

John Keynes



Quotes from *The Economic Consequences of Peace* - (1920)

- The future life of Europe was not their concern; its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandizements, to the future enfeeblement of a strong and dangerous enemy, to revenge, and to the shifting by the victors of their unbearable financial burdens on to the shoulders of the defeated.

The Economic Consequences of Peace

- It is an extraordinary fact that the fundamental problems of a Europe starving and disintegrating before their eyes, was the one question in which it was impossible to arouse the interest of the Four.

The Economic Consequences of Peace

- He had one illusion — France; and one disillusion — mankind, including Frenchmen, and his colleagues not least.
- If Mr. [Lloyd George](#) had no good qualities, no charms, no fascinations, he would not be dangerous.
- Like Odysseus, the President looked wiser when he was seated.

The Economic Consequences of Peace

- Economic privation proceeds by easy stages, and so long as men suffer it patiently the outside world cares little.
- Men will not always die quietly. For starvation, which brings some to lethargy and helpless despair, drives other temperaments to the nervous instability of hysteria and to a mad despair.
- If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp.

The Economic Consequences of Peace

- Nothing can then delay for very long that final Civil War between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victorious the civilization and progress of our generation.
- "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.

Hyperinflation

- In January, 1921, there were 64 marks to the dollar. By November, 1923 this had changed to 4,200,000,000,000 marks to the dollar.
- Some politicians in the United States and Britain began to realize that the terms of the [Versailles Treaty](#) had been too harsh.

Heilbroner quote

- The book was an immense success. The unworkability of the treaty was manifest almost from the moment of its signing, but Keynes was the first to see it, to say it and suggest an outright revision. When the Dawes Plan in 1924 began the long process of undoing the impasse of 1919, his gift for prophecy was confirmed.

Classical Economic Theory

- Supply creates its own demand.
- The capitalist system automatically provides full employment.
- Flexible wages, prices, and interest rates adjust to changes in aggregate demand.
- All unemployment is temporary (as long as it takes wages to adjust), or the result of people moving in and out of the labor force.
- There is no involuntary (cyclical) unemployment.

Quotes from *The General Theory of Employment, Interest and Money* - (35)

- The classical theorists resemble Euclidean geometers in a non-Euclidean world who, discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight as the only remedy for the unfortunate collisions which are occurring.
- Yet, in truth, there is no remedy except to throw over the axiom of parallels and to work out a non-Euclidean geometry.

The General Theory

- For professional economists, after Malthus, were apparently unmoved by the lack of correspondence between the results of their theory and the facts of observation;
- Malthus, indeed, had vehemently opposed Ricardo's doctrine that it was impossible for effective demand to be deficient; but vainly.
- But controversy ceased; the other point of view completely disappeared; it ceased to be discussed.

The General Theory

- The great puzzle of Effective Demand with which Malthus had wrestled vanished from economic literature.
- You will not find it mentioned even once in the whole works of Marshall, Edgeworth and Professor Pigou, from whose hands the classical theory has received its most mature embodiment.
- It could only live on furtively, below the surface, in the underworlds of Karl Marx, Silvio Gesell or Major Douglas.

The General Theory

- The completeness of the Ricardian victory is something of a curiosity and a mystery.
- That it reached conclusions quite different from what the ordinary uninstructed person would expect, added, I suppose, to its intellectual prestige.
- That its teaching, translated into practice, was austere and often unpalatable, lent it virtue.

