Forum for
Macroeconomics and
Macroeconomic Policies

IMK
Macroeconomic Policy
Institute

The IMK is an institute of
the Hans-Böckler-Stiftung

FMM WORKING PAPER

No. 105 • August 2024 • Hans-Böckler-Stiftung

PAUL DAVIDSON (1930-2024) AND THE FOUNDING OF POST KEYNESIAN ECONOMICS

James K. Galbraith, Thomas I. Palley, Matías Vernengo[1]

ABSTRACT

Paul Davidson was a critical figure in the preservation of John Maynard Keynes's ideas, sticking with them when they were out of fashion. He was also key to the survival of the Post Keynesian school. Davidson endorsed Keynes's liquidity preference theory of interest, and he emphasized fundamental uncertainty as a central feature of economic reality, essential to making sense of a monetary economy. His greatest legacy is the *Journal of Post Keynesian Economics,* the intellectual home for a generation of Post Keynesian economists. Without his efforts, the heterodox economics community would be significantly smaller than it is now.

[1] James K. Galbraith, The University of Texas at Austin, Galbraith@fastmail.com.
Thomas Palley, Economics for Democratic and Open Societies, Washington DC, mail@thomaspalley.com; FMM Fellow.
Matias Vernengo, Bucknell University, PA, mv012@bucknell.edu.

Paul Davidson (1930-2024) and the founding of Post Keynesian economics

James K. Galbraith, Thomas I. Palley and Matías Vernengo[1]

Abstract

Paul Davidson was a critical figure in the preservation of John Maynard Keynes's ideas, sticking with them when they were out of fashion. He was also key to the survival of the Post Keynesian school. Davidson endorsed Keynes's liquidity preference theory of interest, and he emphasized fundamental uncertainty as a central feature of economic reality, essential to making sense of a monetary economy. His greatest legacy is the *Journal of Post Keynesian Economics,* the intellectual home for a generation of Post Keynesian economists. Without his efforts, the heterodox economics community would be significantly smaller than it is now.

Keywords: Paul Davidson, Keynes, liquidity preference, fundamental uncertainty, Journal of Post Keynesian Economics.

JEL reference: B22, B31.

1. Paul Davidson and John Maynard Keynes

Paul Davidson, the co-founder of the *Journal of Post Keynesian Economics* (JPKE) and a leading Post Keynesian economist, died on June 20, 2024, in Chicago. He was born in Brooklyn, NY, on October 23, 1930, about a year after the Great Crash of 1929. He was a staunch defender of the importance of John Maynard Keynes, whose ideas, he insisted, differed fundamentally from those of the Neo-Keynesians who came to dominate American macroeconomics after World War II. He viewed Keynes as a monetary economist above all, privileging the liquidity preference theory of interest rates over the doctrine of loanable funds and championing fundamental uncertainty as key to understanding the role of money in the real world. He was a strong supporter of Keynes' radical internationalism, which argued for an international payments system structured to ensure globally balanced trade.

[1] James K. Galbraith, The University of Texas at Austin, Galbraith@fastmail.com.
Thomas Palley, Economics for Democratic and Open Societies, Washington DC, mail@thomaspalley.com
Matias Vernengo, Bucknell University, PA, mv012@bucknell.edu.

2. Early years

The Great Depression, the New Deal, and the Second World War marked Davidson's early years. His trajectory to economics was circuitous. His parents expected him to have a professional career, hoping he would become a doctor. He graduated from Brooklyn College (CUNY) with a bachelor's degree in biology and chemistry, and then went to do graduate studies in biochemistry at the University of Pennsylvania, with the goal of a Ph.D. However, biochemistry was not his passion, though it did inculcate a concern with scientific method, and with the proper use of empirical data and statistics, both of which profoundly influenced his economic thinking.

When he returned home and mulled over what he wanted to do, he took a class in economics. Despite being "appalled by the misuse of empirical data by economists" (Davidson, 1992, p. 130), he decided to apply to the Penn economics Ph.D. program, and he returned there to work with Sidney Weintraub, who became his thesis supervisor and was a major influence on his thought. Along the way, he worked on energy issues in the corporate sector and became notably expert on the economics of the oil industry, an anchor in the real world that also informed his economic thought.

