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On Austrian - Post Keynesian Overlap: Just How Far is New York from Knoxville, Tennessee?

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'You'll say we've got nothing in common,
no common ground to start from'
- from 'Breakfast at Tiffany's'
by Deep Blue Something

Abstract

The paper critically explores Davidson's axiomatic-based argument that Post Keynesian and Austrian economics lack meaningful analytical overlap. It challenges his dismissal of the Austrian perspective as little more than a poor relation of orthodoxy which offers little gains in intellectual trade for Post Keynesianism. It will be maintained that the Austrian approach shares all of the axioms, and more besides, highlighted by Davidson as the sole preserve of Post Keynesian economics. He concedes too little to the Austrians and too much to Keynes and the Post Keynesians. Davidson neglected the evolving intellectual affinities between these two research traditions by ignoring areas of commonality and exaggerating the extent of discord. He endeavoured to diminish the standing of Austrian economics by reducing it to a special 'backwater' of neoclassicalism whilst at the same time promoting his own particular variant of Post Keynesianism as a general representation of the entire school partly in order to present a more unified and cohesive alternative to the mainstream than in actuality.

1. Introduction

Paul Davidson's (1989) review of O'Driscoll and Rizzo's *The Economics of Time and Ignorance* (1985) provided him with the opportunity to reject any meaningful analytical overlap between Post Keynesian[2] and Austrian economics and to question the potential fruitfulness of communication between the two respective research traditions. His argument appeared to rest upon, firstly, a denial that the Austrian approach sufficiently challenged orthodoxy since it shared the same axiomatic foundation as the latter and, secondly, the assertion that Post Keynesianism provides the only true alternative to mainstream economics since it is based upon a different axiomatic framework. A deep antipathy is displayed toward Austrian dialogue on the grounds that it merits neglect as 'an idiosyncratic backwater of economics' (Davidson, 1989, p.476) and an enthusiastic premium placed upon the need to engage and debate with the core of orthodoxy. Advocates of Austrian economics are perceived as deluding themselves and others: it is suggested that they merely claim intellectual product differentiation from the mainstream whilst in actuality they represent an indistinguishable and undistinguished subset of the latter. The Austrian emperor is seen to be without clothes. These themes are repeated in Davidson's (1993) rejoinder to his critics: he continues to locate Austrian economics within the conventional orthodox camp and to draw a wide unbridgeable divide between Austrian and Post Keynesian economics. His more recent statement (Davidson 1996) indicates that he has not altered his original stance in any major respect.

The present paper challenges Davidson's dismissal of Austrian economics and his attempt to deny overlap and the gains from intellectual trade. It does so by largely accepting Davidson's terms of engagement, namely, to explore the relationship between research traditions by his method of comparing their axiomatic foundations. It cannot accept, however, Davidson's tendency to dramatically overemphasize the differences between Austrian and Post Keynesian economics whilst simultaneously ignoring similarities. The central purpose of the present paper is to demonstrate that Austrian economics shares all of the axioms highlighted by Davidson as the sole preserve of Post Keynesianism so that *on his own terms* Austrian economics cannot be reduced to an inferior representation of the mainstream. In terms of the axiomatic approach *alone* it makes far more sense to couple Austrian and Post Keynesian economics than match the former research tradition with neoclassicalism. Davidson would reject such a strategy presumably on the grounds that it would pose a degree of epistemic threat to Post Keynesianism's differentiated intellectual product and question his reading of the uniqueness of Keynes's revolt against orthodoxy. In short, strictly with regard to the axiomatic assault upon orthodoxy, Davidson concedes too little to the Austrians and too much to Keynes. In addition, it will be maintained that Austrian and Post Keynesian economics have other notable features in common: the Austrians anticipate much of the Post Keynesian critique of rational expectations and share a concern with highlighting the behavioural and institutional deficiencies which often, at best, remain underemphasised in mainstream economics. On the expectations front, both traditions emphasize reasonable (or sensible) expectations whilst on the institutional front their is a joint recognition of the importance of rules and conventions embedded within social structures. A clear source of continued conflict with regard to both institutions and human agency exists: i) the Austrian research agenda highlighting the centrality of automatic invisible-hand mechanisms and spontaneous order (alongside likely designed disorder) whilst much Post Keynesianism focuses upon discretionary government corrections and designed order (alongside spontaneous disorder); ii) the Austrians have embraced individualism and subjectivism within a framework of situated human agency (see Oakley, 1997) which provides bounded scope for creative action in a given context and a sophisticated form of reductionism. Such an approach shares some family resemblance to a limited number of Post Keynesian treatments. For example, whilst Sawyer (1990, p.45) has suggested that there is a 'general Post Keynesian position of the relevance of institutions and history' and highlighted the 'institutional realities' underpinning economic activity, the nature and application of individual choice and meaningful human action within such an institutional setting remains a problematic in most Post Keynesian treatments. In general, both schools largely reject homo economicus accounts typically presented by orthodoxy as devoid of crucial decision-making and detached from any given situational context.

