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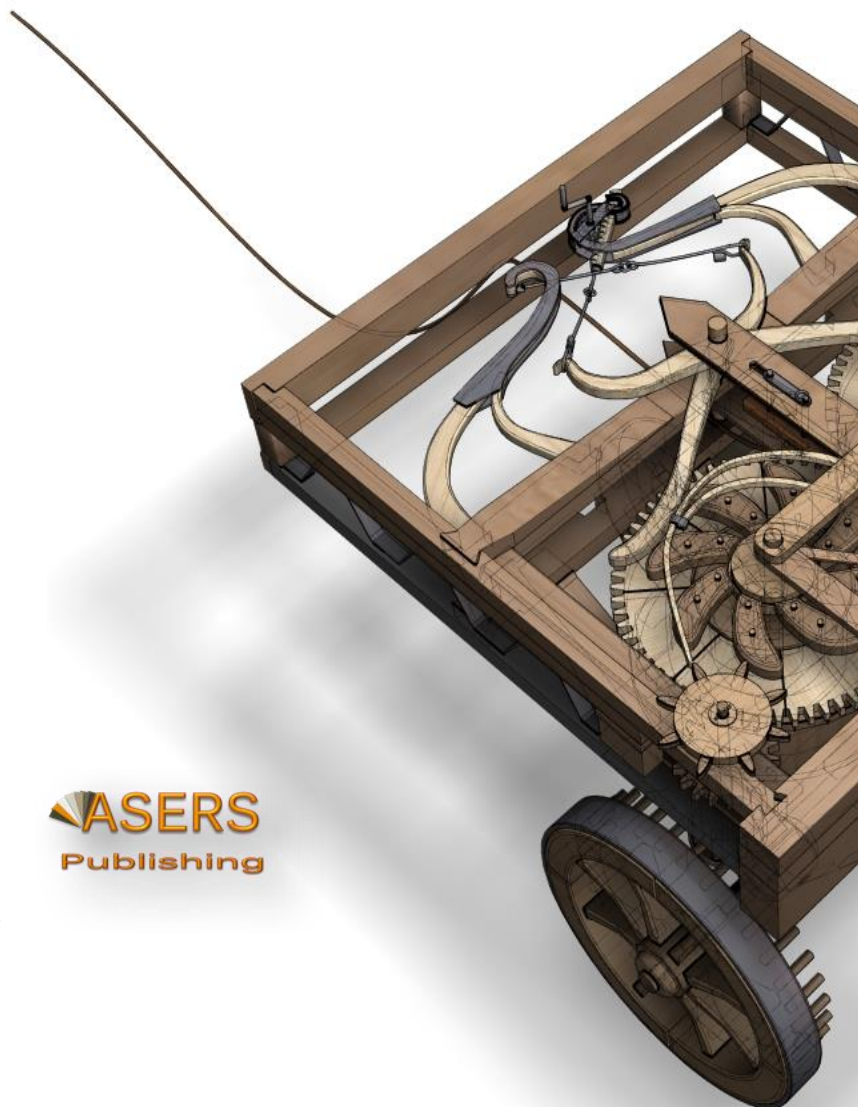
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EXPECTATIONS AND RATIONAL DECISIONS ACCORDING TO JOHN MAYNARD KEYNES'S THOUGHT

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Abstract:

The aim of this paper is to question the existence of economic laws that can uniquely determine capitalist "equilibrium". The presence of uncertainty is one of the conditions that cannot be eliminated, which can make the equilibrium unstable. We will try to find possible improvements in the techniques of modern capitalism through collective action, beyond the rationale of "laissez-faire". All this in a Keynesian methodological view and in the presence of a social pact which, by committing the parties to the attainment of collective goals, minimizes the conflict.

If a separation between spending decisions and savings decisions is assumed, the role of an external subject that can affect the current and expected profitability is particularly important. Thus, this issue will be addressed, that is, the expectation of profit in a system of uncertainties, where well-governed capitalism can represent the closest frame to the most efficient system to achieve economic goals.

