we can see why Keynes drew back from his early confidence in the powers of individual judgement, and charged himself and his early friends at the 1938 Memoir Club meeting with mistakenly thinking they could 'judge every individual case on its merits, and [with] the wisdom, experience and self-control to do so successfully' (*C.W.* X: 446). That view, Keynes confessed, had been based upon 'an *a priori* view of what human nature is like, both other people's and our own, which was disastrously mistaken', when the conclusion which experience taught was that the 'human race' did not simply consist of 'reliable, rational, decent people, influenced by truth and objective standards, who can safely be released from the outward restraints of convention and traditional standards and inflexible rules of conduct' (*C.W.* X: 447). Indeed, it was best to assume, Keynes emphasized, that 'civilization was a thin precarious crust erected by the personality and will of a very few, and only maintained by rules and conventions skilfully put across and guilefully preserved' (*ibid.*). Rules and conventions, that is, anchored individual behaviour, whether in ethics, politics or economic life, and we thus only grasped the behaviour of individuals fully when we understood how it came to be subsumed under society's rules and conventions.

Economic behaviour, in this respect, was thus in important ways interactive. Keynes had indicated as much in his letter to Harrod when he had emphasized that economics made use of introspection and judgements of

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value. That is, just as economists might analyse the behaviour of individuals using introspection and judgements of value, so individuals in the economic world also used these methods to evaluate each other's responses to complex conditions that faced all. Since, *contra* Robbins, economic behaviour was neither constant nor homogeneous, individuals typically lacked clear strategies of response to the circumstances in which they found themselves. One way of addressing this would be to examine the behaviour of other individuals in like circumstances. By observing another's actions and through introspection and judgements of value imputing a motive to that individual for those actions, we could reinforce or revise our own opinions regarding desirable courses of action in similar circumstances. I have argued at length elsewhere (Davis 1994a) that this form of interaction implies a conception of individual judgement that is best termed interdependent judgement, and that, as a historical, concrete mode of judgement replacing Keynes's earlier view of judgement as abstract intuition, it operates in Keynes's various analyses of convention. Perhaps the most vivid example of this is Keynes's metaphorical representation of professional investment as a newspaper beauty contest.

Recall that the question Keynes raised regarding placements was: 'How are these highly significant daily, even hourly, revaluations of existing investments carried out in practice?' (*C.W.* VII: 151). Keynes's answer, that this process of revaluation depends upon a convention that 'the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change' (*ibid.*: 152), only invites us to wonder when there are indeed reasons to expect a change; or, as Keynes puts it, how precarious the convention regarding any given set of investments might be. Not very reassuringly, Keynes goes on to assert that a 'conventional valuation . . . is established as the outcome of the mass psychology of a large number of ignorant individuals' (*ibid.*: 154), or:

professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view.

(*C.W.* VII: 156)

The idea that it is not the prettiest but those most likely to be thought the prettiest nicely captures the change in Keynes's view of judgement. No longer does the individual intuit the real quality of beauty, but rather proceeds to draw a judgement interdependently about what others facing the same dilemma may choose. Each contestant, in effect, uses introspection



to consider his or her own opinion, compares that to an opinion imputed to others, makes adjustments for judgements of value, and comes up with an individual judgement bearing the strong imprint of social opinion. Placement, which at any time involves considerable speculation, is in Keynes's view little different. Individual investors cannot know through intuition the true value of an investment, and thus rely upon their abilities to gauge the mass psychology of the public and especially the temper of other investors. The convention governing investment, therefore, may be defined as a temporarily settled state of opinion that derives from a mass of interdependent judgements made by different individuals.<sup>5</sup>

This, of course, does not tell us much more about the precariousness of the convention governing investment. Indeed, if anything, Keynes's characterization of convention only raises more questions about the dividing line between the stability and instability of investment expenditure, since the business of imputing motives to others (though we regularly do it) is clearly fraught with considerable difficulty. Here, however, we begin to see the state of development and status of Keynes's philosophical thinking about the concept of convention. What Keynes was clear about on the concept was that a convention is a structure of interdependent judgements across individuals that both contributes to the determination of different individuals' respective judgements and results from the interaction of different individuals making their respective judgements. In the other locations in *The General Theory* where the concept has a role, this view can well be seen at work. Admittedly, in no instance is as much attention given to the notion as in Chapter 12 on long-term expectations, though there are interesting things said, some explicit and some more implicit, about bonds and the rate of interest (*C.W.* VII: 202–4), about relative money-wages and wage bargaining (*ibid.*: 264 ff.), about producer price expectations (*ibid.*: 46–51), and about what Keynes calls the subjective factors influencing consumption (*ibid.*: 107–12).