The present article is far more concerned with those features of Post Keynesian economics which are more easily compatible with the Austrian approach, given that Davidson maintains that there are none.

There are, of course, important differences between the frameworks but these do not relate to the axiomatic elements which Davidson dwells upon. A widening of discourse removed from a Davidsonian concern with core axioms would indicate that there are several major tensions between these respective research traditions. However, we shall find that in focusing upon the Post Keynesian rejection of the orthodox axioms of i) gross substitution, ii) reals, and iii) ergodicity, and their replacement, Davidson inadvertently highlights those features most compatible with Austrian economics. In order to restore some balance to the debate, attention will be directed to matters of agreement rather than disagreement between and within these two schools. A key conclusion of the paper is that Davidson exaggerates both the axiomatic differences between Post Keynesian and Austrian economics and the extent of axiomatic agreement within the Post Keynesian approach. He appears to accept that there is such a unified and coherent entity as the Post Keynesian school even though this matter remains contestable within the literature (see, for example, Walters and Young, 1997).

Given my primary concern with emerging commonalities between aspects of Post Keynesian and Austrian economics I shall largely accept his representation of the former (but reject his representation of the latter) in section three of the paper in order to focus upon the pivotal point that they share axioms. Before getting to the crux of the matter there is a need in section two to explore both the evolving affinities between Austrian and Post Keynesian economics, which Davidson conveniently neglects, and to acknowledge the more cohesive and increasingly well-defined intellectual product of Austrian economics.

2. Evolving intellectual affinities

The present article is in general agreement with O'Driscoll and Rizzo's argument (1985, p.9) that there is 'much common ground' (intellectual overlap) between Austrians and Post Keynesians so that 'mutually advantageous interchange' seems likely. The Austrians offer, I would suggest, a *complementary* rather than a contradictory perspective on those very axioms which Davidson sees as providing a non-Euclidean alternative to mainstream economics.[3] A significant omission in O'Driscoll and Rizzo's original argument (repeated in their 1996 reissue) and in Davidson's initial review was the failure to seriously address the changing historical relationship between the respective research traditions and the nature, degree and extent of positive dialogue to date.[4] Prychitko's (1993, p.376) charge against Davidson of a lack of 'appreciation of the historical development of the two schools of thought' can also be applied to O'Driscoll and Rizzo (albeit in a reduced form). In addition, especially with regard to Davidson, there was a neglect of intellectual geography relating to the location, concentration and movement of key ideas and actors within and between these research traditions. Davidson ignores the matter of heterogeneity within both Austrian and Post Keynesian economics and proffers, as Torr (1993) makes clear, a highly selective comparison under the guise of a more general treatment. As Boehm and Farmer correctly argue (1993, p.410), 'For Davidson, however, Austrian economics presents itself just as monolithically as Post Keynesian economics'. What we get is a comparison of one particular variant of Austrian economics alongside another particular variant of Post Keynesianism without any consideration of the representative nature of such variants within their respective research traditions and the standing and coherence of these alternative 'schools'. As Walters and Young (1997) make clear the Austrians appear far more developed as a school (even given their reservations on aggregation and collectivism) than Post Keynesianism where question marks remain over its status as an alternative 'school' of thought.

