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The Concept Of Uncertainty And Its Importance To Post-Keynesians

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Abstract:
Background*: The work discusses the peculiarities of a monetary economy, emphasising its role as an exchange, account unit, and reserve of value. Post-Keynesians emphasise the importance of understanding monetary policy for economic analysis and policy formulation. The discussion focuses on Keynesian uncertainty, its implications, and the essential property of money, the replacement elasticity between real assets, which is zero or negligible. Uncertainty plays a crucial role in unemployment in the Keynesian framework, as it can lead to decreased investment and consumption, resulting in a decline in aggregate demand. Uncertainty can take various forms, such as political instability, changes in government policies, or stock market fluctuations. This creates an environment of unpredictability, discourages investment and consumer spending, and can lead to higher levels of unemployment. To address this issue, governments may need to intervene to stimulate demand and restore economic confidence. Post-Keynesian economists argue that uncertainty can disrupt the economy, leading to resource hoarding and prolonged imbalances. Keynes' preference for preserving wealth in cash is due to its liquidity and the unique characteristics of money as a reliable reserve of value. In sum, the post-Keynesian revolution postulates that the world is constantly changing, making predictions impossible. This finding contradicts Friedman's view of money as a common commodity, and thus, it would not impede predictions.*
Key Word*: uncertainty; money; liquidity preference; investment; unemployment.*

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I. Introduction

The work discusses the peculiarities of a monetary economy that Lord Keynes himself dealt with and which the post-Keynesians emphasise. These peculiarities refer to the importance of the role of money in the economy as a means of exchange, account unit, and reserve of value. Furthermore, post-Keynesians highlight the influence of the expectations of economic agents and the uncertainty inherent in monetary markets. They argue that the monetary system is crucial in determining economic activity and stabilising fluctuations. Thus, understanding and analysing the peculiarities of a monetary economy is fundamental for comprehensive economic analysis and the formulation of effective economic policies. Post-Keynesians also emphasise the importance of monetary policy as a tool to influence aggregate demand and control inflation. They argue that the government's ability to control the monetary supply and regulate interest rates is essential to stabilising the economy and promoting sustainable growth. Therefore, understanding the functions and mechanisms of the monetary system is essential for analysing and formulating appropriate monetary policies.

Keynes (1933) highlighted this distinction when he described the essence of a monetary economy in one of his most influential articles.

The theory which I desiderate would deal, in contradistinction to this, with an economy in which money plays a part of its own and affects motives and decisions and is, in short, one of the operative factors in the situation, so that the course of events cannot be predicted, either in the long period or in the short, without a knowledge of the behaviour of money between the first state and the last. And it is this which we ought to mean when we speak of a monetary economy. Keynes (1933, p. 408)

The initial focus of the discussion revolves around the Keynesian concept of uncertainty, followed by an exploration of its implications: hoarding money, which leads to unemployment. Finally, we will discuss the essential property of the money, which is the replacement elasticity between all real assets that is zero or negligible.

II- The Concept of Uncertainty

This section seeks to provide an understanding of the post-Keynesian concept of uncertainty based on Keynes' ideas on this subject. Post-Keynesian uncertainty is an approach that recognises the existence of unpredictable and unexpected events in the economy. They emphasise that uncertainty cannot be reduced to a

mere statistical probability but instead is an inherent feature of the functioning of markets. Post-Keynesians argue that uncertainty influences the decisions of economic actors and can lead to more cautious behaviour and a greater propensity to save rather than invest.

According to the post-Keynesians, Lord Keynes believed it was impossible to predict the future based on past and present events in probability because the probability distribution of past events would not necessarily be identical to the future distribution. In this respect, it is worth recalling Professor Keynes's conclusion. Keynes (1978, p.171) stated that uncertainty is an inherent feature of the economy and that economic actors must make decisions based on expectations and conjecture. He argued that uncertainty resultes from the complexity of the real world, where multiple factors and variables influence future results: *On these problems there is no scientific basis for a probabilistic calculation We just don't know anything.* Therefore, for post-Keynesians, understanding uncertainty is fundamental to a more realistic and comprehensive economic analysis that considers unpredictability and the possibility of unforeseen events impacting economic outcomes.

According to Professor Keynes, converting uncertainty into mere risk is equivalent to estimating the probability of a future event with a disconnected probability distribution, which makes the results statistically insignificant. Keynes' finding was that there was no scientific basis to predict the future profitability of any enterprise.

In view of the above, the Keynes concept differs from the risk of losing a roulette game, for example, where there is an estimate of the probability distribution. In this case, the events can be repeated countless times under the same conditions.