Keywords: Capitalist system; Expectations; Profit; Uncertainty

JEL Classification: B11; B21; E12

1. Introduction

According to Keynes (1930), in a monetary economy characterized by a high degree of uncertainty, given the range of actions interacting among the various economic actors, income holders will make choices aimed at minimizing the risk and maximizing the benefits.

Therefore, choices in conditions of uncertainty concern both the use of existing wealth and options about the will to create new wealth. It is here that Keynes embodies Marshall's scheme (1925) (which included uncertainty), by inserting uncertainty among the properties of a capitalist monetary economy. This means that every activity of wealth utilization is based on a set of variables ranging from the expected net yield to the risk factor and the cost of maintaining, or still the price for liquidity; a set which defines the rate of interest of the chosen activity. As we find ourselves in the presence of random and subjective assessments, agents do not have a single reference rate for each individual activity (Keynes 1937a).

Obviously, in order to be able to hypothesize market equilibriums in contexts with uncertainties, there is a need for adjustment mechanisms capable of operating by changing all the variables that define their own rates (Knight 1921).

If long-term expectations are given, and short-term ones are met, we are in a static equilibrium (Kregel 1977); then any adjustment process will occur on the effects of a shift of funds (loanable funds, unused cash, etc.) along the value parameters of the elements that contribute to define interest rates.

Demand movements have effects on markets, which can affect both prices and production levels, and the coefficient of liquidity, depending on the supply elasticity coefficient to evolving demand. In a re-equilibrium process, with given expectations, by differentiating the activities with elastic supply from those with inelastic supply for different flexibility of interest rates, the equilibrium stands around the rate values that depend on their realignment rates, resulting in ranges of returns in different markets. However, the hypothesis of realignment between rates and activities, based on the elasticity of supply, does not exactly reflect Keynes's position, which is rather focused on the elasticity of production associated with price changes.

Keynes does not exclude that demand variations have an immediate effect on prices. However, even for the effects on profit and expectations, changes in price lead to variations in supply levels and levels of employment, due to the drop-in returns.

Is it possible to imagine, outside of the neoclassical perspective, a model with features such that real income and price levels depend on demand for money and wages, which increases the amount of money at any level of money wage, guarantee full employment?

We can only answer in the affirmative in two conditions: 1) in the presence of a political-institutional hegemony of the capital category and the capitalist class; 2) in the presence of a social pact that, by committing the parties to the achievement of collective goals, minimizes the conflict (Morselli 2015). The Keynesian idea moves along the second point, in the belief that, given the wage, there are no political-social conditions to lower the real wage by manipulating the amount of money. Therefore, employment cannot be increased in this way.

In fact, in the absence of a social pact, systemic uncertainties persuade entrepreneurs to wait for better times for their investment plans.

This means that in the presence of a separation between spending decisions and savings decisions, it is particularly important to involve an external subject that is able to cope with the external funding of accumulation; And capable of affecting current and expected profitability of investments, for given long-term expectations. Therefore, this work aims to address these issue, that is, the expectation of profit in a system of uncertainties, also because opinions on the subject are still very divergent.

2. Profit in a system characterized by uncertainties

Keynes (1936) in chapter XVII claims that "... a rise in the monetary interest rate slows down the production of all the goods whose production is elastic, and cannot stimulate the production of currency, whose production is, by hypothesis, perfectly inelastic ...". In addition, in Chapter XVI he claims: "... we have seen that capital must be kept fairly scarce in long periods so that it has marginal efficiency at least equal to the rate of interest for a period equal to the life of the capital itself, as determined by the psychological and institutional conditions ...". And he asks himself: "... what are the consequences for a company that was so well equipped with capital that the marginal efficiency of this was zero or even negative for any additional investment; And yet possessed such a monetary system that the currency could be kept with a negligible cost of conservation and therefore interest could not become negative; And also, that in conditions of full employment, was willing to save?"