Davidson's rather purist and uncomplicated account conveniently draws a veil over more eclectic and open attempts to explore the potential gains from trade of Austrian and Post Keynesian intellectual exchange. The work of both Shackle and Lachmann was directed at intellectual bridge-building between Fundamentalist Post Keynesianism and Austrian economics. Shackle took an early stance (1954, pp.7-8) in consistently arguing against the purist and superficial position, widely favoured at that time and this, that Keynes and Hayek stood in total contradiction to each other. Lachmann (1976) examined the link between Shackle's kaleidic society and Misesian economics and their sharing of 'a common outlook'. He has also explored the significance of Keynes's contribution from an Austrian perspective by endeavouring to identify 'regions of congruity'. The main area of dispute between Keynes and Hayek was seen to reside in empirical/historical assumptions (made during the 1930's) related to the relative strength of forces of change and inertia in capitalism rather than irreconcilable theoretical differences (see Lachmann 1983). Lachmann hoped that in future there would be greater convergence (within and between these two research traditions) on the basis of a more open assessment of the relative strength of the forces of equilibrium and disequilibrium including the matter of convergent versus divergent expectations. This led Kregel (1986, p.158) to characterise Lachmann's contribution as 'an important synthesis of Austrian and Keynesian elements'.[5]

Davidson (1993) appears to be inconsistent on the importance of Shackle's intellectual bridge-building: on the one hand he reduces dialogue between Shackle and the Austrians to in-house communication since Shackle is presented as 'a very humane Austrian' rather than a Post Keynesian (this is reinforced by the association of Lachmann with Shackle on the grounds that they share a common kaleidic approach); on the other hand he alludes to important similarities between Shackle, Lachmann, and Post Keynesianism on the matter of a creative reality which separates them from other Austrians who are alleged to assume an immutable reality.[6]

Others have anticipated or followed the eclecticism of Shackle and Lachmann by drawing attention to the possibility of fruitful exchange between Keynes or Post Keynesian and Austrian economics. Hicks (1967) suggested that there was no reason to treat Keynes and Hayek as mutually exclusive since neither fitted the general case but both offered important partial explanations appropriate at particular times. He also claimed (Hicks 1982) that Keynes was more suitable for short-run problems and Hayek for the long-run so that there were few real tensions between them. This echoes the early argument of Haberler (1937) and Durbin (1934), made during the initial Keynes-Austrian macro debate, that a synthesis of such views (along with others) would be more appropriate than reliance upon a single theoretical framework. It was perhaps Gilbert who made the strongest and most sustained early pleas for increased Keynes-Austrian overlap. As early as 1953 he advocated the case for intensified integration as a 'step in the right direction' (see Gilbert, 1982a, p.92, pp.99-100 and 1982b, pp.4-8). More recently a number of economists have identified areas of close affinity. For example, Boehm (1989) has drawn attention to subjectivist links between Keynes, Post Keynesian (Shacklean) and Austrian economics whilst Dow (1990) and Lawson (1994), amongst others, highlighted a shared philosophical perspective between Austrian and Post Keynesianism grounded in some variant of realism. It is interesting that Maki (1990, p.322) and Oakley (1997, p.33) point to realist elements in Austrian economics and the fact that they embrace both an ontological and methodological individualism that cannot be reduced to either crude reductionism or Robinson Crusoe detachment removed from situational context.[7]

Davidson takes O'Driscoll and Rizzo's (1985) brand of Austrianism as representative of the school as a whole without any consideration of their actual location within the spectrum of Austrian economics or the size of the margins which demarcate its intellectual space. He uses their work to create an Aunt Sally of dubious neoclassical provenance. This contribution of O'Driscoll and Rizzo is open to interpretation but Davidson provides a very forced, unsympathetic and uncharitable reading; he constantly endeavours to reduce their argument to orthodoxy by rejecting their radical axiomatic claims and exaggerating their equilibrating tendencies. It would be more appropriate to view the work of O'Driscoll and Rizzo as an attempt to reduce the margins defining the terrain of disagreement within Austrian economics: they desire to pull together the rival wings within the school in order to provide an enhanced and more united intellectual product clearly differentiated from mainstream economics and display a willingness to identify commonalities with other non-orthodox traditions (including any subjectivist-friendly Post Keynesians). Boehm (1989) has alluded to the two separate wings within Austrian economics marked out by the work of Kirzner (closer to the neoclassical mainstream) and Lachmann (closer to Keynes and the Post Keynesians). Although O'Driscoll and Rizzo dedicate their book to Lachmann they are concerned with forging a rapprochement or reconciliation between these rival strands of Austrianism: they want to unite the Kirznerian vision of the entrepreneurial discovery of existing opportunities and the Shacklean vision of entrepreneurial creativity manufacturing new opportunities. As they state (1985: 11), their aim is to 'avoid both the position that creative choice is impossible, and the position that all choice is creative and unbounded'.

