

Brian Pinkstone  
**Underlabouring Postkeynesian Economics**

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The critical realist approach to social scientific explanation is making ground in the discipline of economics, in no small part due to the vitality of the critical realist group focussed on Cambridge. Recently, the *Journal of Post Keynesian Economics* (22:1, 1999) devoted an entire issue to discussions about the compatibility between critical realist and postkeynesian thought. A key point made by Tony Lawson in his paper introducing the volume is that the principal contribution critical realists can make to the postkeynesian tradition is to supply a firm philosophical foundation for the general approach. He also insists, however, that due to the complexity of the world and the provisional nature of all knowledge, critical realists cannot provide precise guidelines with which to discriminate between particular substantive positions. For this reason, although there are a number of interesting substantive positions taken on topics like uncertainty, the neutrality of money, and the conceptualisation of aggregate and effective demand, I will focus only on those concerns that appear to me to provide both a challenge to, and an opportunity for, the further development of the general realist paradigm. The three issues that I will concentrate upon are: misunderstandings, points of commonality, and prediction and policy advice in an uncertain world.

**MISUNDERSTANDINGS**

Having myself moved over time from a neo-positivist mindset to that of critical realism, I have some sympathy with the difficulties of the critics of critical realism when it comes to understanding what critical realism is on about: the work of Parsons, Walters and Young stands out for me in this regard. Many of the faults that these scholars see with critical realism seem to me to be based upon misconceptions of the realist position. In the present volume Edward McKenna and Diane Zannoni provide comprehensive replies to earlier points made by these critics and as they do so the problem of misinterpretation is highlighted. For example, Parsons argues that critical realism is an essentially deterministic framework that is incompatible with the emphasis on uncertainty, change and human autonomy that characterises postkeynesian thought. In a nutshell, Parsons asserts that according to critical realism all events are governed by some mechanism(s), therefore all human actions are governed by mechanisms, thus human actions are not free. McKenna and Zannoni point out that critical realists such as Lawson use the term govern rather than determine, to indicate 'the notion of restraining or regulating' rather than strict determination. So as Bhaskar (1978) and Lawson (1997) have suggested, language capacity/behaviour is governed by the genetic

predisposition humans have as a species, but nevertheless, humans have considerable freedom of expression when it comes to the actual content of language. McKenna and Zannoni also point out that the capacity to make a choice may itself be understood as one of the range of causal mechanisms governing the actual choice made.

A related misunderstanding by Parsons is that the realist view is of a

... realm of change, flux, and appearance (the level of events)... [and] ...[t]he true or real world that lies underneath and governs them...[which is] simply not subject to change or alteration.

As McKenna and Zannoni point out, this is a serious misconception which ignores, firstly, the fact that retrodution to generative mechanisms is derived from the need to explain events and, secondly, that the emphasis in critical realism is on understanding the mechanisms which make change possible. Moreover critical realism sees the generative mechanisms of the social world as undergoing a constant process of reproduction by human beings, and as such this process embodies the potential for creative change.

**Forms of logic**

Misinterpretations also underlie the criticisms Walters and Young make in their contribution to this volume. As an example, they argue that the prescriptive nature of critical realism rules out both the Sraffian and Kaleckian strands of postkeynesian theory, on the basis that the latter are essentially positivist in orientation because they look to modelling the main regularities (or stylised facts) of capitalism. Moreover, both Sraffa and Kalecki practice a form of deductivism, in that key conclusions are deduced from stylised facts within their models. Three points can be made here. First, critical realism does not rule out any form of logic, including deduction from premises. It does, however, insist that the premises upon which deductions are based be realistic and further, that the most important aspect of explanation is the process of retrodution. Second, it stretches credibility to suggest that Sraffa and Kalecki, both of whom had deep roots in the Marxist tradition, were not operating with at the very least an implicit retroductive understanding of the role played by deeper structures such as class relations and forces. Finally, as I understand it critical realism does not rule out the sort of abstraction involved in using models as heuristic devices, but it does anticipate that all assumptions implying closure, that may have been used in a thought experiment, be dropped before any attempt is made to apply modelling results to analysis and explanation of the real world.