In this context, Keynes replies that the equilibrium position, under *laissez-faire*, will be a low employment position and such a miserable living standard to zero the savings. It appears, therefore, that Keynes only considers Say's law (1803), with demand equal to supply, in pure survival conditions with levels of employment and income to assure savings equal to zero. It is clear, then, that Keynes's refusal to direct attention, as a system engine, to savings.

Conversely, Keynes, always in chapter XVI, claims that even "digging a hole in the ground" through savings funds will increase not only employment, but also real national income, since if the rate of interest cannot go down as quickly as the marginal efficiency of capital, the diversification of the desire to possess wealth towards activities that in fact will not exploit any economic income will increase economic well-being.

But is this charity work, done by bearers of a class conflict such as capitalists, possible? The answer is certainly negative. Either there is a strong and constant covenant between the contractors, guaranteed by the state, or all the economic actors internalize in their behavior, the needs of capital. Or one proceeds to a partial integration of the two hypotheses.

In the absence of such structural and institutional framework, Keynes (1936, Chapter 12) is convinced that the system operates in conditions of uncertainty such as to expect cyclical trends based all around levels of activity below full employment.

The individual entrepreneur, in uncertainty, can only try to expand his market, theoretically to reduce uncertainties, at increasing costs and decreasing profits, due to price reductions. The single capitalist certainly cannot rely on any form of class solidarity, since he interacts not with workers, but with other capitalists; therefore, he can only base his own decisions on his own intuition (expectations) in solitude.

3. Keynes, the underemployment equilibrium and the economic cycle

It is important to revisit Keynes's methodological passage (1936, chapters 21-22), which deals with the underemployment equilibrium and the economic cycle, in order to appreciate our intuitions. These two themes of the "General Theory" appear to be connected and difficult to separate. The underemployment equilibrium is not only the result of unrealized expectations, on the contrary, the economy may stop in a situation of underemployment even if its expectations are met. The problem is to know why this phenomenon takes place and to hypothesize overcoming mechanisms.

The scheme applied by Keynes (1930) in "A Treatise on Money", is based on the distinction between production prices and market prices; i.e. prices that ensure the sale of the entire production. The non-coincidence between these prices is caused by the difference between the decisions regarding production at the time $t - 1$ and the demand that occurs in the market at the time t . This difference determines the presence of profits or losses. It is the profits or the loss of time t that determine the business decisions of the entrepreneurs, generating the causal link between market outcomes and production decisions (investments) that bind time t to time $t + 1$, the latter to time $t + 2$, and so on.

Indeed, the equations of market prices included in the "Treatise" suggest that the disequilibrium can be determined by the difference between *ex ante* savings and investments. Since savings do not vary greatly from $t + 1$ to $t + 2$, the cause of the disequilibrium can easily be attributed to decisions of investment in fixed capital. Subsequently, in the shift from "Treatise" to the "General Theory", Keynes seems to be driven by the academic debate to some analytical changes about the causal links that are the basis of cumulative processes. Among these changes, it is possible to find that of a causal link between stock variations and production decisions, with prices that only vary because of variations caused by monetary costs.

This sequence does not appear in the "General Theory", but a different explanation of the doubts arising from the scheme adopted by Keynes can be related to a theory based on increasing short-term supply curves. The assumption of increasing cost curves can be traced back to Hawtrey (1928), who links the general price level with some business theory, thus trying to join monetary theories and value theories.

Keynes simply assumes a different impact of demand variations, depending on whether or not they are foreseen. If they are not foreseen, the first effect is assumed on prices and stocks and only later on production. If such variations are foreseen, prices only vary in relation to the decreasing returns curve, while multiplier effects have an immediate effect on real variables.

Ultimately, however, Keynes does not seem to have a joint theory of price formation based on the structural features of the markets. Therefore, is the innovative character of the "General Theory" missing? Indeed, the analysis of cycle in the "General Theory" assumes an innovative approach to the inclusion of expectations in the process of entrepreneurs' decision-making. In the "General Theory", Keynes does not seem to be particularly interested in defining the set of causal links that can contribute to determining the direction of expectations. Rather, it appears that its real goal is to connect entrepreneurial decisions to actual aggregate demand.