In the field of economics, the circumstances under which decisions are taken remain unknown because the world is not a transparent place. When a consumer chooses to give up today's lunch to save for future consumption, it shows no sign that it allows producers to prepare for the future supply and make the necessary investment adjustments. After all, we do not even know what is happening in the present, so how can we predict the future?

Predicting the future of an enterprise becomes even more challenging when one considers that behaviour, confidence, optimism, and pessimism influence capitalist spending. It is worth mentioning that economic actors rely on subjective probability tables and conventions to formulate their investment and consumption decisions. The capitalist system is inherently unstable because the behaviours of individuals can easily be modified.

In the face of a change in economic conjuncture, individuals dramatically change the degree of validity of their predictions and thus spread mistrust of the economy's evolution, generating instability. Minor incidents can have enough impact to cause some agents to change their behaviour, which in turn leads to changes in the behaviour of others, ultimately resulting in significant uncertainty. Mood fluctuations alter the level of confidence in the economy and make the system unstable. Since these attitudes are characteristic of society, we can deduce that instability is inherent in it. Therefore, the irrationality of individuals contributes to increased uncertainty because they base their decisions on subjective values and easily modify them.

Another aspect to be considered is the continuous change in the global profile of supply and demand, which corroborates the post-Keynesian and Keynes's assertion that the distribution of probability of the past is incompatible with the future. This disassociation implies that traditional economic models that rely on historical data and assumptions may no longer effectively predict future trends.

The interactions between sectors are evident in spending between industrial sectors. When consumer goods producers place orders on equipment producers, this leads to changes in the facilities of the manufacturer of equipment goods. This alteration is because equipment producers must meet orders by modifying their production lines, which in turn requires facility modifications. These modifications are necessary to ensure that the equipment produced has the required quality and quantity and can be delivered on time. Consequently, the manufacturer of equipment goods has to adapt to the changing requirements of the consumer goods industry, which can lead to changes in its production processes and overall efficiency. It is a symbiotic relationship in which both parties interact. The fluctuations in global demand and supply over time provide a valid basis for Chick's (1983) claim that the target undergoes a change when it is altered.

Entrepreneurs are unlikely to learn from their mistakes because they change future demands when they reverse their long-term investment positions. This decision means that entrepreneurs can incur significant financial losses by reversing their positions.

In the historical method, trying to use past events as a way of predicting the future is not a viable approach. This is due to the unconclusive determination of independent variables and their respective effects. The irreversibility of time justifies the use of the historical method.

In sum, for post-Keynesians, it is impossible to predict the future because economic agents are irrational, and the profile of supply and demand changes over time. In addition, uncertainty and instability are intrinsic features of the economic system, which makes any attempt at precise forecasting difficult. According to post-Keynesians, expectations and unpredictable behaviour are just two examples of subjective factors that affect economic actors'

decisions. Thus, any attempt to predict the future based on the supply and demand analysis becomes useless and limited.

III- Money and Unemployment

It is important to explain the role of uncertainty in unemployment in the Keynesian framework. In this theory, uncertainty plays a crucial role in determining the level of unemployment. This is because uncertainty can lead to a decrease in investment and consumption, which ultimately leads to a decline in aggregate demand. When there is a lack of demand for goods and services, companies can reduce production levels, leading to an increase in unemployment. Uncertainty can take many forms, such as political instability, changes in government policies, or stock market fluctuations. These factors can create an environment of unpredictability that discourages investors and consumers from spending. As a result, the overall level of economic activity decreases, leading to higher levels of unemployment. Moreover, in the Keynesian framework, unemployment can become a self-fulfilling prophecy. When companies realise the lack of demand, they can reduce production and fire workers, which leads to a decrease in consumer spending and a further decline in demand. This cycle can continue until the government intervenes to stimulate demand through fiscal policy measures, such as increasing public spending or reducing taxes. In conclusion, uncertainty plays a key role in determining the level of unemployment in the Keynesian framework. By creating an environment of unpredictability, uncertainty can lead to a decrease in demand, which in turn may lead to higher levels of unemployment. To solve this issue, governments may have to intervene to stimulate demand and restore confidence in the economy.

In this scenario, the investment decision plays a significant role and a challenge. It is hard because this action implies the exit of resources and the possibility that this production will not find buyers. In other words, expanding the supply through establishing a company or expanding production may not meet demand. Therefore, the investment decision-making process is irreversible, as are the possible costs, which can result in losses.

Due to the risks involved, the agents postpone investing and seek to keep their wealth as liquid as possible in cash. For this reason, Davidson points to money as a link between the present and the future, although cash does not offer profitability. This action would be justified, although the envelope does not offer profitability because its low cost would partially offset it. This alternative feature makes money a reserve of value by excellence, having a replacement elasticity value of zero for the post-Keynesians. These features of the money make it "reversible" over time. Thus, investors choose the cash as the application that protects against uncertainty.