3. The making of Post Keynesian economics

In 1958 Sidney Weintraub published his classic book *An Approach to the Theory of Income Distribution* (Weintraub, 1958), which marked a sharp departure from the production function and marginal productivity theories of distribution of the Neoclassical Synthesis developed by Paul Samuelson and Robert Solow at MIT. Weintraub's analysis had affinities with that of Keynes' disciples at Cambridge, notably Nicholas Kaldor and Joan Robinson, and with the ideas of the Polish economist Michal Kalecki. Davidson would later refer to those thinkers, along with Roy Harrod, Abba Lerner, and Luigi Pasinetti, as the Keynes School.

Weintraub's price theory inspired the wage-price guidelines of the Kennedy-Johnson years, and it would lead to a theory of inflation that emphasized distributive conflict as the source of higher and accelerating prices – a problem for which incomes policy was the appropriate solution. However, the monetary side of Weintraub's model was undeveloped and Davidson filled that gap. Starting with an influential paper on Keynes' finance motive (Davidson, 1965), Davidson sought to develop the monetary theory of production that had been central to Keynes' *General Theory*. He emphasized that production takes place in time and that money, created by both governments and banks, plays a crucial role in a world characterized by fundamental rather than merely probabilistic uncertainty. Those ideas became the basis of the American branch of the Post Keynesian (PK) School.

The three books that mark the birth of American PK economics are Davidson's (1972) *Money and the Real World*, Hyman Minsky's (1975) *John Maynard Keynes*, and Alfred Eichner's (1978) edited volume *A Guide to Post Keynesian Economics*. All three emphasize the instability of capitalism, which is rooted in two phenomena. One is the impact of fundamental uncertainty on investment spending; the other is the emergence of fragile financial structures that are the product of the investment process and its tendency to end in speculation. The 1970s were a period of macroeconomic instability, which fostered a revival of ideas about the instability of capitalism in the wake of two decades of full employment equilibrium growth theory. All three books were informed by the economic ferment of that time, which John Hicks (1974) termed in a famous book as *The Crisis in Keynesian Economics*.

Davidson wrote most of his book during a sabbatical at the University of Cambridge in the 1970-1971 academic year. He was accompanied there by many who would eventually form the PK School and found the JPKE. The group included both Basil Moore and John Kenneth Galbraith who were also visiting Cambridge that year. Davidson was influenced by his interactions with them, with Nicholas Kaldor and Richard Kahn, and, particularly, with Joan Robinson with whom he engaged in a back and forth through a series of written communications. Robinson left a blank page on Davidson's desk every morning, which he answered and left at her desk. She returned it with her comments, very often in complete disagreement. Davidson said that he: "learned a tremendous amount from these daily essay exercises" (1992, p. 133).

4. The fracture of Keynesianism

It is possible to argue that there was more convergence than divergence among the self-described followers of John Maynard Keynes in the 1950s and 1960s. With Keynesianism hegemonic, the differences between, say, Paul Samuelson and John Kenneth Galbraith were intramural in nature, characterized by friendly exchanges between political allies. Relations between British and American Keynesians were also cordial. But by the early 1970s, Keynesianism was fracturing. The fracture pitted the establishment MIT-based Neo-Keynesians against the Cambridge (UK) Keynesians and the small emergent group of American PKs associated with Davidson. Politically, the split was between center and left, with the Neo-Keynesians at the center, the American PKs in center-left, and the Cambridge (UK) Keynesians, facing the industrial decline and militant trade unionism of the United Kingdom, well to the left of the American PKs.

The intellectual fracture was along several lines. The first concerned marginal productivity income distribution theory, based on the Neoclassical production function. That fracture emerged out of the capital controversy launched by Joan Robinson (1953/4), and Kaldor (1956) transposed that issue into macroeconomics with his theory of functional income distribution. A second fracture, emphasized by Robinson, was over the equilibrium-based IS-LM interpretation of Keynes advanced by John Hicks, which famously provided a short-hand guide to the effects of monetary and fiscal policy while relegating to the background Keynes's concern with the volatility of profit expectations and the marginal efficiency of capital. It was on those questions that Joan Robinson (1973) came to call the MIT School "bastard Keynesianism." A third profound fracture came with the Neo-Keynesian claim that Keynes's *General Theory* was merely a special case -- a model of downwardly rigid nominal wages that would return to full-employment normality if full flexibility could be achieved. That claim was vigorously rejected by PKs, not least because it would have reduced Keynes to a minor variation on Classical themes.