Unfortunately, in the secondary literature on the interpretation of Keynes there is some confusion about what the concept of convention concerns. Some writers have been quick to link conventional behaviour and irrational behaviour, often thinking in the latter instance of Keynes's reference to 'animal spirits' (*C.W.* VII: 161). George Shackle (1967, 1974) did much to encourage this sometimes popular view, which has more recently been defended by Ted Winslow (1986) in connection with Keynes's interest in Freud. Three points are in order. First, while for Keynes conventional behaviour sometimes simply involves individuals unreflectively observing conventions as rules of thumb, it more often involves their operating within patterns of activity that contribute to the structuring of their behaviour. Second, Keynes clearly believes much decision-making is what is generally termed rational (e.g. in connection with his chapter on the marginal efficiency of capital). Third, Keynes also treats the existence of irrational

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behaviour separately from his treatment of conventional behaviour in both 'My Early Beliefs', where conventions actually control irrational impulses, and in Chapter 12 of *The General Theory*, where conventional behaviour is a (second-)best response to the dilemma of determining a good investment in an uncertain world. This latter point has been emphasized by a number of recent contributors to the topic of Keynes and convention. Anna Carabelli (1988: 224) argues that conventional behaviour for Keynes involves 'practical techniques . . . for facing the future in a situation of limited knowledge'. R.M. O'Donnell (1989: 251) sees investment conventions as a form of weak rationality. Tony Lawson (1985b, 1993) treats conventional behaviour as a rational strategy, and adds that conventions are an important form of social knowledge. Of course, much turns in this on the meaning of 'rational'. If 'rational' is taken in the Platonistic sense of intuiting essential relations and qualities (as in O'Donnell), the term seems mistaken and inappropriate. But if 'rational' is equated with reasonable judgement in the sense of being a cognitive process of deliberation set in a historical context and influenced by individual values and motives (as in Carabelli and Lawson), then it seems that conventional behaviour can well be thought 'rational'.

The position here is that because conventional behaviour is an interactive activity, it needs to be understood on its own terms, apart from the issue of whether behaviour is rational or irrational. Some authors have emphasized views of this sort. Oliver Favereau (1988) makes interactive behaviour and conventions central to his interpretation of Keynes's probability thinking in terms of possible-worlds reasoning. Similarly, Bruce Littleboy (1990: 29) argues that 'one of Keynes's most important innovations lay in the realization of the significance of conventions that arise when transactors, confronted by an uncertain environment, are psychologically disposed to act in a manner in which they study and imitate the actions of others'.<sup>6</sup> A. Orlean (1989) advances a formal analysis of imitative interaction between professional speculators to account for a number of ideas in Keynes's Chapter 12 discussion of professional investors. Of course, imitative interaction is only one (relatively simple) form of conventional behaviour, and to argue that individual decisions tend to converge in an imitative process requires strong assumptions about the patterns of interaction between individuals that Keynes did not always make himself. Indeed, though Keynes was much concerned with conventions as a basis for explaining behaviour in ways that went beyond simple aggregation of individual behaviours, he did not go very far in *The General Theory* towards explaining the various different ways in which conventions operated and changed.

What, then, was Keynes not clear about in *The General Theory* in his treatment of convention? Aside from not developing the distinctions between different kinds of conventions, Keynes does not tell us much about the stability or instability of conventions, whether those that govern

investment or other domains of the economy, and thus his account of the dynamics of conventions remains to be developed. We do find in connection with his discussion of investment in Chapter 12 a treatment of the issue of investor confidence, a matter Keynes had puzzled over from the time of his writing *A Treatise on Money*. Thus it seems fair to suggest that were Keynes to have produced a second edition of *The General Theory* he would have at least attempted to say more about how confidence affects the stability or instability of the convention governing investment. This extension might in turn serve as a model for how the dynamics of other conventions operating in money markets, labour markets and elsewhere might begin to be explained. With this conclusion, we thus turn to changes Keynes might have pursued in a 'second edition' of *The General Theory*.