This results in a definition, though not conclusive, of effective demand that would seem to bring it back to the level of activity that businesses decide on the basis of a demand expectation, given the production conditions. Since the theoretical context that Keynes gives us is characterized by the overall characteristics of a capitalist monetary economy, the previous definition can refer to a concept of effective demand that, given the (increasing) cost curves and the short-term maximization conditions, corresponds to that "value" of expected value that maximizes short-term profits. It is on the basis of such expectation that the entrepreneur decides on the current level of production, employment and the supply price.

4. Formalizing an interpretive scheme

If we specify A as the expected revenues from the companies, we can derive the aggregate supply function as follows:

$$A = P \cdot Y \quad \text{where } P = \text{Prices}; Y = \text{Production} \quad (1)$$

$$P = W / \Pi \cdot (1 + q) \quad \text{where } W = \text{Wages}; \Pi = \text{Profits} \quad (2)$$

$$Y = \pi N \quad \text{where} \quad \pi = \text{Technical conditions}; N = \text{Number of workers} \quad (3)$$

Thus, the supply function can be rewritten as follows:

$$A = W / \pi(1 + q) \cdot \pi N = W(1 + q)N \quad (4)$$

As entrepreneurs know both current wage and the applied level of profit per produced unit, for each level of employment it is possible to determine the revenue that the entrepreneur considers indispensable to realize over time his own plans.

The revenues derive from the sales that the companies manage to achieve towards the household sector, the business sector and the public sector.

Therefore, the expected revenues can be summarized in:

$$B = \text{Consumption} + \text{investment} + \text{public spending}$$

However, entrepreneurs can only rely on household consumption, given the consistency of the consumption of the same households in the short term. Indeed, investments are decided by other companies, as the considered company, as a result of estimates about the expected returns. Micro level and macro levels interact, canceling any company-wide strategic certainty. In addition, public spending is decided by the government on the basis of very complex variables, compared to the simple employment data.

If it is determined that consumptions are a function of income net of taxes, under equilibrium conditions, the result will be:

$$Y = \Pi / W(q + t) \cdot (G + I) \quad \text{where} \quad t = \text{Taxes}; G = \text{Public spending}; I = \text{Investments} \quad (5)$$

Hence

$$N = 1 / W(q + t) \cdot (G + I) \quad (6)$$

The final result is that the level of employment is determined in the following way:

$$N = 1 / W(q + t) \cdot (\text{autonomous demand}) \quad (7)$$

This means building an aggregate demand function by correlating the expected revenues of businesses at different levels of employment. Revenues that depend on the sales levels, given the prices. And this, since:

$$A = PY; \rightarrow A = W / \pi(1 + q) \cdot \pi N = W(1 + q)N \quad (8)$$

Function that relates the expected revenues to different levels of employment.

Therefore, it seems obvious that if business decisions, about future production levels, depend on whether or not the expectation conditions are met, changes in the decisions themselves can only result from changes expressed by the market.

The formulas used make it possible to link the variation in expectations to variations in the overall spending decisions expressed by the market.

This expresses the Keynesian approach according to which what determines the investment is not the interest rate, which can be synthesized in a complex of circumstances that affect the medium to long-term. As argued by Napoleoni (1985), in order to be able to reflect, this set of circumstances in Keynes's model, it would be necessary to assume a highly rigid function of investments with respect to the interest rate. This assumption, however, contrasts with the Keynesian one that money can be required as a demand for wealth in general. This implies that demand for money should be perfectly elastic with respect to the interest rate.

On this basis, and with these functional definitions, effective demand and supply become the two faces of an identical phenomenon of price and production decisions attributable to the same decision-making unit (single enterprise or business group). This is because the actual demand corresponds to the current level of production decided on the basis of the expected demand.

Therefore, the values to be related to understand the evolution of the system concern: 1) the actual demand; 2) the expected demand; 3) the current demand; 4) the demand that will be realized on the market.