A fourth fracture concerned fundamental uncertainty and money, and this angle was taken up most forcefully by Davidson who contributed to a 1972 special issue of the University of Chicago's *Journal of Political Economy,* which debated Milton Friedman's monetary theory. The issue, and subsequent book edited by Robert Gordon (1974), had contributions from Monetarists including Karl Brunner and Allan Meltzer, and Neo-Keynesians including James Tobin and Don Patinkin. Davidson's chapter focused on fundamental uncertainty and the characteristics of money, both of which, he argued, are central to explaining persistent unemployment in a capitalist economy.

Davidson's inclusion in this exchange was an important recognition of the relevance of the emergent PK school. However, for PKs it was also a missed opportunity in some respects. Davidson (rightly) argued that money cannot be neutral, which was something that Friedman also believed, at least for the "short run." Yet Davidson could not find common ground with Monetarism on this question; nor could he quite specify what changes in the Neo-Keynesian framework might serve to bridge the divide between their view and his. As the consensus of the 1950s and 1960s stumbled under the impact of stagflation and the challenge of an emergent "new classical" school, led by Friedman, George Stigler, Harry Johnson and (later) Robert Lucas and

Thomas Sargent, the hostilities within the Keynesian camp deepened and became increasingly bitter.

The intellectual fracture with mainstream Neo-Keynesians also had a social dimension, as illustrated by the following story. In 1971, Galbraith was the president elect of the American Economic Association, and he invited Joan Robinson to give the prestigious Richard T. Ely Lecture in which she chastised the profession for "the evident bankruptcy of economic theory" (Robinson, 1972, p. 10). Zachary Carter writes: "The evening of her AEA speech, Robinson and Davidson had been dining together in an empty restaurant when Samuelson and his wife, Marion, had walked in. The two parties shared the room uninterrupted for forty minutes without so much as acknowledging each other" (Carter, 2020, p. 454). Who was ultimately responsible for the coldness is impossible to know, but the incident is symbolic of intellectual developments within Keynesian economics. Davidson would relate it many times in the years to follow.

5. The coming of Post Keynesianism

The 1970s saw Neo-Keynesianism effectively extinguished in the higher levels of mainstream academic economics, although it persisted in the textbooks, the op-ed pages, and in the reflexes of US policymakers when faced with economic crises. As the Chicago School rose, the IS-LM model was replaced by an aggregate supply – aggregate demand framework, and the Phillips Curve became steep and then vertical before eventually being largely abandoned in the 1980s. With the Neo-Keynesians in retreat, the PKs were pushed to the sidelines, and lost even the slight purchase that they had had in leading departments: there would be no successor to Galbraith at Harvard or Weintraub at Penn. Davidson soldiered on, a follower of Keynes in the strict sense. He was hostile to the Monetarists as well as the Neo-Keynesians, as illustrated by his attacks on the ISLM framework (Davidson, 2009, p. 173-175) and his difficult relationship with James Tobin (Holt, Rosser, and Wray, 1998, p. 15-16).

The Chicago School takeover of economics restored pre-Keynesian "classical" economics, according to which money was neutral, the economy normally operated at full employment, and it quickly returned to full employment if shocked. The New Classical model was underpinned by the Arrow-Debreu competitive general equilibrium (CGE) theory, supplemented by the addition of rational expectations. In effect, that configuration reduced macroeconomics to a form of applied CGE theory based on aggregate models using the representative agent and firm assumption. That diminished mainstream macroeconomics as a theoretically distinct field.

The Chicago takeover, which extended from the US to the UK in the Thatcher years and later to Europe and around the world, meant that PKs and any other economists with a heterodox tinge were increasingly excluded from publication in major, and even minor, journals. Since journal publication is critical to both intellectual survival and personal professional advancement, this was an existential threat. In the UK, prompted by the move of the *Economic Journal* from Cambridge to the more mainstream Oxford University, the *Cambridge Journal of Economics* was launched in 1977. In the US, in 1978, Davidson and Weintraub (with significant support from Galbraith) founded the *Journal of Post Keynesian Economics*. Theirs was a militant journal, in direct confrontation with Monetarism, and also not compromising with what they viewed as watered down interpretations of Keynes. In their statement of purpose, they wrote:

> "The ascendant monetarist school has won an affectionate haven in prominent journals; its precepts also have an undisguised affinity for laissez-faire solutions. Government is chastised as the root of all our troubles. JPKE will be open to evaluation of this pseudoscientific proposition and its attendant ideology whose time has gone… Keynesianism, the editors feel, attached Keynes' name to an anomalous thought structure emanating from some egregious misreading of his work. While some logical deficiencies in Keynesianism were detected long ago, it has required the modern stagflation debacle to demonstrate its policy

> ineptitude. Still, the system retains a wide following so that its features should invite renewed examination. There is need at least to acquaint those still professing undiluted Keynesianism (which once filled the textbooks) with the candid misgivings expressed by Sir John Hicks, its originator" (Davidson and Weintraub, 1978, p. 4).

