Economics [On-Line Journal]
Referee Report
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Title: "Keynes's Investment Theory as a Micro-Foundation for His Grandchildren"

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Recommendation: The paper should be accepted subject to some minor revision.

Comments: This paper makes an original contribution, is well written and is well argued. It draws upon insights from Heinrich Gossen & John Maynard Keynes — two figures who I don't believe have hitherto been paired — to propose a radical reformulation of the theory of consumer choice.

From Keynes, the author takes two ideas. First, Keynes predicted, in "Economic Possibilities for Our Grandchildren" (1930), that by the end of the twentieth century the developed world will have achieved a level of per capita income sufficient to provide all of us with a comfortable standard of living on a much shorter work week. Yet the grandchildren of Keynes's generation are working no less than people did nine decades ago, and many are working longer and harder, even though output per worker has risen to a level that would make a real increase in leisure possible. This needs to be explained. Secondly, the author adapts Keynes's analysis of the effect of uncertainty on investment to the analysis of consumption spending; the idea, I gather, is that uncertainty about the payoff from the devotion of resources (including time) to new leisure-consumption experiences leads people to adopt the less risky course of acquiring goods rather than experiences. From Gossen, the author takes the idea that consumers seek novelty in their spending choices: they don't simply repeat the same pattern of purchases from one spending cycle to the next.

The author has woven these insights into an interesting analytical framework that can support further research, both theoretical and empirical. For that reason I recommend in favor of publication. The mathematical formulation developed in the paper is coherent, though that mode of analytics is not my cup of tea for addressing what is essentially a sociological question.

I have a few observations that I would ask the author to consider in preparing a final draft for publication. These fall under the heading of "complications the existence of which should at least be acknowledged." I do not think it necessary that the author provide thorough resolutions of the issues I raise; but he ought to take note of them, and perhaps say a few words about how they relate to the framework he is developing here.

- Throughout the paper the author presumes that people actually have a choice over how many hours they devote to work and how many to leisure. That is surely not the case for most workers, even with the rise of the gig economy and telecommuting. The vast majority of workers must be on the job at hours specified by their employers. My impression, though I am not a labor economist, is that employers often expect white collar workers to be available in the evenings, on weekends, and while vacationing. There is also substantial tacit pressure on workers to arrive early and stay late; this pressure is exerted though performance reviews and various forms of verbal & nonverbal signaling from management. To the extent that this is the case, I wonder how relevant it is to ask "Why don't workers opt for as much leisure as their incomes would comfortably allow them to have?" Not everyone is in the position of the author's hypothetical Jane, who earns her living as a freelance accountant.

- I might add, as someone who lives in a large expensive city, that even a very well-to-do household would have difficulty living comfortably in such a city if the earners have a large mortgage and a couple of kids. Housing, food, entertainment and clothing costs tend to rise in step with median incomes.

- These remarks in some sense reflect my skepticism about the extremely formal approach reflected in the author's equations (1) – (3). The author's framework is pushing the envelope, to be sure, but it remains a neoclassical envelope. Nothing wrong with that, of course. *À chacun son goût*, and all that. But I do think the paper presumes that economic agents have more freedom of choice than, under capitalism, they actually do have. To the question "Why don't people choose more leisure?" my answer would be: "Because their employers set their working conditions, and their wages seldom allow them the luxury of working for half or even three-quarters pay." I'd like the author to say a few words about all this.

- For what it's worth, my sensibilities lie on the institutionalist & Marxian end of the analytical spectrum. I highly doubt that people behave much in accordance with the paper's three equations. Keynes, at any rate, could not have anticipated the massive degree to which we would all come under bombardment by marketing messages from every direction. The author's model is designed to show how *given* preferences react to conditions of uncertainty; this is a useful question to consider. But perhaps something could be said about the fact that our preferences are constantly subject to manipulation by the same forces of capital that dictate our conditions of work.

- A neat feature of the model presented in the paper is that it is fundamentally dynamic: the desire for novelty induces unending evolution in the pattern of consumption spending. The author presents his framework as a fusion of Keynes's theory of uncertainty with John Hicks's concept of temporary equilibrium. I wonder whether the connection to Hicks is necessary or even warranted. Georgescu-Roegen, who provides the epigraph that opens the paper, was skeptical of equilibrium models. Ludwig Lachmann likened economic processes to a kaleidoscope, a metaphor that to me seems more apt than Hicks's temporary equilibrium.[*]

To sum up: This is an interesting and well-executed paper that merits publication. I believe the argument would be enhanced if the author acknowledged and briefly discussed, if only in occasional footnotes, the complications mentioned above.

[*] See L. Lachman (1976): "From Mises to Shackle: An Essay on Austrian Economics and the Kaleidic Society," *Journal of Economic Literature*, Vol. 14: 54–62.