### CONVENTION IN A 'SECOND EDITION' OF THE GENERAL THEORY

To see how Keynes might have re-tailored his exposition in his twelfth chapter on long-term expectations to allow more illumination to fall on the topic of confidence, it is necessary to look more closely at how he understood the convention governing investment as a structure of interdependent judgements. For Keynes, conventions helped to determine the levels or states of activity taken on by the psychological propensities and attitudes at work in the economy. But strictly speaking, since these psychological propensities and attitudes manifest themselves in varying degrees in different individuals, it is more accurate to say that conventions act to structure different individuals' propensities and attitudes in relation to one another. This becomes clearer if we think of a convention as a structure of interdependent expectations (expectation being a form of judgement), and note Keynes's special emphasis upon average expectation in his treatment of the convention governing investment. What constitutes a good or bad investment, Keynes tells us, is 'governed by the average expectation of those who deal on the Stock Exchange as revealed by the price of shares' (*C.W.* VII: 151), where average expectation, from the perspective of the beauty contest metaphor, is determined according to 'what average opinion expects average opinion to be' (*ibid.*: 156).

An average expectation of an investment's worth, however, must subsume a set of different individual expectations, since different individuals have different views regarding a given investment's worth. Different individuals might thus be said for Keynes to position themselves in investment markets relative to average opinions in those markets. In doing so, they compare average expectation and their own individual expectations regarding various investments, considering the weight they feel they should ascribe to overall market opinion as embodied in average expectation relative to the weight they feel they want to ascribe to their own individual

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opinions and expectations. Each dimension of expectation has its own plausibility, and yet each also lacks certain advantages that the other possesses. Average expectation reflects the judgement of many investors, and thus carries a certain guarantee against individual errors in judgement. Yet it is not a guide to making gains in the market since that requires anticipating the movement of the market ('to outwit the crowd'; *C.W.* VII: 155). Individual expectations, in contrast, often reflect special knowledge or opinion relevant to a given investment ('by reason partly of differences in environment and . . . partly of differences in knowledge and interpretation of the situation'; *ibid.*: 198–9), and thus at least hope of gain. But, of course, trying to beat the market also carries the possibility of loss. Investors, Keynes noted, are always intent on 'foreseeing changes in the conventional basis of valuation a short time ahead of the general public' (*ibid.*: 154). Thus individual and average expectation both figure in investor behaviour, and we may suppose that central to the stability of an investment market and the convention governing it is whatever balance is achieved between individual and average expectation, where average expectation is continually likely to be changed by individual profit-seeking.<sup>7</sup>

Keynes approached this question of balance or precariousness in terms of the concept of confidence. There are three cases to distinguish to understand the role he gave to confidence. First, apart from the question of the dynamics or movement in a given investment market, a conventional valuation might be stable if fluctuations in price around an average value tended to leave price within a certain range. In this instance, confidence would tend to manifest itself in a conviction on the part of individual investors that average expectation was likely to prevail and individual views about an investment's value added little to average opinion. Second, in investment markets where price moved significantly but then fluctuated around a new average value, confidence would manifest itself differently during the price movement and afterward: initially confidence would appear as a conviction on the part of investors that some individuals (with one view of the investment's price movement) had expectations superior to average opinion (causing average expectation to continually shift); later, when price came to fluctuate in a given range, confidence would appear as a conviction that average opinion was again a better guide to price. The third case is the one that often concerned Keynes most, namely, that situation where instability seemed to rule in a given market valuation, and where the market seemed likely to move without a clear destination. In this case, confidence is generally undermined, and fails even to be manifest in investor conviction that an orderly movement in the market driven by superior individual expectations is afoot. Of course, Keynes knew that markets cannot be driven by 'bear' or 'bull' expectations indefinitely. But he was unable to say why a market would ultimately re-settle into some new range of values, or why confidence re-emerged after a period of turmoil in opinion.