In their view, dialogue had been shut down. The JPKE would provide an outlet for the Keynes' School, which was to be the basis for the new PK School. Davidson and Weintraub further elaborated as follows:

> "The major professional standard-bearers appear to foreclose any discussion of incomes policy beyond fragmentary, gratuitous passages. Any theory suggesting that money wages, and not money supplies, act as the price-level lever has usually been spurned. Dialogue on the price-level/money-wage/productivity nexus has been rejected for nonconformity. This arrogant doctrinal posture is astonishing, in as much as the rejection encompasses views held by Keynes, Robinson, Kaldor, Kahn, Kalecki, Lerner, Harrod, Galbraith, Weintraub, Minsky, and Davidson, to name a handful whose work comes immediately to mind. Sir John Hicks has espoused similar 'heresy' in his recent skepticism about the mechanical equilibrist literature" (Ibid.)

The fragmentation of the mainstream was accompanied by a parallel fragmentation within the heterodox camp, which spanned Marxists, Sraffians, and various interpretations of Keynes. In the 1980s, there was an attempt to bridge the differences between the groups via an International Summer School organized in Trieste. Davidson attended the first meeting in 1981, which included heterodox economists Athanasios Asimakopulos, Krishna Bharadwaj, Antônio Barros de Castro, Pierangelo Garegnani, Geoff Harcourt, Don Harris, Jan Kregel, Heinz Kurz, Hyman Minsky, Edward Nell, Sergio Parrinello, Massimo Pivetti, Alessandro Roncaglia, Bertram Schefold, Ian Steedman, Joseph Steindl, Paolo Sylos Labini, Fernando Vicarelli, and Sidney Weintraub. But the groups could never agree.

The issues were multiple: equilibrium versus non-equilibrium, partial equilibrium versus general equilibrium, short-run versus long-run. Davidson insisted that Keynes' Marshallian partial equilibrium foundations were essential for his analysis, whereas the Sraffian and Marxian contingents believed they were detrimental. Davidson emphasized fundamental uncertainty and denied the relevance of the long-run, while the European Keynesians tended to stress the importance of long-run equilibrium positions and saw uncertainty as a form of imperfection, akin to price and wage rigidities in the mainstream models.

Another issue was the place of class conflict and functional income distribution, both of which Davidson (perhaps due to his American background) tended to play down. Though he accepted the logic of Kaleckian mark-up price theory, Davidson inclined against a class conflict interpretation of price inflation. Instead, he viewed inflation through the lens of corporate power, which fit with both Weintraub's (1958) theory and Eichner's (1976) theory of the mega-corp, along with the perspective of Galbraith as advanced in *The New Industrial State* (1967).

A further related issue was value theory. For Marxists and those holding investment is influenced by the profit rate, a theory of value is needed to establish the value of capital, which is the denominator of the rate of profit. Davidson's short period focus was on the marginal efficiency of new capital, interpreted as the expected money rate of profit on new investment – although he did not phrase the matter in quite that way. Another lurking issue was how to address and model agency, which remains a divisive and unresolved issue (Skott, 2019), though it did not figure large in Davidson's vision and purview.

Consequently, the arguments were intense, and the PK school sometimes took on the appearance of a circular firing squad. The list of divisions also explains why it is not possible to talk of "the" PK position, but only of "a" PK position. Davidson aspired to a narrow definition of PK economics rooted in his Keynes-centric position. That narrow "purist" view was not shared by other heterodox economists and a common front against the "mainstream" was never effectively achieved.

6. Fundamental uncertainty and liquidity preference

Fundamental uncertainty is at the core of Davidson's theoretical contribution and his interpretation of Keynes' (1936) *General Theory*. Davidson interpreted fundamental uncertainty as corresponding to a world in which events and outcomes are not governed by probability – those events of which Keynes (1937, p. 214) had written, "We simply do not know." He described such a world as "non-ergodic", contrasting it with an "ergodic" world in which events and outcomes are governed by probability theory. In a non-ergodic world, the past is not a reliable guide to the future, and the assumptions of classical statistics and econometrics do not hold. Thus, Davidson's position presented a deep challenge to the routine activities of many, if not most, workaday economists.

