

Just suppose we could say "I don't know"

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John Kay has a first rate article in the FT this morning, on Keynes and his theory of probability. His thinking on this is clearly heavily influenced by Robert Skidelsky, as is my own on the subject, but it's none the worse for that. [As Kay notes:](#)

Keynes believed that the financial and business environment was characterised by "radical uncertainty". The only reasonable response to the question "what will interest rates be in 20 years' time?" is "we simply do not know". And this was a prescient comment: 20 years after the publication of Keynes's A Treatise on Probability takes us to 1941, when Britain was struggling for continued existence at a crucial stage in the second world war. Keynes had seen the future more clearly than most but when it came to how specific events would unfold, he simply did not know. Like everyone else.

This needs to be contrasted with the standard economics view, which is that everything can be predicted probabilistically with a a likelihood attached to the outcome. That is the basis of the theory of rational expectations. That theory, which in the obvious absence of any data on the future assumed that what would happen would be the same as what happened in the past, brought our economy and that of the world to its knees. Because a crash of the sort that happened in 2008 had not happened rational economists assumed it could not happen. That may sound stupid, but Adair Turner's review of financial services regulation after the crash (to which I refer in the Courageous Sate when discussing this issue) made precisely this point. No one looked at the possibility of a crash because it assumed it could not happen as it had not happened.

That was just stupid, but another more pernicious impact is on society at large. We expect people, and politicians in particular, to know answers to all questions. They can't. It's reasonable that they can't. But we say they're wrong when they admit it.

Just suppose Keynes, who is so obviously right on this issue, had seen his view prevail. Our politics would be very different today. But so too would our economics be very different and very much more enlightened by the simple shaft of honesty that would then permeate it. As would our politics.

One can still wish, I guess.