The General Theory

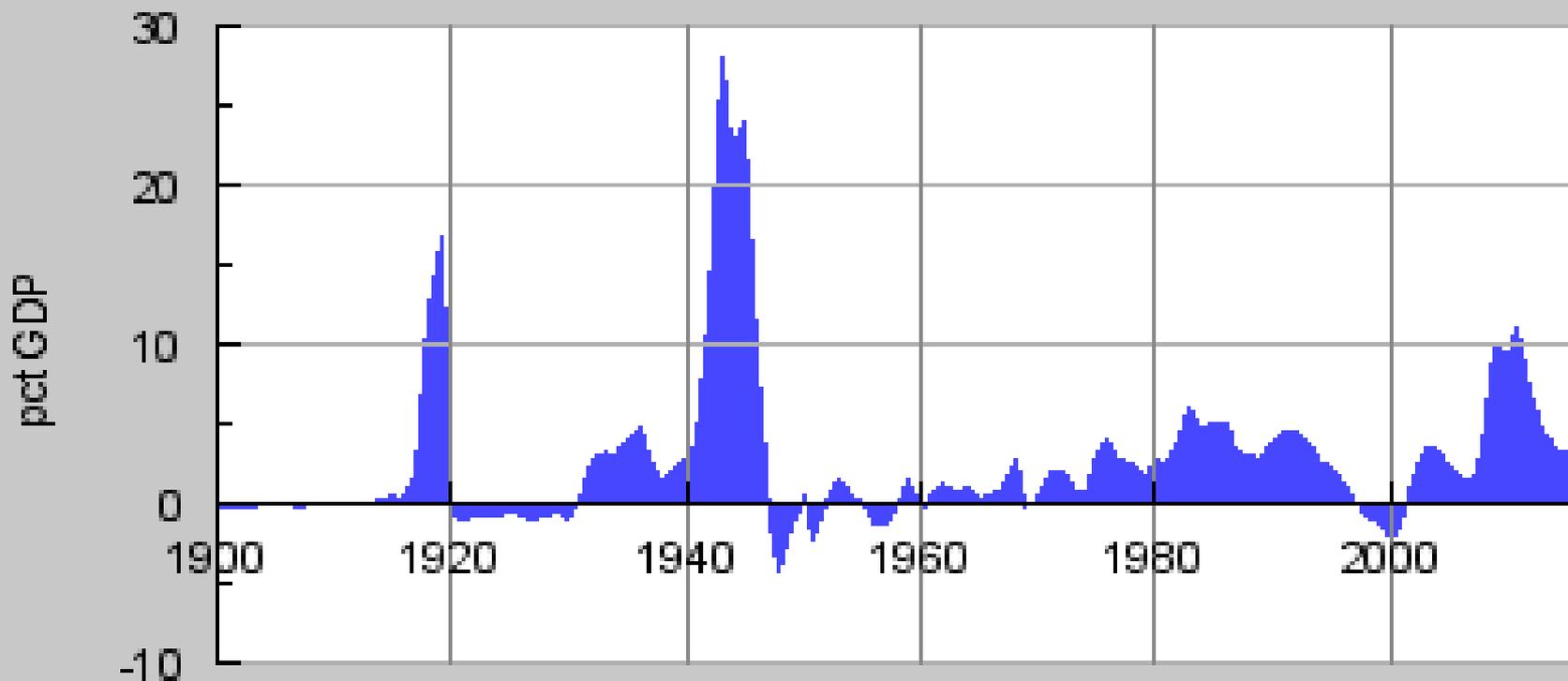
- That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commanded it to authority.
- That it afforded a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social force behind authority.

The General Theory

- Keynes argued that because of insufficient aggregate demand the economy could (and did during the 1930s) settle at a level of total output below that of full employment indefinitely.
- Budget deficits during periods of serious unemployment could mitigate the severity of unemployment by supplementing aggregate demand.