In the recent, 1996, reissue of *The Economics of Time and Ignorance*, Rizzo writes an introduction surveying developments in Austrian economics since the initial publication of the book, just over ten years earlier, which are seen to reinforce rather than diminish their earlier endeavour. He argues that the Kirzner and Lachmann wings have moved closer together following 'a more profound recognition of the importance of disequilibrating forces' and an increased focus upon 'endogenously-produced change' (representing some movement by the Kirznerian conventional strand toward the Lachmann position) alongside greater attention toward 'the prerequisites for equilibrating behaviour' leading to the 'reconciliation of equilibrium and unpredictable change' (representing the movement of the Lachmann radical strand toward the Kirzner position). In a key footnote Rizzo (1996, p.xxxii n18) suggests that Kirzner's more recent approach is now very close to Lachmann: they both accept the need to consider openly the relative strength of the forces of equilibrium and disequilibrium appertaining in the economy at any particular time.

It would appear that Austrian economics is evolving into a more unified and coherent research tradition combining elements which both complement and seriously challenge the mainstream.[8] Its longevity, and more recent sustained revival, alongside its displayed coherence, unity, and clearly differentiated intellectual product, offers a much more attractive and robust alternative framework to orthodoxy than Post Keynesianism. Davidson displayed little interest in the intellectual dynamics within Austrian economics or its ongoing positive dialogue with Post Keynesianism; he was rather more concerned in reducing Austrian economics to a minor subset of orthodoxy - emphasising its complementary mainstream nature and downplaying its challenging radical elements.

He pursues a similar, but reversed strategy, with regard to Post Keynesian economics. In his characterisation of this research tradition Davidson reduces all discussion, in its essentials, to the fundamentalist strand, conveniently neglecting the contributions of both Kalecki (see Walters and Young, 1997, p.339) and the surplus approach subset (see Torr, 1993). This procrustean approach to Post Keynesianism enabled him to emphasise those elements which challenge orthodoxy and downplay those aspects which complement it. Much of the lack of cohesion within Post Keynesian economics relates to the major disagreements between those fundamentalists, who largely uphold a radical subjectivism orientated toward the short-period, and the surplus school, embracing a general objectivism orientated toward the long-period, with Kaleckians, who reject the long-period method whilst adopting a class-based framework, sandwiched in between. The continuing marriage between Keynes, Kalecki and Sraffa remains stormy at the best of times. It is hardly surprising that Davidson should ignore both the Kalecki and the Sraffa cum Marx cum Ricardo connection: *the axiomatic foundations* of both strands appear to be in *greater conflict* with Davidson's selective brand of Post Keynesianism and my non-Davidson brand of Austrianism and in *greater harmony* with the mainstream. Both of these factions of Post Keynesianism largely reject subjectivism, uncertainty and money, as primary areas of concern. Representatives from both strands have suggested that the Post Keynesian synthesis could be dissolved into Post Kaleckian (see Sawyer, 1985) and Post-Sraffian (see Eatwell and Milgate, 1983) elements clearly distinguished from Keynes.

It seems to be an increasing tactic within Post Keynesian economics that a more coherent and united front is achieved by separating or defining out the surplus approach subset from the rest of the research tradition. For example, Dutt and Amadeo (1990, pp.147-151) distinguish between these specific neo-Ricardian Keynesians and Post Keynesians in general on the basis of a clash over the very axioms which Davidson established as the hallmark of his brand of Post Keynesian economics. Lawson (1994) suggests a similar line when he omits the surplus school perspective from explicit consideration on the grounds of a search for elements of coherency within Post Keynesianism. Any exclusion of Kalecki and the surplus school from Post Keynesianism makes dialogue and communication with Austrians more attractive, consistent and easier. Many of the problems of coherence recently alluded to by Walters and Young (1997) would simply disappear if both of these strands were removed from the analysis. Of course, several problems would remain, not least those associated with the Post Keynesian tendency to embrace macro aggregation and to maintain that 'there are macroeconomic relations which have no microeconomic counterpart' (Sawyer, 1990, p.62). Austrians such as Hayek and Lachmann have questioned the usefulness and significance of aggregation widely infecting most economic thinking. The former has highlighted the dangers and misuse of aggregation (see Hayek, 1978) and the latter the poverty of much macro economic formalism (see Lachmann, 1973).