Another problem with Walter and Young's approach stems from their misunderstanding of the role of empirical

evidence in critical realism. They state that ‘critical realism is committed to the view that surface reality cannot be regarded as a prime indicator of real mechanisms or structures...’. This is a complete misconception. As Lawson (1997) makes clear, it is in fact the apprehension of rough or demi-regularities, which we perceive in the open but structured social world, that demand the retrodution of an explanation. In this sense, as the starting point of analysis, experience has primacy for critical realism too. The difference with positivism is that critical realism recognises that the openness of the social world means that there must always be some irreducible uncertainty with respect to experience and, further, a move beyond the level of empirical evidence to that of the causal structures and mechanisms that account for it.

The prevalence of such misconceptions and misinterpretations is a challenge that can only be met by more debate of the type of which this volume is an excellent example. However, the fact that critics such as Parsons, Walter and Young can get the story so wrong suggests that a long hard road lies ahead in terms of basic proselytisation by the advocates of critical realist.

#### **COMMON GROUND: REALISM AND UNCERTAINTY**

One thing that does become clear from this volume is the extent of the common ground between the two traditions. Dow points out that, like critical realists, postkeynesians have long criticised mainstream economics for being ‘unrealistic’. They have looked to find explanations of processes that make sense in terms of what we know about the real world. Consequently, they have eschewed the use of the convenient fictional assumptions and axioms characteristic of the mainstream (perfect knowledge, perfect foresight, perfectly competitive markets etc.), in favour of attempts to grasp the real processes underlying actual economic behaviour.

In addition Dow stresses that critical realism provides a new way of defining schools of thought within economics according to their methodologies and ontology. A key distinction is between the ontology of the mainstream, with its emphasis on closed ideal systems and deduction from fictional axioms, and the critical realist emphasis on real premises and open system abductivist explanation. She goes on to point out that within the open-system approach there is scope for different conceptions of the structures and processes at work: neo-Austrians, for example, focus on the individual, Marxists on class. According to both Lawson and Dow the closed system/open system distinction between mainstream and heterodox schools of thought also provides a coherent philosophical perspective by means of which postkeynesian thought can be distinguished from the orthodox approach. On the other hand, because critical realism accepts an ontology of the world as an open system, it is necessarily prescriptive about methodology. That is, the methodology used must be appropriate for analysis in an open system. Here the devastating attack on the use of econometrics by Lawson (1997) challenges all those postkeynesians who have

relied on this approach. Dow points out that much debate is likely and that various outcomes are possible, including the rejection of critical realism by those committed to econometrics, the rejection of the latter by postkeynesians, or the rejection of critical realism as a foundation for postkeynesianism.

Most contributors acknowledge that the emphasis on uncertainty in Keynes’ work, which has continued as a strong theme in postkeynesian thought, is highly compatible with critical realist views on the openness and unpredictability of the social world. Paul Lewis and Jochen Runde take up this theme via an interesting analysis of the work of Paul Davidson. Davidson is a leading postkeynesian scholar who has engaged with realism in a critical but sympathetic manner. The key to his critique, as directed at Tony Lawson, is focussed upon theorising the role of uncertainty. He accepts much that Lawson said in a 1985 article about the fact that many economic events would not be generated by stochastic processes with strict probability functions. However, he suggests that such points would be ignored by neoclassical economists unless the arguments, and in particular the concept of uncertainty, could be defined in the technical terms that neoclassical economists can understand.

#### **Non-ergodic systems**

Subsequent work by Davidson has set out to do just this. In brief, Davidson argues that the social world can be conceptualised in terms of ergodic and non-ergodic systems. Ergodic processes ‘can be fully described by a set of unchanging conditional probability distribution functions’. Davidson goes on to define uncertainty ‘in terms of the existence of non-ergodic processes...[or] the absence of governing ergodic processes’. The upshot is that when dealing with strictly ergodic processes, past trends are an actuarially certain guide to the future (insurable risk), but in non-ergodic systems underlying parameters can and will change, so that the future may not at all reflect a statistical series from the past.

For Davidson, much of the economic world is best understood in terms of non-ergodic systems. So institutions, such as the law of contract, are developed by people in order to help them stabilise this ‘transmutable’ environment. Moreover, he argues that the difficulty of operating in a non-ergodic system explains why people always maintain a positive demand for liquid assets such as money (i.e. as a hedge against the uncertainty – something that is irrational in terms of the ergodic models of orthodox economists).