Different moments of market evolution and consequent behavior of actors that influence each other in their temporal interconnections. However, Keynes is convinced that such connections and relationships cannot be defined a priori in their own mark. His goal is to reach the definition of effective demand for the whole system not

by summing up the actual demand values of individual businesses, rather by aggregating individual demand curves and expected demand in order to be able to calculate the global volume of current production (Morselli 2012).

However, it is evident that this is still an aggregation process that is not intended to automatically ensure the consistency of decisions. It seems to be a method that Keynes chooses for two reasons: 1) exemplification of behavioral hypotheses; 2) the possibility to explain the functioning of the system by comparing demand curves and supply curves.

5. The absence of automatic mechanisms and the neoclassical synthesis

The central theme of the Keynesian analysis is the affirmation of the existence of automatic equilibrium mechanisms that can ensure the full use of resources to the capitalist system. This theme can be considered as a logical and scientific pathway that leads to the revolutionary result of the underemployment equilibrium. This result, in turn, will lead to the interpretation of the Keynesian scheme under the name of "Neoclassical Synthesis". This synthesis draws its origin from two articles, one by Harrod (1937) and the other one by Hicks (1937).

Both accomplish a very gratifying operation at the academic level, consisting in formalizing what Keynes did not know or want to formalize. However, they add some changes to the Keynesian model, in order to build a simultaneous equilibrium model. The model is known as the IS-LM scheme, so named after the curves that appear.

Compared with the Keynesian orthodox model, the interest rate is included, as a further reference variable for the consumption function, as well as the investment function income. Thus, the same model includes the money demand for speculative purposes with broader expectations. The result is to come up with a formulation of the demand-supply function of money, which includes both the Keynesian assumption (liquidity trap) and the classic assumption (constant income).

However, in the construction of LM, the money supply appears to be binding, given and perfectly exogenous. Is this a plausible and Keynesian assumption? It is reasonable to think that monetary authorities will be inattentive to varying levels of income? The answer is no. It is more plausible (unless one admits that the only possible level of income is that of full employment) that monetary authorities seek, at least, to keep the relationship between money supply and real income constant. If this were not the case, the assumption of neoclassical synthesis would lead to unexpected changes in the price level.

It is possible to overcome such problems by considering, for example, the assumption of the functioning of labor market that introduces mechanisms that recall Walras's general equilibrium scheme (Modigliani 1944, 1963). In fact, a minimum wage is assumed (W_0) that, if it is not the subsistence wage, in terms of pure reproduction of the workforce, it is defined as the wage below which unions are unwilling to go down. Therefore, however, one introduces a not so realistic representation on the historical level, in the absence of a social pact. The real wage is (W_0/P), it is assumed that to the current wage given (dependent on P) the labor supply is infinitely elastic. The labour demand function (which defines the relationship between Y and N) is connected to the real wage through a direct relationship with marginal labour productivity. The relationship between labour demand and supply defines the equilibrium employment level which, of course, increases with the increase in prices (and falling real wages); As the employment increases, the income generated increases. The latter, given the nominal wage, is a variable that increases with the increase in the price level. The pair of equilibrium values of real income and prices, which determines the meeting between global supply and global demand curves (IS-LM), becomes function of the amount of suspended money (to use a Marxian term) and of the minimum wage accepted.

Therefore, in this scheme, what can unemployment, or any level of employment less than full employment, result in? Obviously, a bad relationship (in terms of value) between the amount of money and the level of monetary wage, caused by restrictive monetary policies or resistance by trade unions.

As highlighted by Napoleoni (1985), the synthesis is, therefore, a free interpretation of a working scheme of the capitalist economy with social agents, both public and private, that operate on the basis of their own motives. Therefore, this scheme cannot be called Keynesian or Anti-Keynesian.

6. Interpretations of the capitalist system

If, for a moment, we abandon Keynesian ideas, we can introduce some alternatives to the possible functioning scheme of the capitalist mechanism. We can, for example, think of an underemployment equilibrium resulting from the downward rigidity of interest rate; or determined by the inadequacy of long-term expectations, even at a zero-interest rate. Furthermore, as Patinkin claims (1965), it is not impossible to assume the effects of a price variation on demand for goods due to variations induced on the real wealth of the various economic agents.