3. Sharing axioms

O'Driscoll and Rizzo (1985, p.9) argue that Austrians and Post Keynesians display some commonality and intellectual overlap with regard to primarily fundamentalist propositions, originally highlighted by Davidson, concerned with the real impact of: 1) historical time; 2) genuine uncertainty, unknowledge and expectations; and 3) institutions. They suggest that his 'explication of these propositions increases, rather than reduces, the area of overlap'. A detailed examination of the central axioms of Post Keynesian economics subsequently elaborated upon by Davidson in several key articles shows that there is more than a grain of truth in O'Driscoll and Rizzo's claims. Indeed, we can add to this list a shared belief that 4) money always matters and 5) there is the possibility of grand economy-wide, or large-scale, coordination failure. The most problematical inclusion (leaving aside the import of matters appertaining to the particular variants of subjectivism and human agency actually employed, *how* money matters, and the *nature* of widespread co-ordination failure) relates to 3) institutions. Whilst both Austrians and Post Keynesians recognise that social, political and economic institutions directly impact and partly determine actual economic outcomes, they fundamentally disagree over whether spontaneous (Austrian) or designed (Post Keynesian) institutions work best to reduce instability and promote order. Davidson, we shall find, is correct to raise severe question marks over their respective treatment of institutions and their very different policy conclusions. He is wrong to deny and reject Austrian contributions on matters 1-5. His strategy is directed at removing any suggestion of overlap on the grounds that the Austrians provide an orthodox treatment of all these propositions so complementing the mainstream. As Davidson (1989) himself stated, 'Austrians have neither logically differentiated themselves from the neoclassical approach, nor raised major problems in it' and they are deemed to share the same 'identical axiomatic foundation' since they accept 'all the underlying fundamental axioms of neoclassical analysis'.

Much of Davidson's work has been concerned with identifying and developing Keynes's radical programme presented as firmly grounded in an axiomatic revolution. He concentrates upon the assumptional foundations underpinning Keynes's essential break from orthodoxy. I find little problem with the *logic* of Davidson's position here or with his interpretation of the nature of Keynes's revolution. Keynes did endeavour to 'smoke out' and make explicit the fundamental assumptions of orthodoxy; his methodological approach was directed at replacing their central axioms in order to remove the lack of correspondence (or goodness of fit) between the classical representation of the world and the facts of observation (reality).[9] There were three particular linked core assumptions of classical theory which were identified as problematical in the sense of not being representative of the world as it is and hence which allowed for the detachment of the Euclidean orthodoxy.

Classical theory assumed that: i) the economy faced no serious adjustment (coordination) problems; ii) a monetary economy could be reduced to a barter economy; and iii) situations of genuine uncertainty could be reduced to those of risk. These target axioms of Keynes continue to underpin mainstream economics such that Davidson (1984, p.561 and 1989, p.472) can rightly present them as captured by: i) the axiom of gross substitution; ii) the axiom of reals (or monetary neutrality) ; and iii) the axiom of an ergodic (immutable reality) economic world. Where Davidson comes unstuck is in his argument that the Austrians 'have not overthrown the [money] neutrality and gross substitution axioms and hence are incapable of producing a logical alternative to neoclassical economics' (1989, p.474) alongside his assertion that they 'postulate an immutable reality unchangeable by any human action (the ergodic hypothesis)' (1993, p.423).[10]

Davidson's axiomatic argument against Austrian economics and his attempt to create a new paradigm war between the two traditions cannot be sustained. Austrian economics is far more in accord with Davidson's variant of Post Keynesian economics and the crux of Keynes's theoretical revolution than he is willing to admit. Davidson's Keynes-based constructive critique of mainstream economics, with its rejection of 'the axiom of parallels' alongside the creation of a new non-Euclidean economics, *cannot* be so easily distinguished from the Austrians as he would simply like to presuppose. There is such widespread and deep-rooted intellectual overlap between these respective research traditions that his claims for a monopoly in axiomatic property rights must be seriously challenged. Davidson tries hard to introduce an unbridgeable divide between Austrian and Post Keynesian economics and severely undermine the agenda of the former by reducing it to an insignificant subset of orthodoxy.

