X. DEMAND-SIDE ECONOMICS: GENTLEMAN-COUNSELORS

"When you lose the rhythm of the drumbeat of God, you are lost from the peace and rhythm of life." Cheyenne
"A good chief gives, he does not take" Mohawk

Black Thursday, October 24, 1929 did not only become the gateway to the Great Depression which lasted an entire decade. It did not only throw one forth of the US working population out of work into unemployment and starvation. It did not only thrust entire populations into migration across the 'dust bowl' not towards the 'promised land' of California, but rather towards a last-means-left flight to 'Desperado Beach' as so poignantly depicted in Steinbeck's *Grapes of Wrath* or Ed Murrow's *Harvest of Shame*. It did not only do away with a curious speculative institution called the investment trusts through 'negative leverage' in one fell swoop.

"In two insane months the market lost all the ground it had gained in two manic years; $ 40 billion of values simply disappeared … The vision of Every Man a Wealthy Man had been shown up as a hallucination."[23]

It did not only reduce the Gross National Product by one third and wipe out entire industries. It did not only show up a speculative frenzy of less than a million men as lethally anarchic for entire national majorities which reach a negative near-global scale. It did definitively do away with Adam Smith's great myth of the 'invisible hand' and the no lesser great myth of mysteriously self-regulating markets through the magic wand 'laissez-faire'.[24]

There were two gentlemen, a British lord and a Canadian scholar who dared to face the fact squarely that the old paradigm of classical economics did not serve anymore and who dared to defy economic orthodoxy to come up with new not-by-the-book solutions which in turn were called 'not infallible' [Kindleberger], 'mutinous' [Skousen], 'heretical' [Heilbroner], 'crypto-socialist' and 'crypto-totalitarian' [Hayek], or worse.

The first was John Maynard Keynes, the second John Kenneth Galbraith. The bottom line of both thinkers in spite of all their complexity tended to be macro-economic, activist, progressive.

23 Heilbroner, *The Worldly Philosophers*, 1953, 1999
24 J. K. Galbraith, *The Great Crash* 1929, chapter IX, New York 1954,/1997

The neoclassical econometrist, speculator, and Rolodex inventor Irving Fisher on the other hand epitomized the energetic willingness of the old-world, vieux-jeu, staid, classical-economics, laissez-faire philosophy to do nothing when he ventured the thought that the "economy had reached a permanently high plateau" exactly a week prior to Black Thursday. He later wrote a book explaining the causes of the crash which was as popular as the biography of George Bush I. What characterizes the classical and neo-classical economists alike at this point is the radical and energetic willingness, in effect, to let other people starve.

It is therefore quite appropriate to look at the two gentlemen counselors who not only ventured to state the fact that Black Thursday and the Great Depression had in fact exploded said myth, but who – whatever may be the shortcomings of their solutions in turn – at least also offered alternative paradigms to get people off the breadlines and the dust bowl migration tracks back into employment.

John Maynard Keynes counseled FDR extensively on economic policy to the point that the New Deal would not have been a New Deal, but again a helpless vieux-jeu without his works and Kenneth Galbraith counseled the Kennedy and Johnson administration and the New Frontier/New Society policies of those presidents would have been unrecognizably different or equally unthinkable without him. Neither lumpenproletariat malcontents nor juvenile revolutionaries they were and it is certainly worth our while to take a closer look at what they proposed.

The economist John Maynard Keynes was born at Cambridge where his father was lecturer of economics June 5, 1883 – by a curious coincidence the same day as Adam Smith was born 160 years earlier. He died 1946. It is too often forgotten that he was a trained mathematician whose work on probability attracted the praise of Bertrand Russell – no mean mathematician himself. He was a protean figure with the intellectual pursuits of a Renaissance man, he was a Bohemian, a snob, a dandy no less than Oscar Wilde, albeit more scientifically inclined, and a member of the influential artistic circle known as the Bloomsbury group which included Virginia and Leonard Woolf, E.M. Forster, and Lytton Strachey. Heilbroner graphically describes his successfully speculating in currencies before even getting out of bed in the morning:

"Keynes disdained inside information … and his own oracles were nothing but his minute scrutiny of balance sheets, his encyclopedic knowledge of finance, his intuition into personalities, and a certain flair for trading. Abed in the morning he would study his items of financial intelligence, make his decisions, phone his orders, and that was that; the day was now free for more important things, like economic theory. He would have gotten along famously with David Ricardo. He made money, by the way, not only for himself. He became the Bursar of King's College and turned a fund of 30,000 pound sterling into one of 380,000. "[25]

One is reminded of the ancient Greek philosopher Thales who was challenged as to the practical applicability of his 'abstract' philosophy and he acquired wealth by the by in predicting weather patterns and harvest quantities correctly. On the other hand the world has never been changed by charity and it would take more than good will and handouts, even exceptionally generous ones, to instigate the fundamental paradigm shift of economics in the 20th Century.