In this context, we can refer to Friedman (1962) and the monetarist school, assuming a long-term model with flexible wages and prices. After all, economic variables have often been more flexible than socio-political variables, and it is therefore possible to imagine the full effect of wealth in a framework of full trend towards balances.

All of the aforementioned theoretical trends are based on the refusal of corrective public intervention, given the long-term trends. The Keynesian ideas start from the assumption that what determines the flow of investment is not the interest rate and that money can be demanded as a pure, generic and indistinct symbol representing wealth in general.

These latter statements are taken seriously by Patinkin (1976). He says that if the money is demanded for itself, it appears as an indicator of uncertainties. In addition, says Patinkin, if we interpret the "General Theory" as a dynamic theory of underemployment disequilibrium, as a result of a fall in the marginal capital efficiency curve quicker than the fall in the interest rate and monetary wage, we can imagine varying the possible variables to reverse the sign of uncertainty.

Patinkin's theory, in this context, is important. Although in a non-Keynesian theoretical framework, the introduction of the marginal capital efficiency curve raises the following problem: when we assume underemployment equilibrium or disequilibrium, do we only focus our attention on unemployed workers or on underused facilities too?

If, in fact, we pay attention to the role of entrepreneurs too, and to their equilibriums, unemployment can be the consequence of so many other disequilibrium, but never of an equilibrium. Keynes's problem, on the contrary, is the explanation of the causes of the underemployment equilibrium, defined as a chronic unemployment state and independent of any divergences between aggregate demand and production capacity of the system. A production capacity that can be used without guaranteeing full employment (Patinkin 1948).

Keynes regards affliction and anguish as two stable elements of capitalist development. Affliction and anguish that in a world without rules and without guarantees, more or less negotiated, can only induce capitalists to plans which can be reduced and easily manipulated as events unfold the result, in Keynes's opinion, that looks at the long-term period as a chained, but always nebulous, combination of short-term periods, is an economic system that seeks to settle around a position of capitalist equilibriums marked by unemployment (Keynes 1937*b*). This results in a conception of a living wage regarding the entire working class and which can be defined as "total wages" derived from the 'level of employment, a drop under which it would endanger life' (Leijonhufvud 1968, Morselli 2012).

Therefore, a condition marked more than by waste, by the total underutilization of resources which, because of the uncertainties, seems to be, in Keynes's opinion, the true characteristic of mature capitalism. Uncertainties and underutilizations that, by affecting each other, cause chronic demand and employment deficiencies. Then the few certainties that Keynes seems to welcome concern the monetary wages linked to political-institutional (and therefore conventional) elements of the system. But more important are the features of the legal money, which allow its interest rate to limit the compatible drop in other rates. But the underemployment equilibrium is also characterized, according to Keynes, by the lack of automatic readjustment mechanisms towards full employment. His conception of capitalist relations, in a world marked by potential imbalances in industrial relations, convinces him that capitalists consider the monetary wages irrelevant with respect to the change in the rate that determines the volume of investments; whether the interest rate on money or any other rate. And above all, because the monetary wage is the result of the same industrial relations that can be influenced by the meeting between supply and demand. Moreover, there is no guarantee that the flexibility of monetary wage can lead to increases in employment. Changes in the monetary wage, if they do not affect the expectations of workers and entrepreneurs, cannot lead to effects on production (Keynes 1937*b*).

Perhaps a deeper reading of such relationships could lead to Sraffa's thinking (1925), but taking the road to a historicizing of capitalist relations and consequent industrial relations would not be helpful, given that the expectations referred to by Keynes are a complex set of subjective facts and objective elements enumerable, but not always convertible into theories.

7. Keynesians, New Keynesians and Post Keynesians

As we have seen, at the basis of Keynesian thinking we always find the following problem: how to make individual and collective decisions with limited knowledge of the future. This theme, in the nineties, gave rise to two different theoretical pathways under the Keynesian methodology.