Post Keynesians, such as Davidson (1991), argue that it is unwise to follow orthodoxy in treating probabilistic risk and genuine (true) uncertainty as synonymous and applicable to all economic decision-making. He has argued that mainstream and Austrian economics adopt a 'predetermined, immutable, and ergodically knowable' world environment unlike the 'nonergodic, unknowable, and transmutable' reality posited by Post Keynesianism (Davidson, 1996). It is maintained that agents recognise that they are often faced with an uncertain, undo-able (costly), unknowable, nonprobabilistic and creative economic world. Choices matter under genuine uncertainty: they are perceived as crucial in the sense that they help to create an, as yet, undetermined future. Davidson (1996, pp.498-502) links this notion of a transmutable (creative) reality to entrepreneurial decision-making (including investment choices) and cites the Keynes-Schumpeter-Shackle chain.[11] In such a world as this information and knowledge regarding realised future outcomes cannot exist in the present at any price. One can find little fault with this Post Keynesian vision apart from the fact that it fails to acknowledge that it is shared by the Austrians.

Davidson (1989) is wrong to reduce the Austrian concept of uncertainty to 'unexplained "gaps" in probability distributions' where complete information exists but 'is costly to acquire'. From its Mengerian origins Austrian economics has emphasised the crucial nature of time and ignorance. Menger recognised that human choice and action takes place within an environment of genuine uncertainty, unknowledge (sheer unknowable ignorance), and disequilibrium. Mises argued that human action was purposeful in the sense that it had the potential to make a difference by changing outcomes and he extended this creative and entrepreneurial element to all economic agents. Hayek emphasised the diverse and dispersed nature of knowledge alongside those knowledge-generating, supporting, coordinating, creating and developing aspects of the market-discovery process. He was all too aware of the fact that we 'cannot acquire the full knowledge which would make mastery of the events possible' (Hayek 1975, p.42). Entrepreneurial activity, within the Austrian framework, is directed at more than alertness to existing opportunities; it is about creating or originating new opportunities: there is a blending together of Misesian, Hayekian, Kirznerian and Shacklean elements (amongst others). As Caldwell (1997, p.1883) correctly argues 'the Austrian notion of "discovery" is quite different from the neoclassical idea of search'. Davidson, unfortunately, appears to conflate the two. Austrians can find little fault with his Keynes vision of a transmutable (creative) reality where 'today's human actions can create a new and different future reality' (Davidson, 1993, p.430); they share this Post Keynesian rejection of the ergodic axiom.

Within the Post Keynesian approach, money is deemed always to matter so that the axiom of reals (or the neutrality of money) is rejected and a monetary economy is clearly distinguished from a barter fiction. Davidson (1978, 1980) has highlighted and developed this particular aspect of Keynes's revolution and located it within an essential-properties-of-money approach with its emphasis on the liquidity-impacting effects on real production in a sticky money-wage and forward-price contractual environment. A monetary production economy can generate unemployment outcomes when an increased demand for money both reduces demands elsewhere and fails to lead to increased employment in the money-producing sector or slop over into an increased demand for more commodity-based money substitutes. No other asset provides money's particular, unique, degree of liquidity, grounded in its all pervasive exchange and production functions, or its power to postpone potentially costly errors. Money matters because it can impact directly upon the real economy and lead to negative income consequences which cannot be overcome by a reliance upon substitution-effect responses elsewhere. For Davidson, the rejection of the axiom of reals leads in turn to the rejection of the gross-substitution axiom. He criticises the Austrians for accepting the long-run neutrality of money (the axiom of reals), for reducing money 'to a commodity basis', and for presenting money and durable capital goods as gross substitutes (the gross substitution axiom). The Austrians are presented as decidedly orthodox on money. In what follows it will be argued, contrary to Davidson's mistaken interpretation, that the Austrians share Post Keynesian concerns and axioms when it comes to money although their respective treatments and elaborations differ.[12] Money always matters in both traditions and they should *both* be clearly differentiated from mainstream economics on this issue. Of course, *how* money is made to matter in each tradition is a separate issue.

The roots of Austrian and Keynes (Post Keynesian) monetary theory reside in the recognition that money pervades the exchange and production process so completely that it is illegitimate to present it as so insignificant that a monetary economy may be characterised as little more than a barter economy with money added as a fiction, the nth commodity, or an afterthought. The latter traditional treatment of money, with its barter illusion, has goods buying goods and goods producing goods without any reference to either historical time or money proper. The Austrians shared Keynes's concern with widening the task of monetary theory by fully integrating monetary and value theory and hence extending money into the realm of the real economy.