Lewis and Runde praise the substantive account of uncertainty and the role of money developed by Davidson, but are concerned to demonstrate that there is a key shortcoming which stems from his attempt to carry through his analysis in orthodox terms. This is that if the world is divided into just ergodic and non-ergodic systems, then, in orthodox terms, there can only be two states of knowledge: actuarially certain knowledge, where stochastic regularities exist, or complete ignorance. This dichotomy springs from the fact that in the positivist ontology, the objects of

knowledge are events and event regularities. Knowledge is achieved when event regularity (i.e. subject to an invariant probability function) is observed. The absence of such strict event regularities consequently means the absence of knowledge. Lewis and Runde suggest that Davidson's approach would benefit from dropping the attempt to use orthodox concepts and moving instead to the use of the much richer ontology offered by critical realism. In particular, they point out that critical realism posits knowledge not as knowledge of strict event regularities but as knowledge of the underlying structures and processes which cause the event regularities (and demi-regularities) that we perceive.

### **PREDICTION AND POLICY ADVICE**

The issue of uncertainty also receives an in-depth discussion by Roy Rotheim. He makes the point that this takes both epistemological and ontological forms. The first follows from the sheer complexity of the social world and the second from the organic and changing nature of the relationships within it. Rotheim warns that if too much is made of epistemological uncertainty one ends up with the empirical realist position whereby observation of the world can provide no reliable information and everything is reduced to accidental processes. By contrast the critical realist view is that the world is knowable, but characterised by ontological uncertainty since knowledge of wholes cannot be simply built up from knowledge of parts and the history of the organic processes involved matters.

Rotheim also criticises those postkeynesians who try to conceptualise macroeconomic relationships in terms of representative or idealised average individuals, since this begs a form of atomism in which typical responses can provide perfect certainty. This leads to formally closed deductivist modelling, along the lines of the neoclassical mainstream, from which human intentionality is removed. Such models thus remove the interdependence between social structure and human agency. Of course, as both Rotheim and Dow acknowledge, this modelling project is undertaken with the best of intentions, that is, in order to provide alternative policy advice to that offered by mainstream economists. But even if postkeynesians go only so far as to accept the Paul Davidson position, they will need to accept that precise prediction of future events is only possible for an ergodic system. For the non-ergodic real world, postkeynesian modellers will simply run up against the same problem as mainstream modellers: they will only predict correctly by chance.

The open nature of the social world and the uncertainty associated with that openness could be taken as a council of despair for those seeking to offer policy advice and/or produce transformations in the structures of capitalism. As Dow suggests, this may be one of the principal worries that leads some postkeynesians to shy away from critical realism. Tony Lawson, however, has pointed out that it might be possible to model certain behaviours and then to predict a reasonable range of likely outcomes (1997). How is this possible in a non-ergodic system? The possibility derives

from the fact that the world is not only open, it is also structured. Underlying mechanisms, processes and structures set in train certain tendencies in the social world. It is possible to predict that, if a certain mechanism is in operation, the tendency/ies associated with that mechanism would also be in operation. In addition, I have argued elsewhere that causal structures, mechanisms and tendencies may be conceptualised in terms of a hierarchy based on time-space extension (Pinkstone 1999). Basic physical structures of the universe such as gravity have effectively infinite time-space extension, and thus result in our observing persistent demi-regularities that point to their existence. Similarly, the endurance of geographical, climatological and basic biological structural constraints on human activity is likely to result in far more persistent demi-regularities in human behaviour than those that are determined by social or psychological factors. In other words, rather than a strict ergodic/non-ergodic dichotomy, critical realism permits the conception of a spectrum of causal structures which range from those like gravity which produce very robust tendencies (to fall), to those of a highly unique and ephemeral nature, such as the state of mind of a particular individual at a specific time, which might produce only a fleeting whim (to jump).

### **Hierarchical causal structures and methodology**

The fact that human activity is constrained/enabled by a hierarchy of causal structures and processes gives us a purchase from which to assess the relevance of statistical and econometric methodologies. For example, it seems likely to be the case that when we are dealing with something that is bound by time-space extensive physical/biological constraints, such as human height, it is reasonable to use statistical methods. We should expect that height will vary according to a well-behaved distributional form, and that the error terms associated with measurement will be normally distributed. And because the physical/biological structures underpinning our measurements are so stable, we might predict, with a high degree of confidence, what (say) average heights will be for people in particular places. Similarly, we might be able to provide quite accurate short-term predictions regarding, for example, patterns of electricity consumption, relative to temperatures, particularly in cold climates (Lawson 1999). Again, this is because a strong biological constraint (the need for warmth) determines human behaviour in these circumstances. In other words, when we are dealing with aspects of human behaviour that are governed by strong, simple, physical and biological constraints, statistical methods relevant to an ergodic system may be more or less appropriate.