New Keynesians move in the context of a general equilibrium in which the future is presumed to be known. Their theoretical contribution is to incorporate different forms of market imperfections in the analysis of the causes of unemployment (Andersen 2000).

Whereas *Post Keynesians* follow the original context of Keynesian methodology, where the future is unknown, implying that the structure of the economy is open and constantly changing (Jespersen 2009).

The *New Keynesian* reference model is very far from the Keynesian positions of the “General Theory”, while it seems to be close to the new traditional neo-classical theory. The element that distinguishes them from the neo-classical theory is the assumption that market imperfections may in the short term block the general equilibrium. If the economy is not in equilibrium, as it did with the 2008 financial crisis (Morselli 2010), the New Keynesian model requires a few years until prices and wages adapt to a new long-term equilibrium of full employment. The more imperfections are introduced into the model, the greater the deviation from the state of equilibrium. In this transient phase, even the *New Keynesians* acknowledge that a temporary increase in effective demand may accelerate the process of rebalancing and thus reduce involuntary unemployment. Then economic policy is able to reduce adaptation time, so that the new equilibrium can be reached more quickly without triggering an inflationary process. (Morselli 2016).

New Keynesians are interested in studying imperfections in labor supply. It is the structure of incentives that modifies the behaviour of the unemployed and creates structural unemployment. In the case where one seeks to reduce unemployment, labour-market, social and fiscal policies are addressed, as the cancellation of demand in this perspective is only of a temporary nature (Layard *et al.* 1992).

To sum up, for *New Keynesians*, the fight against unemployment goes through an increase in wage flexibility and labour mobility to intercept realistic variations in demand. In addition, even the reduction in social welfare benefits and funding can stimulate job search and productivity growth. In all this, it is possible to see a more realistic development than Lucas’s market equilibrium model (1987). The difference is seen in the adaptation mechanisms in which *New Keynesians* recognize the rigidity of prices and wages that cause slowness and disequilibriums in the path leading to the new general equilibrium.

The other Keynesian current of thought, represented by *Post Keynesians*, starts from Chapter 19 of the “General Theory”, where full occupation was an exception rather than the rule. In addition, the other key point is the importance of expectations for economic decisions. Keynes (1921) in the “A Treatise on Probability” had already analyzed the question: what is meant, with reference to reality, by *rational expectations* when the future is uncertain? This means that Keynes (and *Post Keynesians* with him) uses the concept of *rational expectations* in a different meaning from *New Keynesians*, inspired by Lucas. For Keynes, it is not reasonable to expect that the economic system can spontaneously, in a few years, converge towards a general equilibrium. The hypothesis that the future is known with certainty would have been defined by Keynes as irrational (Jespersen 2009).

The formation of post-keynesian expectations excludes that macroeconomic outcomes can be reached on the basis of a generalized microeconomic theory. If this were to happen, aggregation errors would be made. A large number of microeconomic behaviours of different individuals cannot simply be aggregated into a macroeconomic behaviour equation that describes the behaviour of all consumers in a single mathematical equation. This would mean that total consumption can be determined as n times the average consumer microeconomic behaviour. This macro-economic behaviour relationship at the micro level must have a series of aggregation errors, which include: that the formation of the expectations of individual households will be different; that families influence each other’s future expectations, for example through the effect of neighborhood, publicity and social hierarchies, in which group behavior becomes relevant (Jespersen 2015).

Such aggregation errors occur when, for example, the macroeconomic investment function is based on the investment strategy of an optimal single average enterprise. The scenario is out of control in areas where microeconomic behavior is marked by speculation, which by nature requires that the individual believes he knows the future better than the majority. If all speculators were the same, there would be nothing to trade on, as an exchange between two speculators assumes that the future is valued differently (Jespersen 2009).

The economy is a human activity and, therefore, decisions are made in uncertainty. The future is uncertain and for this reason different decisions of subjective nature are made. This was Keynes’s main methodological contribution, i.e. to incorporate uncertainty in macroeconomic analysis (Morselli 2017). It is precisely the element of uncertainty that leads Keynes and *New Keynesians*’ Keynesianism to be in conflict with each other. This is due to the fact that the interpretation of the new *New Keynesians* has taken as a basis the neo-classical general equilibrium model, which assumes that the future is known with certainty.