In the work of Menger we find an early attempt to provide a brand of monetary theory which deals with uncertainty, disequilibrium, and the essential properties of money: he provides us with an analysis of the origin and uniqueness of money as the most liquid, marketable, or saleable of all assets. This led Streissler (1973, 1982) to highlight Menger's contribution as 'moving in the same direction' and even anticipating Keynes's later fundamentalist insights. The monetary tradition of Menger was carried on by Mises in his classic *The Theory of Money and Credit* and his recognition (anticipating Clower and Leijonhufvud) that 'money is exchanged for commodities and commodities for money' reflected his bold attempt to integrate money into general economic theory. He provided an early model of the Austrian business cycle which - making great use of so-called Cantillon effects (or an acceptance of the *differential impact* of money injections) - was later extended and elaborated by Hayek to demonstrate how monetary disturbances could lead to real misallocations and discoordination. Hayek attempted an integrated money-real approach in his *Monetary Theory of the Trade Cycle* and *Prices and Production*. Neither Mises nor Hayek presented money as neutral; as Mises quite plainly stated in an essay entitled 'The Non-Neutrality of Money'(!) 'I wish to emphasize that in a living and changing world, in a world of action, there is no room left for a neutral money. Money is non-neutral or it does not exist' (1990, p.77). Money was given a distinctive and vital role in the exchange and production process such that it could impact via relative prices and the time structure of production upon the real side of the economy. As Cochran and Glahe recognise (1994, p.70), Mises and Hayek share the Keynesian (but not the classical) belief that the 'economy can suffer a coordination failure on a grand scale'. Unemployment, capital malinvestment and disappointed expectations can all result from monetary disturbance. There is no reason to presume that such adjustments and error eradications need be either smooth nor costless, for the Austrians they are neither. Davidson errs when he suggests that the Austrians see money and capital goods as gross substitutes. For the Austrians, as for the Post Keynesians, it is far easier to transform money into specific capital goods than the latter into the former when an economic crisis breaks. The investment decision, by both research traditions, is recognised as crucial, risky, potentially irreversible, and postponable. The Austrians do not embrace the axiom of reals but rather reject money neutrality; likewise they do not entertain the rather simplistic gross substitution axiom found in orthodoxy. The problems they endeavour to confront in their brand of monetary economics would simply melt away if they adopted the axioms of orthodoxy highlighted by Davidson. Many of the leading figures in the Austrian school, such as Menger, Mises, Hayek and Lachmann, 'put forward ideas very similar to those of Keynes' (Streissler, 1982, pp.73-74).

Greater cross-fertilisation between the Austrian and Post Keynesian money traditions may lead to a complementary strengthening of both approaches. Since Keynes, a number of fundamentalist Keynesians have been engaged in what Barrere (1988) has called the 'Keynesian project' of developing Keynes's monetary insights. A notable weakness of this project has been its neglect of Austrian contributions on money. There has also been a failure to seriously confront the major shortcoming in Keynes: his lack of a sound discussion of the structure of money prices. One of the key weaknesses of the Austrian approach is its failure to include adequately such messy real world elements as debts, money contracts, wage agreements, and sticky prices into their analysis.[13] This lack of adequate attention toward the problems of the money-contract payments structure helps to account for the Austrian neglect of the dangers posed by secondary depressions. This represents a missed opportunity for Austrian economics: it failed to extend its analysis of the structure of production to a Fisher-Minsky-Davidson analysis of the structure of money-debt payments where household/firm cash flow and cash commitments are central. Austrians and Post Keynesians have some real potential gains from intellectual exchange here: with Austrians gaining from 'Keynesian project' insights on the money-debt payment structure and Post Keynesians from Austrian insights on the structure of the money-pricing process.