For Davidson, fundamental uncertainty is at the center of monetary macroeconomics because it is essential for explaining the existence of money and fixed nominal wage contracting (Davidson in Gordon, 1974, p. 95-101). In a non-ergodic world, agents need a liquid store of value (that is, money) as a buffer against fundamental uncertainty. Likewise, fixed nominal wage contracts are a means whereby workers and firms share the burden of fundamental uncertainty – they distribute the uncertainties between partners in the production process.

Fundamental uncertainty concerns unknowables. For economists, it introduces a paradox. Economists seek to explain the economy, and they do so by creating models. However, every time the economist builds a model, she is providing a tacit map of the world that claims to describe the world as it is. That is tantamount to doing away with the unknown, and therein lies the paradox. The model needs to incorporate the existence of fundamental uncertainty, but the act of modelling downgrades fundamental uncertainty because it claims to show the world as it is.

That paradox explains why the Arrow-Debreu (1954) general equilibrium model cannot provide a microeconomic foundation for money, a feature noted by Rogers (2018). The Arrow-

Debreu model fully specifies the world. In doing so, it denies the existence of fundamental uncertainty, thereby getting rid of the rationale for having and holding money. Consequently, the model imposes arbitrary cash-in-advance constraints to justify money, but there is no reason for those constraints to exist in an Arrow-Debreu world.

Fundamental uncertainty is critical for framing the Keynesian problematic and explaining features of a monetary economy. It is also key to understanding Keynes's liquidity preference theory of interest, which Davidson strongly endorsed. For Keynes and Davidson, the differential between interest rates on short- and long-dated securities is a reward for "not-hoarding" – that is, an inducement to forego the protection against uncertainty provided by holding money. That gave Keynes (and Davidson) a coherent understanding of the yield curve on financial assets free of default risk (notably, government bonds), and an alternative to the classical theory of loanable funds in which "the" interest rate is set in a "notional" market balancing the demand for investment with the supply of savings. Liquidity preference operates in an actual-existing market – the market for financial securities. It is part-and-parcel of a theory of money in the real world.

Davidson's (1991) absolutist rejection of probability theory on grounds that the world is non-ergodic is subject to its own limitations. In a non-ergodic world, agents may still use probability as a thought device that helps them organize their thinking about the world, even though those probabilities are subjective constructions. Yet, once the thought device is adopted by agents, it becomes a feature of the real economic world, though it still does not describe the evolution of real-world outcomes which remain the product of a non-ergodic process (Palley, 1993).

Economists may also use probability theory as a thought and representational device. However, that practice is perilous, as it is easy to slip into the belief that those representations reflect actual properties of the world, a common practice in time-series econometrics. Furthermore, probability has significant drawbacks as a representational device. It is mathematically complex, and that complexity may obscure more than it reveals. Consequently, a better representational device for characterizing fundamental uncertainty is to treat it as an exogenous, behavioral parameter. That was Keynes' (1936) approach, which emphasized the state of confidence, affecting "animal spirits" and profit expectations. In this, Davidson followed Keynes.

Lastly, Davidson persistently argued against rational expectations (RE) on the grounds that it uses probability theory, which is incompatible with the non-ergodic real world (Davidson, 1982-83). In this, he treated RE as synonymous with probability because the mainstream Muth (1961) – Lucas (1972) treatment of RE did so. That conflation is contested by Palley (1993), who argued in the JPKE that RE are simply model-consistent expectations. In ordinary language, agents have a tacit model of the economy in their heads, and that model guides their thinking and generates implicit predictions about the future. Those predictions are rational expectations. This is true even for non-stochastic (that is, non-probabilistic) models, showing that RE is distinct and separable from probability. The important implication is RE is relevant for PK economics and it is not disqualified by the reality of non-ergodic fundamental uncertainty. Davidson, however, never engaged on this point. Instead, he trained his sights on the edifice of ergodic-economy research that has emerged from the New Classical framework and become the dominant element of mainstream macroeconomics in the new classical era.

7. Later years

In the 1990s and 2000s, mainstream Keynesian economics was replaced by a so-called "New Keynesian" economics, which actually has Friedmanite foundations via its embrace of the natural rate of unemployment and natural rate of interest hypotheses. Instead of identifying the Keynesian problematic with the monetary character of economic activity under fundamental uncertainty, New Keynesian economics identified the problematic with market frictions and failures. It differs from New Classical Macroeconomics in its allowance for some degree of Keynesian "stimulus" policy interventions, the logic being the frictions and failures that cause unemployment may also render policy effective.