Conclusions

Ultimately, in the light of the foregoing, it seems plausible to think that full employment is incompatible with any level of real wage. In fact, is it conceivable that, given the cost structure, real wage growth does not lead to a decline in employment? And is it conceivable that Keynes had something similar in mind when he theorized the stimulating role of “additional demand”?

At this point, we have to agree with Napoleoni (1985), who assumes that the Keynesian representation includes, alongside the “additional demand”, a more or less marked inflationary effect. If this were not the case, we would have, theoretically, stable or growing wages and growing employment with a different conception of the above-mentioned concept of living wages incorporating the wider concept of total wages. Rejecting this concept there is the risk of reviewing the entire consolidated structure of distributive theories. Coupling increases in public demand with private demand, preventing inflationary impacts, is possible in a political-social-institutional framework other than capitalism, producing positive effects also on employment levels. In a capitalist context, the same goal is equally possible, for certain periods of time, with rigorous income policies, that is through an agreement on distributive quotas.

We can think of putting next to the private entrepreneur, the public entrepreneur (as replacement), or admitting direct public financing of private consumption demand; but in this context, we would be faced with a mix of Malthusian theories (Malthus 1836), Welfare State and Socialism. A kind of political-economic experiment, the result of extraordinary political-ideological syntheses with a blend of solidarity and ideological conveniences whose outcomes are doubtful over the medium to long run. According to Napoleoni (1985), the responsibility for such ideological mixing is partly attributable to the incomplete formulations of Keynes’s “General Theory”. He also states: “... so it was that Welfare State and the especially Keynesian policy of propulsion and stabilization entered a state of crisis at the same time, with a contemporaneity that is the image of what their solidarity should have been.”

Keynes does not think that there are economic laws that can uniquely determine capitalist ‘equilibrium.’ Uncertainty is one of the conditions that cannot be eliminated, which can make the equilibrium unstable and precarious. Thus, his goal is to find possible improvements in the techniques of modern capitalism through collective action, beyond the rationale of “*laissez-faire*”. By collective action, Keynes means the socialization of investments; that rationalizing intervention of the ‘politician’ that Weber (1978) sees as natural.

For Keynes in a monetary economy of production combined with uncertainty, the theoretical purity of the innovative entrepreneur does not lead to equilibrium, but to an underemployment equilibrium with an arbitrary distribution of income and wealth. Otherwise, a governed capitalism can represent the closest frame to the most efficient system to achieve economic goals.

In a world characterized by limited knowledge of the future, the danger of committing an atomistic error can be greater at individual level. Uncertainty will be more pronounced at individual, rather than institutional level. It would therefore be rational if collective decisions were taken in areas where a number of individual decisions have consequences that are not immediately recognizable individually. Social institutions in the form of welfare state, collective agreements in combination with a stability-oriented economic policy can limit the effect of the lack of coordination between the micro level and the macro level of the economy. This reduces the risk that an atomistic error will occur in macroeconomic analysis (Jespersen 2009).

Keynesian macroeconomic methodology is based on realism. The main theme has always been trying to figure out how to make rational decisions with limited knowledge of the future; and the consequences of such decisions made in uncertainty. Thus, macroeconomic theory can become abstract; In fact, this is the case with the “General Theory”. In the final part of this work Keynes emphasizes what constitutes its main methodological contribution: the object of our analysis is not to provide a machine, or a method of blind manipulation, that gives us an infallible answer, but to provide us with an organic method to devise particular problems; and, after reaching a provisional conclusion by isolating one by one the complication factors, we must return to ourselves and consider, as best we can, probable reciprocal reactions of the factors considered (Keynes 1936, 265).

In order to reach as close as possible to relevant conclusions in the macroeconomic field, it is important that the theory rests on realistic bases. This is the methodological basis for Post Keynesian theories.

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