On the other hand, the more complex and removed from direct biological imperatives the aspect of human behaviour with which we are concerned, the more likely it is that social factors (which are transmutable) and individual aspects (involving free will) will intervene. At the extreme, highly complex econometric models which try to incorporate fixed estimates of a large range of typical responses will inevitably fall prone to the open system

uncertainty that removes the possibility of their sensible or meaningful use. In other words, whilst we might predict reasonably accurately the extent to which electricity consumption will rise during a spate of cold weather, we are unlikely ever to be able to predict with any precision when global stock markets will next crash.

### More demanding

Consequently, if we are to offer policy advice, especially of a transformative and hence parameter-changing nature, we clearly should not appeal to complex econometric modelling approaches based on invariant parameters. On the other hand, we can argue for changes in policy on the basis of particular substantive claims about the causal mechanisms, structures and tendencies underpinning economic behaviour. And (contra Walters and Young) we would want to provide empirical support for those claims in the form of persistent demi-regularities consistent with the hypothesised causal structures. So it appears that the critical realist approach is much more demanding than that of mainstream modelling, for a range of reasons. First, it requires us to spell out what we believe are the realistic causal mechanisms that inform our policy advice. Second, due to its acknowledgement of the open nature of the system, it requires that the evidence we provide be robust. (In other words we need evidence which stands out from the flux of the open system, or, in Tony Lawson's terms, 'con-

trastive' evidence [Lawson 1997]). Third, due to the holistic, dialectical or organic approach entailed by critical realism, often this evidence will need to be multidimensional and contextualised. If all this makes the task of policy advice more difficult, it also makes it not only more rigorous but potentially much more fruitful, in that the emphases on retrodiction and holism opens up paths of analysis rather than closing them off, as is the case with mainstream deductivism.

In conclusion, I believe that the articles in this issue of the *Journal of Post Keynesian Economics* will be accessible and interesting to most critical realists, whatever their disciplinary background. Moreover, as I hope I have indicated above, the articles all raise questions of central importance to the critical realist project.

### References

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## LANCASTER UNIVERSITY REALIST WORKSHOP

Every Tuesday lunchtime 13.00 - 14.30pm, from May 2nd 2000  
Room C87 Management School

The Lancaster University Realist Workshop is a multidisciplinary workshop designed to develop and debate realist approaches to social science. No prior knowledge is presumed and all are welcome.

For further details contact Steve Fleetwood Tel: 01524 594040 Email: [s.fleetwood@lancaster.ac.uk](mailto:s.fleetwood@lancaster.ac.uk)

The LURW started in January 2000 and has gone remarkably well. After a couple of introductory sessions by 'old hands' Tony Lawson and Andrew Sayer, we went on to have papers by members of Lancaster University Management School. John Burgoyne gave a paper on the implications of critical realism for management learning; and Luis Araujo gave a paper on critical realism and industrial networks. There has been significant interest in critical realism, especially from within the management school where several members of the school have been working with a critical realist approach for several years.



## CRITICAL REALISM SEMINARS AT KING'S COLLEGE, LONDON

This year saw the launch of a seminar series at King's College London on matters critical realist. Speakers over the two semesters were Andrew Collier, Southampton, *Realism about values*; Bob Carter, Warwick, *Realism, race and identity*; Tony Lawson, Cambridge, *What can realist philosophy do for economics?*; Andrew Brown, UEL, *Developing realistic philosophy: from critical realism to materialist dialectics*; Nick Hostettler, SOAS, *Dialectical critical realism and Eurocentrism in the social sciences*; and Caroline New, Bath Spa, *The reality of oppression*.

All the sessions provoked lively discussion. One issue which cropped up consistently was that of the critical realist orientation to ethics, and the different views that appear to stem from a critical realist and a dialectical standpoint. The seminars have tended to be small and informal with a common core and changing periphery with the result that thematic discussion between participants and speakers becomes possible. It is intended that the seminar should in future be devoted primarily to work in progress and establishing a nucleus of critical realist interest in the heart of London.

All sessions are open to the public. If you would like to go on our emailing list, please contact [alan.norrie@kcl.ac.uk](mailto:alan.norrie@kcl.ac.uk)