Davidson rejected that interpretation, steadfastly holding that bad theory could not provide reliable effective guidance for good policy. The Great Financial Crisis of 2007-2009, with its very clear origins in a breakdown of money and credit, provided ample vindication of Davidson's position, though it did not lead to substantial changes in mainstream economic thought. His 2017 book, *Who's Afraid of John Maynard Keynes,* gave vent to the frustrations of dealing with an obtuse profession. As James Galbraith (2018, p. 17) wrote in a review:

> "The most critical flaw lies in the treatment of time. Rooted in ancient ideas of equilibrium, harmony and social balance, mainstream economics treats the future as an extrapolation of the past, predictable except for random errors, which are called "risk." This, as Davidson insists, is incurably incorrect; there is uncertainty and at any time financial markets are prone to collapse in a failed flight to safety, which drains liquidity and deprives both financial and physical assets of their market value.
>
> From this it follows that in the social sphere *any model* that projects the future from the past will fail from time to time. The models work so long as things do not change! As for change, for turning points, they nevertheless occur. And that those who believe most in the model will prepare the least and be hurt the worst. And yet, for the economy to function, "belief" in the model – at the least, conditional belief sufficient to motivate consumption and investment – appears essential. Without it, the private economy cannot prosper. Living in a house of cards is better than having no house at all.
>
> When the house collapses, the alternative is the state, an overarching entity. As Davidson writes, the state can always fill the gap, and this is his second big point: money is the creature of the state and it cannot run out. But how well can the state do this work? Skepticism on this point separates Keynesians from communists, giving rise to the glorious political paradox, that Keynes and Davidson deploy revolutionary thought not to destroy but to preserve the social order. More precisely, they seek to rescue the capitalist system from itself. In this way, it becomes the function of Keynes's followers to show how an unstable system can be rebuilt, time and again….

> From this point Davidson turns to the Great Financial Crisis of 2007-2009, and to the lethal fact that the entire corpus of mainstream economists were unable to foresee it and had in fact persuaded themselves of a Great Moderation which, they imagined, might go on forever. According to a session at the annual meetings of the American Economic Association as the crisis was unfolding, the world had "achieved consensus on monetary policy"; the end of economic history was at hand. That consensus believed that deregulated markets spread risk, specifically that financial derivatives were an effective insurance against major loss. In fact, they served as vectors for panic, turning a crisis of the US mortgage markets into a global financial meltdown. Markets collapsed everywhere. And those who had bought the derivatives were illiquid, and so faced ruin, even if the underlying securities might – as they did in many cases – pay off over time."

Until near the end of his life Davidson was very active in discussions of economic policy, emphasizing the dangers of financial liberalization and the dogmatism of Neoliberal policies in both the advanced and developing world. He remained a supporter of an international financial system in the spirit of Bretton Woods with robust capital controls and managed stable exchange rates. He also advocated for Keynes' original more radical Bancor proposal, which would have shifted the burden of balance of payments adjustment on to surplus countries. He did not endorse the idea of flexible exchange rates which became more popular in some PK circles. He held to those ideas notwithstanding that they had little chance of political acceptance in an era of dollar hegemony which so benefits US elites, particularly financial elites (Palley, 2022).

Davidson did not intervene in the debates on economic growth, which have occupied great space in heterodox literature in recent years. However, he supported a demand-led approach to growth, particularly the export-led Kaldorian growth model associated with Anthony Thirlwall (1979) which, in his view, was a central PK contribution to the general economic literature (Davidson, 1990-91).

Contrary to many who saw the 1990s Internet boom and the 2000s epidemic of mortgage fraud, leading to financial collapse, as symptoms of a collapsing American hegemony, Davidson was more sanguine about the role of the dollar. He also believed in the ability of policy makers, if they would only choose to do so, to promote a more civilized society. The key was that they properly follow Keynes' principles. A small book, *Economics for a Civilized Society* (1996), co-written with his son Greg, laid out a vision for a social democratic future based on a lifetime of adherence to the grand vision.

8. Davidson as institution builder

Paul Davidson was an institution builder and was aware of the need for academic solidarity. This was reflected especially in two important activities: the JPKE and the Post-Keynesian conferences at Knoxville in the last decades of the 20th century.