What shook Keynes early out of what otherwise might have become hardhearted aristocratic complacency was his experience 1919 in assisting the Versailles Peace talks. His outrage over the sinking of a Wilsonian 'humane peace' for a Clemenceauian 'vindictive one' [Heilbroner] found expression in his publication the same year of *The Economic Consequences of the Peace*. An experience that he shared with T.E. Lawrence and Upton Sinclair's fictitious left-wing hero-cum-presidential-agent Lanning Budd in his 11 volume *World's End Series* which covers the 1st half of the 20th Century. Both Lawrence and Sinclair equally shared Keynes' assessment of the disastrous world-historic consequences of this revanchist peace which would lead from the disastrous WW I directly to the infinitely more disastrous WW II, except that Keynes voiced his ominous forebodings first.

It was the in-depths analysis of the stock-market crash 1929, however, that launched him on a much needed complete revision of classical economics. First victim became his own still neo-classical *Treatise on Money* [1930] which was revised and revamped as his *General Theory of Employment, Interest, and Money* [1936]. "... no sooner had Keynes written the Treatise than, figuratively, he tore it up." [Heilbroner] Employment had been moved center stage for the 1st time in an economic study, since Marx and the progressive thinkers, because as we have seen patently there was very little of it during the Great Depression.

Labor appeared to have become a "scarce commodity", the dream and activity of a privileged few, not as happy as Veblen's 'conspicuous consumers' who partake of the non-working leisure class but completely ecstatic in comparison to the Dust Bowl migrators who were not even a step away from starvation any more – they just literally starved! Keynes answer in a nutshell as to the root causes of the Black Thursday and the Great Depression was as disarming as it was mono-causal and simple. National income – national savings – reinvestment form a necessary

[25] op. cit. 1953/1999, p. 260

triad in all healthy creation of wealth which nevertheless has no cogency between the 2^{nd} and 3^{rd} step. Income creates savings but savings are not necessarily reinvested. The discrepancy creates a dangerously lagging production which leads to unemployment which in turn leads to a definite economic downturn ... unless - and here comes in Keynes legendary as well as sensationally unorthodox solution – the government steps in through 'deficit spending' and reignites the employment and business cycle through public work programs.

John Kenneth Galbraith [* 1908], one of the few progressive US economists and a very fine Keynesian one at that, has a more complex cluster of answers as to the multi-causal negative groundswell that lead to the cataclysmic and for a long fearful decade seemingly irredeemable economic full-stop of the Great Depression.

On another level one is reminded of the disaster of the Soviet nuclear reactor at Chernobyl April 26, 1986. It took weeks and weeks to get a handle on the burning reactor and have a Frankfurt firefighter by the auspicious name of Achilles come up with the right chemical combination to quench what could have easily become an 'eternal' atomic fire. Only this time the firefighters name was F. Delano, and albeit, he was no economist himself, he had the good sense to surround himself with the right kind of economic advisers. Unlike Keynes who in spite of his genius seems to operate in his *General Theory* in a kind of super-Ricardian abstract Galbraith identifies multifarious causes which – as a jigsaw shotgun tends to hit the much sought after target with a greater likelihood – come closer to what actually caused the Depression and needs to be abolished to preclude the next Big One with any amount of definitiveness.

As a prelude to the Depression Galbraith identified the Florida real estate scam of 1925 caused by no less a colorful character than Mr. Charles Ponzi. Galbraith implicitly elevates Ponzi to a kind of evil-genius godfather of the entire downward spiral of the Depression calling one of the leaders into it a "Ponzi of financial self-deception".[26] As indeed not only the small and middle class investors lost money, but even Big Money lost big money itself.