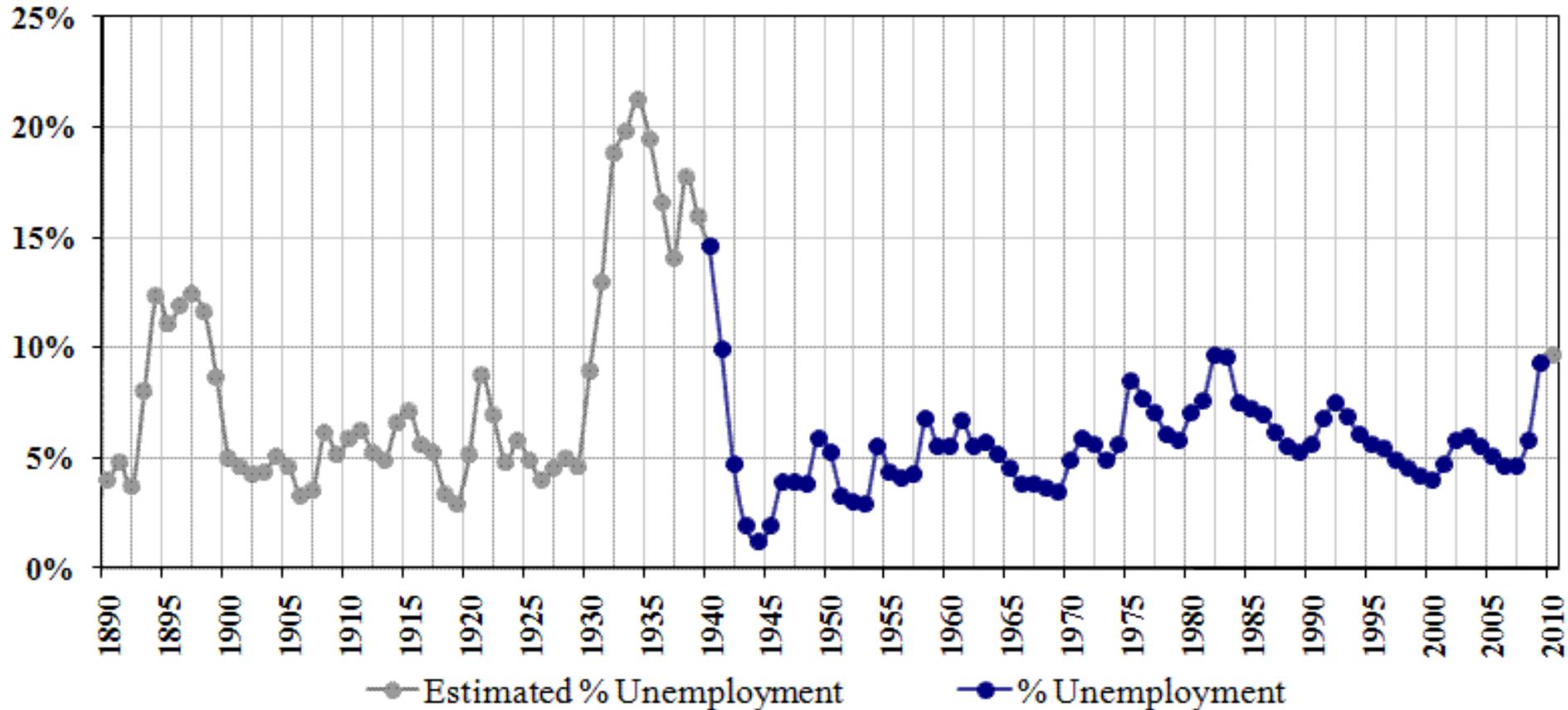
Deficits as a percentage of GDP

Annual Deficit Federal Government
US from FY 1900 to FY 2016



Unemployment rate – U.S.

United States - Unemployment Rate (1890 - 2009)