As noted above, Davidson co-founded the JPKE, and he edited it for approximately thirty years, taking on the sole editorship after the passing of Sidney Weintraub. His wife Louise ran the office and the process that kept the journal going. For the Davidsons, the journal was a family project, a labor of love and commitment. Myron Sharpe provided financial support and published the journal. A long list of senior scholars, many of them not closely associated with PK economics, lent their names to the masthead.

The JPKE was Paul Davidson's greatest contribution to the economics profession. It can reasonably be said that a generation of PK economists owe their professional survival to the JPKE. It provided a respected publication outlet from which they could get academic credit, and through which their ideas could be disseminated into the PK community; and in which the larger profession could find PK ideas if they wanted to read them. Although the JPKE could never break into the ranks of the so-called mainstream, nor achieve the rankings success on which economics journals have come to rise and fall, it operated in an era when these were less important, and it provided an intellectual haven to an entire generation of heterodox economists. Its weight was felt throughout the diaspora of PK thinkers that continued to exist, and even to flourish, notwithstanding heavy teaching loads, in liberal arts colleges and public universities. PK economics rarely achieved critical mass in any one institution, but it nevertheless survived and grew as the deficiencies of the mainstream became more apparent with unfolding events. The continuing vibrant existence of the PK community owes a great deal to Davidson.

Davidson always argued his position forcefully in the conference room but, to his eternal credit, he faithfully and energetically supported junior colleagues when it came to promotions and tenure cases. At Rutgers University in the 1980s, he led the department and contributed directly to mentoring a generation of heterodox scholars. The Rutgers graduate program included Alfred Eichner, Jan Kregel, Nina Shapiro, and Alessandro Roncaglia who was a visitor. As part of the department's activities, Davidson organized regular one-day PK conferences. In the 1980s, the Rutgers program, together with the ones at the New School (more eclectic in nature), the University of Massachusetts at Amherst (more Marxist and radical), and Notre Dame (more institutionalist) produced numerous heterodox economists in the US and also trained many economists from the developing world.

After the departure of Kregel in 1985 and the untimely death of Eichner in 1988, the Rutgers program declined and returned to orthodoxy. Davidson then accepted a senior professorship – the Holly Chair of Excellence -- at the University of Tennessee, Knoxville, from which he eventually retired. There, with the help of Louise, the beloved den mother of all the Post Keynesians, he organized a biennial PK conference in Knoxville that became a premier event for presenting new research and building an academic network. The Knoxville conference was especially renowned as a Mecca for heterodox economists from Brazil, where perhaps the most robust PK tradition exists today. After Davidson's retirement, the conferences continued at the

University of Missouri- Kansas City, and the community they established went on to build a large audience for Keynesian ideas on money and public finance. Davidson continued to participate in these meetings and in regular conferences at the Levy Economics Institute, as well as in (sometimes heated) email exchanges with friends and adversaries.

9. Conclusion

Paul Davidson will be remembered for his persistent emphasis of the importance of fundamental uncertainty, a central feature of economic reality and a critical idea for understanding the role of money in the real world. However, his greatest legacy is associated with his institution building. Without his teaching, his organizing activities, his support of younger scholars, and his co-founding and editorship of the *JPKE*, the heterodox economics community would be significantly smaller than it is now.

Davidson was combative and forceful in his discussions, particularly about Keynes' legacy. In retrospect, he was a key figure in the preservation of Keynesian ideas, sticking with them when they had fallen out of fashion and when the economics profession had mistakenly moved away from them. Since the Great Financial Crisis of 2008 there has been a considerable rehabilitation of Keynes' ideas, prompting talk about "the return of the master." Paul Davidson never abandoned the master, and he was right.

References

Carter, Z. (2020), *The Price of Peace: Money, Democracy, and the Life of John Maynard Keynes*, New York: Random House.

Davidson, P. (1965), "Keynes's Finance Motive," *Oxford Economic Papers*, 17(1), 47-65.

_________ (1972a), *Money and the Real World*, London: Macmillan, 2nd edition, 1978.

_________ (1972b), "A Keynesian View of Friedman's Theoretical Framework for Monetary Analysis," *Journal of Political Economy*, 80(5), 864-882. Reprinted in Gordon, R. J. (1974), *Milton Friedman's Monetary Framework: A Debate With His Critics*, Chicago: The University of Chicago Press, 90-110.

-------------- (1982-83), "Rational expectations: a fallacious foundation for studying crucial decision-making processes," *Journal of Post Keynesian Economics*, 5(2), 182-198.