What we can thus say about Keynes's thinking about confidence is that it turned on a balance between individual and average expectation. What does this imply? From a psychological perspective, confidence is an affective state of mind in which an individual brings closure to a cognitive process of investigation by regarding any conclusions reached as adequate and satisfactorily final. Lack of confidence is reflected in indecision regarding the boundaries appropriate to a thought process, and an inability to complete a course of judgement. It would not be reasonable, it seems, to expect Keynes to have developed a psychological analysis of individual reasoning, so as to be able to say how individuals actually became confident about one thing or another. What, however, it seems it was appropriate for Keynes to have done in his attention to confidence in *The General Theory* was to set out an account of the conditions associated with states of confidence obtaining across individuals in various markets. That is, what were the circumstances that in his view allowed confidence to emerge? In this respect, he would have built on his account of conventions as a form of interactive activity where an interdependence of individual judgements explained levels of activity of his independent variables. This, at the same time, would probably have gone beyond the modest sorts of changes a 'second edition' of *The General Theory* would have permitted.

In a 'second edition' of *The General Theory*, then, Keynes might have proceeded by drawing more attention to the role of confidence in determining particular patterns of conventional judgement. To the extent that this can be understood as a question of individual confidence, Keynes did indeed emphasize the fragility of individual expectation in his reference to conventional judgement in a subsequent paper. In his response to his critics in his 1937 *Quarterly Journal of Economics* paper he drew attention to this theme:

Knowing that our own individual judgment is worthless, we endeavour to fall back on the judgment of the rest of the world which is perhaps better informed. That is, we endeavour to conform with the behaviour of the majority or the average. The psychology of a society of individuals each of whom is endeavouring to copy the others leads to what we may strictly term a conventional judgment.

(C.W. XIV: 114)

Moreover, as many commentators have noted, Keynes also took this occasion to emphasize the radical uncertainty associated with decisions facing the future, a circumstance that could be expected to heighten the sense of indecision and the fragility of the state of confidence in an investment community. But if these points were made more strongly in a re-issue of *The General Theory* they would not have taken the reader much further towards an understanding of what might settle states of confidence. And, since Keynes advanced an equilibrium theory of unemployment, he

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needed this further element in his analysis, if conventions were to be seen as central to the explanation of the economy. Thus we turn in the following section to how Keynes's argument might have been further developed beyond the framework of *The General Theory*.

### BEYOND THE GENERAL THEORY

That Keynes's basic understanding of a convention depends upon viewing individual judgement as interdependent, where the imputing of motives to others involves conjecture and speculation, suggests that confidence is central to the very process of judgement itself. Indeed, when individuals introspectively examine their own motives and compare them to those they think are justifiably imputed to others, unless they possess some measure of confidence about their thinking, they seem as likely to doubt their conclusions as think them reasonable. Every individual of course is a relatively autonomous being in the sense of possessing a private thought process. Yet we customarily do make confident claims about what we suppose others to feel and think. How, then, can individuals be confident that they correctly impute motives and beliefs to others whose thoughts and feelings are, as it were, hidden from view? Traditionally there are two general answers to this question, one of which figures prominently in Keynes's thinking. First, through powers of inference we read individuals' motives from their observed actions and behaviour. Confidence in imputing motives to others in this instance depends upon making reference to widely accepted patterns of connection between action and motive. Second, we also consult with one another, and then adjust our opinions accordingly. Keynes would have cited both of these explanations, but had special grounds for noting the latter. In his characterization of the pursuit of average opinion in connection with the beauty contest metaphor, he emphasized the implicit, successive iterations involved in individuals trying to anticipate how others might anticipate (how others might anticipate, etc.) what average opinion would be:

It is not a case of choosing those which, to the best of one's judgment, are really the prettiest, or even those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practise the fourth, fifth and higher degrees.

(C.W. VII: 156)

Yet how many iterations such a process might involve is less the point here than noting what is involved in the very possibility of there being higher iterations. That is, to the extent that an individual is able to imagine higher degrees of anticipation, then that individual is able to implicitly confirm lower degrees of anticipation in others.<sup>8</sup> Confidence emerges, consequently,

if not quite by consultation, then by an interaction between individuals commonly involved in attempting to establish each other's motives on a common subject, where that interaction leads to successive degrees of anticipation. On Keynes's view, therefore, because individuals engage in interdependent judgement of often considerable complexity, they are able to establish some confidence about one another's motives.