Post-Keynesian economists contend that uncertainty constitutes a disruptive force in the economy owing to the potential for resource hoarding, which can result in prolonged imbalances. The inclination towards long-term liquidity is accountable for the inability to realize demand at a commensurate worth to the hoarded resources.

Keynes' preference for preserving wealth in the form of cash lies in the unique nature of the money. Unlike other commodities, money is highly liquid, which makes it a valuable asset that can easily be converted into other forms of wealth. This liquidity is what makes cash such an attractive option for those seeking to maintain their financial security and stability. By keeping the money, individuals can ensure that they have access to the resources they need to cope with any economic storm or take advantage of new opportunities as they emerge. Thus, while some may see cash as a static and unproductive asset, Keynes recognized its true value as a versatile and reliable source of wealth.

Three fundamental characteristics make a money a reliable reserve of value. Let us explore them more deeply. First, high demand elasticity is crucial for a money to function as a reliable value reserve. This function means that even when the market fluctuates, the money continues to be sought and retains value. Secondly, low production elasticity is also necessary. It ensures the money cannot be easily reproduced, reducing its scarcity and value. Last, the money must have a low replacement elasticity, ideally zero or negligible, to prevent easy replacement by another form of money. This characteristic means that people will continue to rely on the money as a secure and stable value reserve. Therefore, these three attributes are essential for a money to be a reliable and trustworthy reserve of value.

According to the post-Keynesian economic model, as the production of a particular good increases, the marginal efficiency of investment in that production declines at a faster rate compared to the money efficiency margin. This decline may even lead to negative values. In simpler terms, the economic model suggests that as the production of a product increases, the returns on investment become less and less, causing a decline in profitability. This is an important consideration for businesses and investors as they make decisions about where to allocate their resources.

The essence of a monetary economy is the maintenance of wealth in the form of money, even when other assets offer profitability, in addition to the desire to accumulate wealth as money. This preservation of wealth in the form of money reflects individuals' confidence in the money as a means of exchange and reserve of value. Moreover, the desire to accumulate wealth in the form of money is linked to the security and liquidity offered by this form of wealth. These elements are fundamental to the functioning of a monetary economy, as they allow for continuity in economic transactions.

IV. Final Comments and Recommendations for Future Studies

Post-Keynesian uncertainty is an approach that acknowledges the existence of unpredictable and unexpected events in the economy. It argues that uncertainty is an inherent feature of the functioning of markets and that economic actors must make decisions based on expectations and conjecture. Keynes believed that predicting the future based on past and present events in probability is impossible due to the complexity of the real world and the lack of scientific basis for probabilistic calculations. Predicting the future of an enterprise becomes more challenging due to the irrationality of individuals, the continuous change in the global profile of supply and demand, and the irreversibility of time. Post-Keynesians argue that predicting the future based on supply and demand analysis becomes useless and limited due to the inherent features of the economic system.

Uncertainty plays a crucial role in unemployment in the Keynesian framework, as it can lead to decreased investment and consumption, resulting in a decline in aggregate demand. Uncertainty can take various forms, such as political instability, changes in government policies, or stock market fluctuations. This creates an environment of unpredictability, discourages investment and consumer spending, and can lead to higher levels of unemployment. To address this issue, governments may need to intervene to stimulate demand and restore confidence in the economy. Post-Keynesian economists argue that uncertainty can disrupt the economy, leading to resource hoarding and prolonged imbalances. Keynes' preference for preserving wealth in cash is due to its liquidity and the unique nature of the money. A monetary economy maintains wealth in the form of money, reflecting individuals' confidence in the money as a means of exchange and reserve of value.

The Keynesian revolution developed in post-Keynes optics relates to two fundamental ideas: the world constantly changes, making it impossible to make predictions. For the post-Keynesians, neoclassical predictions are ergodic, and economic decisions are inserted in time and are not reversible. These ideas, coupled with the fact that money is a unique good characterised by zero substitution elasticity, make the money neutral, contrary to Friedman (1984)'s understanding of money as a common commodity. If we adopted the post-Keynesian finding of the impossibility of predicting the future, no prediction would be realized. In that scenario, economists would not make any predictions. In this way, economists would not be able to predict the impact of a future economic recession on a given sector, making it difficult for companies to make strategic decisions. Moreover, government policies based on economic forecasts would also not be carried out. In that case, governments would cease to carry out planning, which would prevent mitigating insurgent crises.

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