Further Kenneth Galbraith identifies five root causes of the Great Depression:
1. Unequal distribution of income
2. Exceedingly poor corporate structure
3. Exceedingly poor banking structure
4. Exceedingly dubious state of foreign trade balance
5. Definitely deficient state of economic intelligence

[26] op. cit, 1954, 1997 p. 4, 5, 162

The first item partially coincides with Keynes analysis of the problem which culminates in the correct assessment that "both investment and luxury spending are subject, inevitably, to more erratic influences and to wider fluctuations than the bread and rent outlays of the $ 25-a-week workman". In item two he contradicts flatly and equally correctly the erroneous judgment of the Harvard Economic Society that business leading up to the Depression "in most lines has been conducted with prudence and conservatism." Galbraith continues dryly that the Society continued to adhere to the same prediction even at the height of the economic and financial debacle "till it dissolved." He continues "the fact was that American enterprise in the twenties had opened its hospitable arms to an exceptional number of promoters, grafters, swindlers, impostors, and frauds. This, in the long history of such activities, was a kind of flood tide of corporate larceny." He concludes "it would be hard to imagine a corporate system better designed to continue and accentuate a deflationary spiral."

The banks mentioned in the 3rd item had no reserve or insurance system worth mentioning and thus they fell easily prey to a domino effect of bankruptcies. The foreign trade balance still smarted under the export-over-import doctrine of Mercantilism (of 2 Centuries back!) which did nothing to aid with respect to the ironing out of serious trade discrepancies. And the final vaguely romantic item of "economic intelligence" brings a Galbraithian summing up that might as well conclude the entire misrule that led to the Crash and the Great Depression in the first place: The Hoover administration's "rejection of both fiscal (tax and expenditure) and monetary policy amounted precisely to a rejection of all affirmative government policy. The economic advisers of the day had both the unanimity and the authority to force the leaders of both parties to disavow all the available steps to check deflation and depression. In its own way this was a marked achievement – a triumph of dogma over thought. The consequences were profound."[27]

A more serious problem of the period leading up to the Great Crash was that every one was getting mesmerized by the fallacious assumption that 'money be real wealth' rather than nothing but one of its measures and indicators. To treat the thermometer rather than the patient and let the patient die if need be as the Monetarists would like to answer for the eventual inadequacies of Demand-Side Economics of Keynes would be no help. The classic explanation of the cause of the Great Depression: Overproduction vs. under-consumption are equally rejected by those economists cited above as well as by the majority of their serious colleagues.

[27] op. cit, 1954, 1997, p. 177 - 186

A land act or re-novelation of the Homestead Act with reference not to farm land but to all monopolist closing out of general use of resources would have done much to reignite the economy after October 24, 1929. The New Deal might than have brought the margin up and become New Land and it would have accelerated the way to economic recovery. None of the above experts except Galbraith gave natural resources and land more than a passing reference in their analysis. We would have to turn to Henry George to get a full treatment of the issue under this heading.

It may be added with regards to Galbraith ingenious pro-Big Government argument that a "countervailing power" be needed to check Big Labor and Big Business/Big Money:

A. That it contradicts George's distrust of the same but runs realistically parallel to the practice of all political parties today regardless of the traditional party cant
B. That the very people who most strongly oppose BG are curiously indifferent to the dangers of Big Business as derived from monopolization of natural resources and land
C. That it may be called the Labor or Social Democratic argument prevalent in Northern countries like Canada, Scandinavia, Germany, and formerly England
D. That it does not follow Marx in allowing Big Government to expropriate the means of production as well as what Lenin called the Commanding Heights of the economy, but that it maintains BG as a safeguard of the poor of being robbed by the rich

In this context neoclassical economics and neoconservativism may be defined as a drastic revision of the Robin-Hood legend. While Robin Hood robbed the rich to give to the poor NCE and NC condones the robbing of the poor to give to the rich. What on the other hand may be said about Big Government especially if it turns into Big Brother in totalitarian dictatorships or post-modern totalitarian media states other than that some one is got to come up with the livelihood of all those bureaucrats and civil servants who are in themselves unproductive is this:

Why would anyone at all in the world want to stay in the house of their parents when maturity and legal majority falls due even one day longer than necessary? And in the same vein: Why would that answer be different if extended from parents to the paternalism of governments?