_________ (1990-91), "A Post Keynesian Positive Contribution to 'Theory'," *Journal of Post Keynesian Economics*, 13(2), 298-303.

-------------- (1991), "Is probability relevant for uncertainty? A Post Keynesian perspective," *Journal of Economic Perspectives*, 5(1), 129-143.

_________ (1992), "Paul Davidson (born 1930)," in P. Arestis and M. Sawyer (eds.), *A Biographical Dictionary of Dissenting Economists*, Cheltenham: Edward Elgar, 2nd edition, 2000.

------------- (2009), *The Keynes Solution: The Path To Global Economic Prosperity*, New York: Palgrave Macmillan.

------------- (2017), *Who's Afraid of John Maynard Keynes?* New York: Palgrave MacMillan.

Davidson, P. and Davidson, G. (1996), *Economics for a Civilized Society.* New York: Palgrave MacMillan.

Davidson, P. and Weintraub, S. (1978), "A Statement of Purposes," *Journal of Post Keynesian Economics*, 1(1), 3-7.

Eichner, A.S. (1976), *The Megacorp and Oligopoly: Micro Foundations of Macro Dynamics*, Cambridge: Cambridge University Press.

Galbraith, J. (2018), "*Who's Afraid of John Maynard Keynes? Challenging Economic Governance in an Age of Growing Inequality*, by Paul Davidson." *Journal of Behavioral and Experimental Economics*, Vol. 74 (June 2018), 17. https://doi.org/10.1016/j.socec.2018.02.004

Galbraith, J.K. (1967), *The New Industrial State,* Cambridge, Houghton-Mifflin Company.

Gordon, R. J. (1974), *Milton Friedman's Monetary Framework: A Debate With His Critics*, Chicago: The University of Chicago Press.

Holt, R.P.F., Rosser, J.B., Jr., and Wray, L.R. (1998), "Paul Davidson's economics," Working Paper No. 251, Jerome Levy Economics Institute, Bard College, Annandale-on-Hudson, New York.

Kaldor, N. (1956), "Alternative theories of Distribution," *Review of Economic Studies*, 23(2), 83-100.

Keynes, J. M. (1936), *The General Theory of Employment, Interest, and Money*, London: Macmillan.

---------------- (1937), "The general theory of employment," *Quarterly Journal of Economics*, 51(2), 209-223.

Muth J. F. (1961), "Rational expectations and the theory of price movements," *Econometrica*, 29(3), 315-335.

Lucas R. E. (1972), "Expectations and the neutrality of money," *Journal of Economic Theory*, 4(2), 103-124.

Palley, T. I. (1993), "Uncertainty, Expectations, and the Future: if we don't know the Answers, what are the Questions?" *Journal of Post Keynesian Economics*, 16(1), 3-18.

------------- (2022), "Theorizing dollar hegemony: the political economic foundations of exorbitant privilege," *Review of Keynesian Economics*, 10(4) (Winter 2022), 462-498.

Robinson, J. (1953/4), "The production function and the theory of capital," *Review of Economic Studies*, 22(2), 81-106.

-------------- (1972), "The Second Crisis of Economic Theory," *American Economic Review*, 62(1), 1-10.

-------------- (1973), "What has become of the Keynesian revolution?" in Joan Robinson (ed.) *After Keynes*, British Association for the Advancement of Science.

Rogers C. (2018), "The new macroeconomics has no clothes," *Review of Keynesian Economics*, 6(1), 22-33.

Skott P. (2019), "Challenges for post-Keynesian macroeconomic: a behavioral and structuralist perspective," in Finn Oelesen and Jesper Jespersen (eds.), *Progressive Post-Keynesian Economics: Dealing With Reality*, Cheltenham: Edward Elgar, 16-33.

Thirlwall, A. P. (1979), "The balance of payments constraint as an explanation of international growth rate differences," *Banco Nazionale del Lavoro Quarterly Review*, 32(128), 45-53.

Weintraub, S. (1958), *An Approach to the Theory of Income Distribution*, Philadelphia: Chilton Company.

Imprint

Publisher
Macroeconomic Policy Institute (IMK) of Hans-Böckler-Foundation, Georg-Glock-Str. 18,
40474 Düsseldorf, Contact: fmm@boeckler.de, https://www.fmm-macro.net

FMM Working Paper is an irregular online publication series available at:
https://www.boeckler.de/de/fmm-working-paper-22457.htm

The views expressed in this paper do not necessarily reflect those of the IMK or the Hans-Böckler-Foundation.

ISSN 2512-8655