It is hardly surprising, given Davidson's selective misinterpretation of Austrian economics, that he should suggest that they are guilty of accepting the rational expectations hypothesis.[14] If they were guilty of embracing all the mainstream Euclidean axioms that Davidson endeavoured to heap upon them then rational expectations trafficking with the mainstream would naturally follow. He is being decidedly orthodox in presenting the Austrians as rational-expectation anticipators or sympathisers. This is another mistake: the Austrians anticipate much of the Post Keynesian critique of rational expectations. This echo of joint concern against rational expectations is hardly surprising given the presentation of shared axioms above. Austrians and Post Keynesians both reject the neo-Walrasian research tradition which bore and sustains the rational expectations approach. Given their joint embrace of such fundamentals as non-neutral money, historical time, unknowledge, and a non-ergodic transmutable creative reality, they raise serious questions related to the amount and type of knowledge available to economic agents. Austrians adopt a reasonable expectations theory whereby individuals make the best use of information subject to the various constraints of time, place and resources. They criticise the rational-expectations approach for assuming that the subjective probabilities of economic agents match the objective probabilities without any recognition of the existence of differentiated, individual, personalised knowledge-information sets, and the problems posed by genuine uncertainty on expectations formation and correspondence. Rational expectations theorists are also guilty of conflating theoretical and entrepreneurial knowledge; of failing to distinguish between knowledge *of* and knowledge *within* by not separating the economist's knowledge from that of the economic agent. Davidson (1987) suggests that economic actors display sensible expectations whereby they recognise that they operate in a non-ergodic environment where liquidity has meaning. This clearly is in line with the Austrian notion of reasonable expectations. In addition, Davidson's (1982-3, 1991) argument that rational expectations requires both that agents' subjective beliefs match the underlying reality along with the existence and dominance of ergodic processes mirrors earlier Austrian critiques. As does the contribution of other Post Keynesians such as Gomes (1982) and Wible (1982-3) directed at the rational expectation assumption that economic agents know and share the appropriate (true) economic model and apply it in the most proficient way.

The most significant area of difference between Austrians and Post Keynesians, in terms of Davidson's axiomatics, relates to their policy prescriptions and their views on institutions. Davidson believes their rival policy stances are deep-rooted and based upon his contrast in their alleged distinctive axiomatic foundations. He argued (Davidson 1993, p.440n8) that 'Fundamental differences in the policy implications of various macroeconomic theories are the result of distinctions embedded in each theory regarding the conceptual basis of economic external reality'. Since Austrians and Post Keynesians share axioms, his argument has to be rejected as neither sufficient nor necessary - something else has to explain their policy clash.

Both Austrians and Post Keynesians attach importance to institutions. Institutions enable and constrain human action: Austrians tend to present institutions as uncertainty-reducing (but not eliminating) 'points of orientation' composed of spontaneously generated rules and conventions whereas Post Keynesians emphasise designed institutions to reduce instability and promote social objectives. Both research traditions embrace a rich view of human action of the non-homo economicus (rational choice) type embedded within a given set of economic, social and political institutions. The Austrians favour free markets and invisible hand-mechanisms and take a negative view of visible and discretionary state interventions; the former are seen to promote human action whilst the latter hinder it. In contrast, Post Keynesians favour government intervention as a positive force, assisting and improving the performance of markets and other invisible hand mechanisms. Austrians tend to emphasise market success and government failure whereas Post Keynesians highlight market failure and government success. Much of this becomes clear in Davidson's own policy position. He has argued that the existence of a transmutable (creative) reality provides 'a permanent, positive role for government in designing policies and institutions to provide results preferable to those that might be generated by competitive markets in the real world' (Davidson, 1993, p.430) since it will serve to mitigate our ignorance of the future by intelligently controlling and improving (via efficiency gains) economic well-being; only in an ergodic world are such interventions seen as harmful (Davidson, 1996, p.504). Davidson (1982-3, p.197n13) criticises the Austrians for embracing the pervasive nature of uncertainty whilst rejecting designed policy directed at promoting economic stability; they are accused of confusing instability with uncertainty - they could retort that he confuses stability with design. Whilst Davidson is correct to point at a significant difference here between the research traditions (it may be seen as the crux) he fails to logically account for the source of that difference (given Austrian and Post Keynesian shared axioms) or why a nonergodic environment implies intervention (it may in the Post Keynesian but it does not in the Austrian). For Davidson the road to heaven appears to be made up of good interventions, whereas for Austrians this may be the road to hell.

It should not be forgotten, however, that the above policy differences can be overdone. Lachmann's (1939, 1956) recognition that a downturn can be magnified by a debt-deflation process means that there are some Austrians willing to combat such secondary depressions by means of more