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Since the 18th century, orthodox economics rests on the belief that if markets were fully competitive, there would be a general efficiency. The current financial malfunctions, accordingly, would not result from free competition, but rather from insufficient competition. This statement is strong, for it rests on a sophisticated conceptual framework within which there is no dysfunction when perfect competition prevails. But it is also strongly unrealistic, for it rejects public interventions even when markets obviously lost there bearings in the storm. In fact most of those who referred to the orthodox approach before the financial crisis, are now, inconsistently, claiming for public interventions. There is however a consistent way of thinking about necessary public interventions. Indeed, John Maynard Keynes focus on fundamental uncertainty consequences questioned the supposed virtues of competition and offered the most elaborated alternative as for thinking about the current turnmoils and designing the necessary stabilizers.

The postulate that free competition delivers a 'natural order' has a crucial role in the orthodox theory: it allows for supposing that the economic system is stable enough, so that agents may correctly predict the consequences of their economic and financial decisions, even in the long run. Keynes, on the contrary, built his *General Theory* by reconsidering the functioning of competitive markets in the absence of any anchor for expectations, so that individual decisions have no natural or optimal solution; they depend on the changing 'views concerning the future' and on the agents confidence as regard their previsions. Keynes central concepts like liquidity preference, animal spirits, conventional rate of interest…, result from this approach.

The 'degree of confidence' is a key concept of decision theory in uncertain contexts. Knight put it forward from 1921 on. This is formally recognized in the modern decision theory and in behavioural and experimental theories. Actually, a growing empirical and theoretical literature questions the mainstream methodology more and more seriously and supports Keynes's vision (see my paper on 'the growing evidence of Keynes's methodology advantage', http://halshs.archives-ouvertes.fr/halshs-00189221/fr/). Accordingly, Nobel price 2006 Edmund Phelps claimed last year in the American Economic Review that "… if an economy possesses dynamism, so that fresh uncertainties incessantly flow from its innovative activities and its structure is everchanging, the concept of rational-expectations equilibrium does not apply and a model of such an economy that imposes this concept cannot represent at all well the mechanism of such an economy's fluctuation."

Victoria Chick pointed out that, in order to make such a dynamic analytically tractable, Keynes takes the 'views about the future' as exogenous variables likely to change according to the context. Keynes thereby put forward that competitive markets form a demand driven moving system ('shifting equilibrium'), not a supply driven system. Financial choices and interest rates are of major importance in this respect. As they have no 'natural anchor', the equilibrium position depends on the 'views about the future' and on the state of confidence, while the mainstream only reckons the optimal solution for a competitive system. This is why *The General Theory* is basically more general than the mainstream theory, and more realistic as it doesn't rest on the reduction of true uncertainty to risk.

As, in the mainstream approach to competitive markets, the market price adjustment drives decisions towards the cleared market position, unemployment simply cannot result from a deficient aggregate demand. In the presence of strong uncertainty on the other hand, the adjustment caused by a depressed aggregate demand meet various obstacles. The *General Theory* states therefore that "Say's law"[1] may not work because of the obstacle that the liquidity preference oppose to the equalization of aggregate saving and investment through the interest rate adjustment. Since, consequently, the production of goods and services is not ensured to find a sufficient demand, firms must adjust their production to the expected level of demand (thereby adjusting saving to investment), which, in spite of free competition, is not ensured to be spontaneously driven to the full employment level.

The effective demand principle would however be limited to a mere temporary phenomenon if wage flexibility was able to straighten aggregate demand after a delay; the supply side would dominate eventually. But, as Keynes put forward in *The General Theory* ch. 19, flex-price markets do not remove unemployment necessarily, and may even increase it through its negative effects on effective demand. In that case, competitive forces may well turn out destabilizing. Accordingly, by contrast with the so called 'New Keynesian Economics', wage rigidity is not the cause of unemployment in Keynes's theory; this rigidity, on the contrary, is the necessary stabilizing response of workers to cumulative depressive forces and potential instability. Contrasting with orthodox macroeconomics, where competition induces flexible prices and optimal employment, competitive forces may induce unemployment and institutional resistance to instability: "If […] money-wages were to fall without limit whenever there was a tendency for less than full employment, […] there would be no resting-place below full employment until either the rate of interest was incapable of falling further or wages were zero. In fact we must have *some* factor, the value of which in terms of money is, if not fixed, at least sticky, to give us any stability of values in a monetary system.' (*The General Theory*, 303-304).

It turns out that induced institutional responses in the labour market and, to the extent that monetary institutions influence the interest rate, in the monetary-financial markets do not merely take part of the exogenous context, but also take part endogenously in the adjustment process towards a stable solution. Liquidity pumping, banks bail out or nationalisations and economic policy responses in general obeys similar motivations. Although they look to be distortions in the competitive process from the orthodox point of view, they actually work as hedges against destabilizing competitive forces. This is the reason why, in spite of the absence of a 'natural order', competitive systems are relatively stable. On the other hand, to suppress institutional safeguards, in the name of a dogmatic belief in the virtues of free competition, would certainly precipitate economies in the chaos.

These considerations should also change the common view on Keynes's economic policy recommendations. Fundamental uncertainty discredits the flawed 'hydraulic Keynesianism' according to which moving adequately such and such curve within an IS/LM framework, or any aggregate demand function in 'New Keynesian' models, would solve the problem. The *General Theory* invites us to more prudence and tact, but this would require that economic policy makers and advisers admit the fundamental uncertainty of the real world and reconsider the contribution of John Maynard Keynes.

1. Remember that, at the macro level, aggregate investment must absorb the whole part of the production which is not sold for consumption, that is, aggregate saving, if the production of goods and services is to be entirely sold.