Keynesian Revolution

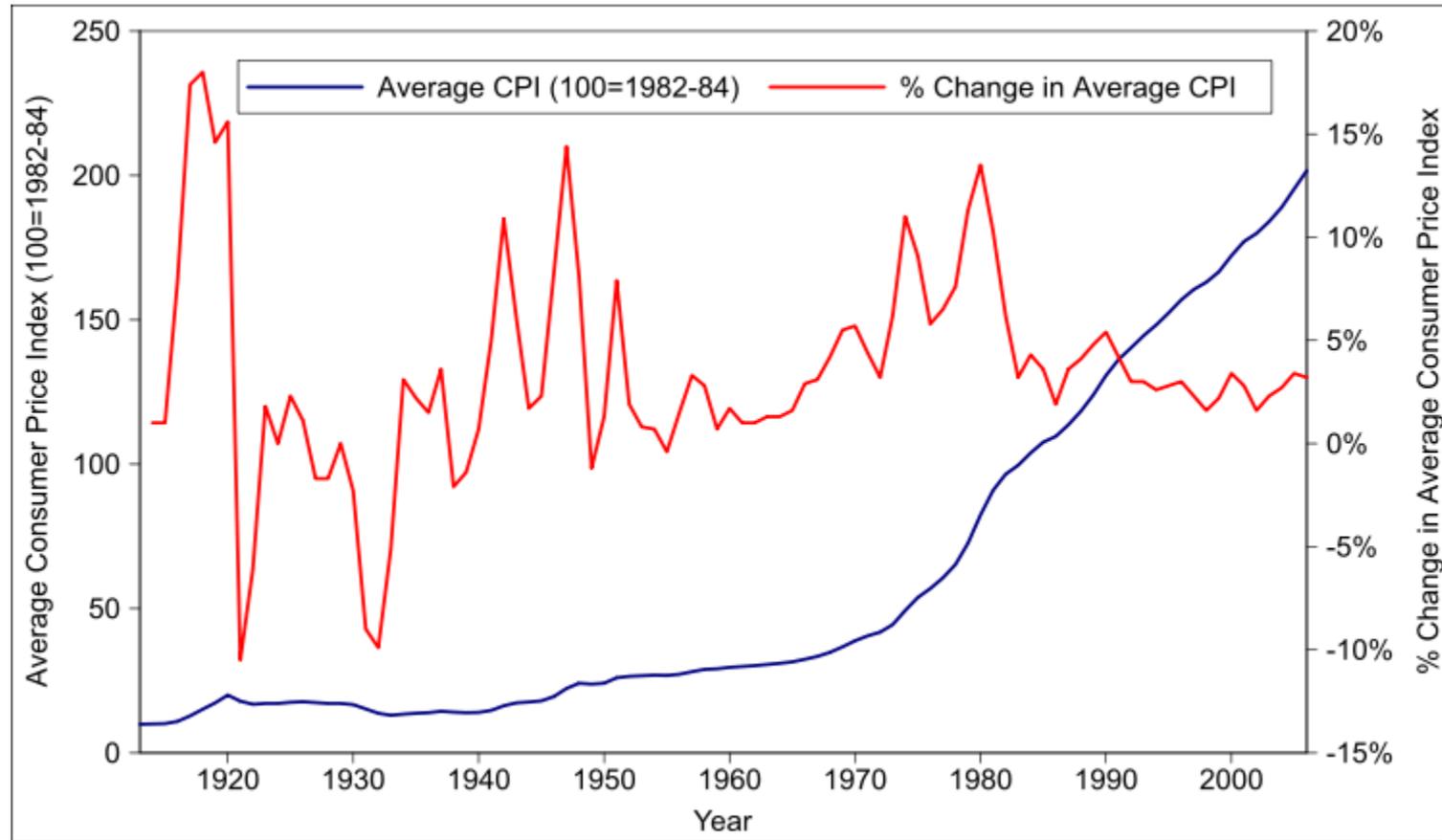
- Total output is determined by aggregate demand.
- Government could and should stabilize the economy (particularly in the event of unemployment).

Revolution Over

- Politically, deficits are too tempting.
- Evidence suggests that persistent efforts to stimulate aggregate demand can cause creeping (and not so creeping) inflation.
- Inadequate aggregate demand does not explain stagflation (rising unemployment with rising inflation).

Creeping inflation

United States Consumer Price Index 1913-2006



Quote from Milton Friedman - 1968

- "in one sense, we are all Keynesians now; in another, no one is a Keynesian any longer."
The two senses were identified in his subsequent elaboration: "We all use the Keynesian language and apparatus; none of us any longer accepts the initial Keynesian conclusions"

- by 1980 [Robert Lucas](#) was saying economists would often take offence if described as Keynesians.

Quotes from James Tobin (2001)

- The architects of Reaganomics styled themselves Supply-Siders
- They scorned the Demand-Side theories and policies they attributed to John Maynard Keynes
- In practice Reaganomics turned out to be the biggest and most successful Demand-side fiscal gambit in peacetime U.S. history.
- I admit to being both a Keynesian and a neoclassical economist

- In 2001 George W. Bush pushed through one of the largest tax cuts in U.S. history.
- Bush argued that such a tax cut would stimulate the economy and create jobs, although he did not refer to Keynes.
- Others, including the Treasury Secretary at the time, Paul O'Neill, were opposed to some of the tax cuts on the basis that they would contribute to budget deficits and undermine Social Security.

A Conclusion

- Keynesian policy initiatives are politically attractive, and have been implemented by both Republicans and Democrats for fifty years, particularly when unemployment is increasing.
- Using the name Keynes with policy initiatives is politically unattractive because apparently no economist accepts Keynes analysis; in fact, as we have seen, he offends most economists.

Conclusion

- We should never have another depression because the evidence is strong that budget deficits can prevent that; as long as we don't keep running deficits when they are not needed.
- Keynes' theory of aggregate demand is perhaps a special case applicable to high levels of unemployment.

Keynes was not a Socialist

- Marxian Socialism must always remain a portent to historians of opinion...how a doctrine so illogical and so dull can have exercised so enduring an influence over the minds of men, and through them, the events of history.
- Marxism was founded upon nothing more than a misunderstanding of Ricardo.