But to fully understand interdependence between individuals, it needs to be remembered and emphasized that the process of imputing motives to others is a many-sided one engaged in by many different individuals simultaneously. When Keynes speaks about the practices of the Stock Exchange, he is not thinking only of his own case as one investor, but rather of many like individuals interacting with one another on roughly the same basis. Thus the iterative process of anticipating others' views is being carried out by many individuals whose respective success in imagining higher iterations of anticipation not only confirms each individual's separate opinions about others, but also tends to confirm the entire collection of individuals in their conjectures about investor motives in the market. Put simply, confidence for Keynes is shared confidence. In effect, because judgement is interdependent in the manner described, confidence emerges between individuals. This means that if we are to extend Keynes's thinking about conventions in *The General Theory* we must delineate the different conditions under which shared confidence develops. For Keynes, the issue truly concerns states of confidence obtaining between groups of individuals.

Recall, then, that our discussion of the precariousness or stability of investment – the topic where the state of confidence is at issue for Keynes – distinguished three cases according to the way in which confidence develops or declines. In the first case, the market was relatively settled and average expectation was dominant. Here shared confidence coalesces in a widespread conviction that individual expectations are quite similar, and that individual motives vary little. In the second case, where price changes but then re-settles into a new range, there is initially a pattern of re-evaluation of investor motives carried out by each individual in the market, at least until the direction of price change and likely full movement becomes clear. Confidence in this case is shared at best by smaller collections of investors who agree on the nature of the change in the market (such as 'bulls' or 'bears'). Individual expectations are, however, obscure across groups, and individuals lack confidence about their own opinions more generally. The third case involves an unstable market that may fluctuate wildly or appear to be moving in one direction without sign of re-settling. It might be thought that such a situation exhibits high levels of confidence if many individuals ultimately agree on the direction of the market (as in a crash). But it could also be argued that what confidence individuals possess about each other's views is not deep in the sense of involving higher degrees of anticipation, and that little confidence really

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exists between groups or individuals regarding where the market is ultimately headed. Individual expectations, then, are not especially coherent, confidence is fragile, and the convention that things will remain the same indefinitely is, as Keynes warned, precarious.

For Keynes, then, the conditions associated with states of confidence concern the success or lack of success with which individuals come to assess each other's opinions about markets. However, given the complexity of a process of interdependent judgement, where the subjects involved and associated motives may be diverse and vary continuously over short periods of time, explaining the conditions underlying different states of confidence may be quite difficult. It would certainly be a mistake to suppose, then, that Keynes hoped or thought individuals' different judgements in any market would ultimately converge, or that the distribution of individual expectations about an average would in the long run be small. 'Bulls' and 'bears' or otherwise constituted divisions in opinions were desirable and inescapable dimensions of an economy built upon individual decision-making and action. Keynes, none the less, would still have liked to see less instability in placement markets, since this seemed to depress investment expenditure and consequently levels of aggregate demand. Thus as a long-term policy proposal, Keynes recommended 'a somewhat comprehensive socialisation of investment' (*C.W.* VII: 378), whereby public and semi-public boards and agencies such as universities, port authorities, redevelopment corporations, and so on, would direct a larger share of total investment expenditure. This institutionalization of investment would in his view create conditions for better communication and understanding among individuals within organizations having shared purposes, and, on the grounds that like minds would conceivably exhibit higher states of confidence, lead to more stable investment rates in part of the economy. The investment community at large, Keynes believed, was simply too atomistic to avoid the regular swings in confidence that lent the convention surrounding investment its periodic instability, and accordingly a long-term policy sensitive to the conditions of confidence was in order.

The concept of shared confidence, then, would have required new texts and another venue subsequent to any re-issue of *The General Theory* to be adequately developed. Much of what the notion involves was implicit in Keynes's treatment of convention as a structure of interdependent judgement, and much of what is involved in the idea of creating a stronger climate of confidence was explicit in Keynes's writings for many years both before and after *The General Theory*. Indeed, Keynes's own personal confidence that there were always steps that could be taken to reduce unemployment demonstrates the importance he placed on the idea that the conditions of confidence were central to the operation of the economy. Of course, Keynes may not ever have chosen to direct his energies towards this more social philosophical aspect of his thinking. The direction of his intellectual development for many



years had been away from philosophical argument, and it is difficult to imagine an individual so involved in practical affairs taking time away from his many commitments to elaborate upon such concerns. It would have required, no doubt, a very peaceful and extended retirement.

