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Although John Maynard Keynes developed a macroeconomic analysis in which aggregate consumption played a central role, he said little about the microeconomic theory of consumer behavior underlying his work. Subsequently, economists have often taken for granted that Keynesian macroeconomics can and should be integrated with the standard utility-maximizing model of individual consumption. This article, however, argues that there are signs that Keynes rejected the standard theory of consumer behavior, and that an alternative model of consumer choice can help explain important aspects of Keynesian macroeconomics.

MICROECONOMIC FOUNDATIONS

An extensive body of literature, beginning in the 1940s and continuing up to the present, attempts to combine Keynes' macroeconomics with the neoclassical framework, and in particular to derive Keynes' aggregate consumption function from a model of individual maximization of expected utility. The possibility that Keynes rejected standard microeconomics is rarely discussed. While Keynesian unemployment is clearly incompatible with the automatic market-clearing mechanisms of general equilibrium theory, economists have often tried to confine the disagreement to that single issue.

The most important exception is James Duesenberry, who attempted to take into account other elements of Keynes' work. Duesenberry recognized the importance of learning, habitual behavior, and preference interdependence in consumption, arriving at a formulation that comes closer than most economists to Keynes' original views.

KEYNES AND THE UTILITY-MAXIMIZING MODEL

Although Keynes did not formulate an explicit theory of consumer behavior, several points imply that he rejected the standard theory: his disagreements with the philosophical hedonism underlying the neoclassical model; his ideas on probability and uncertainty; and his expansive views of the motivations for consumption.

The neoclassical theory of the utility-maximizing individual was originally derived from Jeremy Bentham's philosophical hedonism – his "calculus of pleasure and pain." Later changes in the theory, such as the switch from cardinal to ordinal utility, and Samuelson's introduction of revealed preference, never entirely eliminated the marginalist, hedonistic basis for the theory of consumer behavior.

Keynes, however, studied with and was influenced by the philosopher G.E. Moore, a prominent critic of hedonism. Moore, and Keynes, believed that the purpose of life was not the pursuit of pleasure, but of the "Good", an approach that was compatible with idealistic approaches such as neo-Platonism. Keynes explicitly attacked Bentham and his theories, referring to the "Benthamite tradition" as "the worm which has been gnawing at the insides of modern civilization and is responsible for its present moral decay," and commenting on early work in microeconomics, "How disappointing are the fruits, now that we have them, of the bright idea of reducing Economics to a mathematical application of the hedonistic calculus of Bentham."[1]

Keynes also wrote about the theory of probability and uncertainty, and criticized the concept of probability as a numerically measurable frequency – at least for economically important events. The probabilities of future wars, major inventions, or even changes in prices and interest rates, he maintained, were numerically indeterminate or undefinable; such events are uncertain on a deeper level than the outcome of a game of roulette. However, the expected utility model of neoclassical economics, and much of the writing on microeconomic foundations of Keynesian analysis, assumes that future economic events are calculably uncertain, in the manner of games of roulette. In a summary of his views on neoclassical microeconomics, Keynes emphasized the expected utility approach as one of his principal disagreements:

> The orthodox theory assumes that we have a knowledge of the future of a kind quite different from that which we actually possess. This false rationalization follows the lines of the Benthamite calculus. The hypothesis of a calculable future leads to a wrong interpretation of the principles of behavior...[2]

Since the future was fundamentally uncertain, Keynes believed that much of human behavior was based on spontaneous urges to action rather than on calculation of mathematical expectation. In the *General Theory*, Keynes asserted that consumption depends on both objective and subjective factors; his list of subjective motives includes enjoyment, short-sightedness, generosity, miscalculation, ostentation and extravagance.[3]

INDICATIONS OF ALTERNATIVE FORMULATIONS IN KEYNES

In the few places where Keynes addressed individual consumer behavior, there are indications of an alternative theoretical approach. His discussion of the propensity to consume assigned an important role to habits; a household will first make the purchases needed for its habitual standard of living, and only then adjust – imperfectly, in the short-run – to changes in income. Recalling Keynes' theory of probability, habits and customs may help individuals cope with the irreducible, unquantifiable uncertainties about the future.

In his analysis of the relation between income and savings, Keynes viewed it as obvious that higher incomes led to a greater proportion of savings, since additional consumption became less urgent once immediate, primary needs had been met. This suggests a hierarchical structure of needs, as found in psychological theories such as Maslow's. A hierarchical structure of needs points to a conceptual framework different from standard utility maximizing theory – as does Keynes' emphasis on spontaneous behavior and the "animal spirits" of investors.

POSSIBLE ALTERNATIVE MODELS

A formal model, consistent with Keynes' scattered comments on consumer behavior, can explain some aspects of Keynesian macroeconomics. The existence of a hierarchy of needs suggests that there are consumption thresholds: below a certain level of food consumption, for example, all available income may be spent on food, while above the threshold, food and other goods are substitutes, competing for the consumer's next dollar. This implies that the individual's demand curve for food has a "kink," or corner, when the threshold is reached (when the price is such that the consumer's entire income is just adequate to buy the threshold quantity of food).

SIGNIFICANCE FOR KEYNESIAN MACROECONOMICS

One of the most important reasons for unemployment in the Keynesian system is wage and price rigidity. The idea of price rigidity has been even more difficult to explain than wage rigidity, and a number of economists have criticized this aspect of Keynes' theory. However, the model of hierarchical or threshold consumption provides a novel explanation for price rigidity. Although the model proposed in the last section applies only to individuals, mathematical investigations suggest that it is likely to yield kinked aggregate demand curves as well. The standard techniques of microeconomic theory show that, with a kinked aggregate demand curve, it is possible for the profit-maximizing price to remain constant even in the face of significant shifts in supply or demand. This rigidity in prices may be also related to the persistence of habitual or customary consumption in the face of short-run changes, and is similar to the ideas of "shopping based on experience" and "information asymmetry" that have been proposed to explain price rigidity.

"The basic idea here is that Keynes' rejection of the ... expected utility model which ascribes perfectly optimal choices for economic agents, and his inclination towards the ideas that compose the alternative models that we described, can explain the price or quantity inertia that has been viewed as a mystery by many theorists in the Keynesian model." (333)

Notes

1. J.M. Keynes, Essays in Biography, Collected Writings X (London, 1972), 445, 184n; cited in Drakopoulos, 322.
2. J.M. Keynes, The General Theory and After Part II: Defence and Development, Collected Writings XIV (London, 1972), 122; cited in Drakopoulos, 324.
3. J.M. Keynes, The General Theory of Employment, Interest and Money (London: 1936), 108; cited in Drakopoulos, 325.