### KEYNES AND WITTGENSTEIN

It may none the less be possible to speculate about Keynes's later philosophical thinking regarding convention by considering ideas he may have shared with Wittgenstein. It is well known that Keynes and Wittgenstein knew each other at Cambridge, and it seems that they were also acquainted with each other's work (Coates 1990). Indeed, their intellectual histories followed certain common paths. Both made significant contributions to the early twentieth-century Cambridge philosophy initiated by Moore and Russell – Wittgenstein in his *Tractatus Logico-Philosophicus* and Keynes in his *A Treatise of Probability* – and both later abandoned many of their early ideas in revolutions in thinking that fundamentally influenced philosophy and economics respectively. Moreover, Wittgenstein joined Ramsey in criticizing Keynes's probability relation,<sup>9</sup> and Keynes indicates that he had opinions about Wittgenstein's later philosophy in correspondence. What is there, then, in Wittgenstein's later thinking that has links to Keynes's later philosophical thinking?

One important dimension of Wittgenstein's *Philosophical Investigations* is its abandonment of the view held in the earlier *Tractatus* that language is ultimately composed of names, the meanings of which are simple objects. In the *Investigations* Wittgenstein substituted the view that the meaning of an expression is its use, as reflected, as he put it, in the language game in which that expression is used. Keynes had held a view similar to the meanings-as-names view in his own early work where he used Moore's notion of there being an indefinable simple quality of goodness that we know intuitively in accounting for the meaning of the term 'good' (see Davis 1994a: ch. 1). And, like Wittgenstein, he later came to emphasize (in 'My Early Beliefs') the importance of social rules and conventions such as would be involved in a language game in Wittgenstein's sense to account for what might be thought to be good. Each, then, reasoned that social practices, each having a relative autonomy, played an important role in determining the meanings of the objects and activities of the world. For Wittgenstein this also meant that one could not typically produce a rationale for the rules a language game or practice exhibited. One rather grasped their function and purpose by, as it were, playing the language game or participating in the practice. Much the same opinion enters into Keynes's discussion of convention in *The General Theory*. The convention governing investment may be said to have rules in the interaction among individual investors, but these implicit rules only have meaning within the framework of that conventional behaviour.

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It might be thought, however, that Wittgenstein's thinking about language games really concerns matters essentially little related to what pre-occupied Keynes in his attention to convention in *The General Theory*. Keynes wanted to account for patterns of interaction between individuals in different domains of the economy, in order to explain aggregate demand and unemployment equilibria. Wittgenstein was interested in re-explaining language meaning as part of a more general project of redeveloping our theory of mind and conception of philosophy as an intellectual enterprise. Yet Keynes's conception of the operation of a convention actually shares more of Wittgenstein's project about language games than it initially appears. The determination of an investment's value in the form of a community of investors' average expectation constitutes a meaning of sorts for the activity of making that investment for individual investors. While market values are not meanings in the ordinary sense of language meanings, they none the less bear sense interpretable by individuals who are part of the practice in which they are defined. Indeed, Wittgenstein's abandonment of the idea that meanings are names itself encourages a new view of what sorts of entities meanings are. The traditional view of meanings as linguistic items that bear relations to various features of the world is replaced by the view that meaning is a product of a social practice. Thus, on this broader view, an investment value is a meaning not in the sense of a number that simply compares a flow of possible earnings and capital goods purchase costs, but rather in the sense that those earnings and costs reflect a social practice embedded in certain historical opportunities, investor sentiments and patterns of market development.

From this perspective, Keynes's view that average expectation emerges from the play of individual expectation, where an inherited or reigning average value represents a point of departure for individual investors, can be seen to bear interesting connections to Wittgenstein's concept of 'family resemblance'. Wittgenstein's idea was that in every case where things are called by the same name there is not a single quality or set of qualities common to all these things, but rather 'a complicated network of similarities overlapping and criss-crossing: sometimes over-all similarities, sometimes similarities in detail' that he termed 'family resemblances' (Wittgenstein 1953: 32e). On this view, a name does not represent quite the same thing to all individuals, though generally individuals who understand a name somewhat differently can appreciate each other's usages through participating in language games where the name is employed. Keynes's treatment of a convention involves essentially the same understanding. Individual expectations regarding investments are typically distinguished from average expectations, the analogue of a common name. Yet individual investors, though they may doubt one another's investment strategies, can still appreciate that each is, as it were, playing the same game. Thus just as the meaning of names is established for

Wittgenstein in a practice that distributes features of that meaning across a variety of games or usages, none of which possess all those features, so for Keynes the meaning of an investment is distributed across a variety of individual expectations each of which reflects some insight into an investment's worth, but none of which fully captures that range of insights.

One further comparison between Keynes and Wittgenstein seems in order. Wittgenstein is well known for his argument that there cannot be a private language in the sense of a set of meanings that individuals might allocate apart from interaction with others through acquaintance with inner streams of consciousness. More broadly, Wittgenstein believed that descriptions of our mental acts and states of mind were governed by criteria that made reference to the circumstances, behaviour and dispositions of individuals. Keynes, we saw above, approached individuals' behaviour dispositionally, and then in his moral science remarks made this a matter of individuals' 'motives, expectations, and psychological uncertainties' (*C.W.* XIV: 300). But it is important here to understand Keynes's view of the linkage between psychology and behaviour. When individuals consider the motivations of others in order to understand their actions, they introspectively establish what motives they themselves would have were they to pursue similar actions, because they wish to have some basis for explaining other individuals' observed behaviour in terms of possible motives. Thus if an individual were to satisfy him or herself that another individual had some motive where a certain action was observed, an understanding of the circumstances, behaviour and dispositions of individuals – observable behaviour generally – would be the key to comparing individuals' unobservable motives. Keynes, then, seems to share a conception of psychology and behaviour similar to the one Wittgenstein employed. Indeed, since Keynes had held in his *A Treatise on Probability* that one could be directly acquainted with one's inner sensations (among other things), but gave up this view with his abandonment of intuition as a source of direct insight into the world, it seems that a case could also be made for saying that Keynes would have agreed with Wittgenstein that private languages were not possible.

Of course, the points outlined here about the philosophical connections between Keynes and Wittgenstein are speculative, and would require more careful discussion to make either a case for their having shared views or the particular interpretation suggested here of Keynes's later ideas (cf. Davis 1996). But it is not unreasonable to attempt such an argument, since not only were Keynes and Wittgenstein aware of the way each other's work had developed from a number of common beginnings, but both shared a climate of intellectual development at Cambridge in the 1930s that must have reinforced many of the views they each developed separately. Certainly this latter development, that of the intellectual climate in which they operated, is sometimes neglected in intellectual histories which chart each

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individual's path in isolation from the larger social and intellectual world and the connections between the different disciplines. Further thinking about Keynes's later philosophy, which received little elaboration by Keynes in his later years, would seem to require greater attention to this wider sphere of intellectual development.

### NOTES

- 1 Keynes added that this 'was hardly a state of mind which a grown-up person in his senses could sustain literally' (p. 422). All references to Keynes's works are by volume number to the *Collected Writings of John Maynard Keynes*.
- 2 One good measure of the difficulty of interpreting Keynes's argument is the difficulty of determining the standing of IS-LM analysis in Keynes's thinking. See Young (1987) for a valuable account of the early problems of interpreting *The General Theory*.
- 3 That Keynes did not assume rigid money-wages is clearly apparent in Chapters 2 and 19 of *The General Theory*.
- 4 See Cottrell (1993) for a good discussion of this important exchange.
- 5 For an influential, recent philosophical account of convention emphasizing interdependent judgement that is very close to the analysis here, see Lewis (1969). For a discussion about the proper concept of convention to attribute to Keynes, see Runde (1994c).
- 6 Littleboy goes on to advance for Keynes a theory of macroeconomic dynamics based on the interaction of different conventions in different spheres of the economy (Littleboy 1990: 289ff).
- 7 Keynes's discussion of 'bears' and 'bulls' in money markets is particularly appropriate: '[t]he market price [that is, average expectation in the language of Chapter 12] will be fixed at the point at which the sales of the "bears" and the purchases of the "bulls" are balanced' (*C.W.* VII: 170).
- 8 Lewis (1969) is especially clear on the iterative nature of anticipation in a convention.
- 9 In his 1935 Lent Term Lectures, Wittgenstein was recorded by Alice Ambrose as saying: 'Keynes claimed to discover a probability relation which was like implication. But logic is a calculus, not a natural science, and in it one can make inventions but not discoveries' (Ambrose 1979: 138-9). Wittgenstein later credited Ramsey and Sraffa, another friend of Keynes, in the preface to his *Philosophical Investigations* with being the chief influences on the development of the ideas in that influential book.