

unnecessary, indeed barely possible, to endorse every assumption and every speculation. Like Marx, Veblen, endowed with a powerful moral vision, saw society as a whole and grappled with its future.

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As Keynes has been domesticated by textbooks and politicians, he is scarcely identifiable as the closet radical and rebellious member of the English intellectual establishment whom his friends and followers admired in his lifetime. Child of Cambridge University, favorite pupil of Alfred Marshall and Marshall's successor A. C. Pigou, peer of the realm at the end of his career, Keynes nevertheless struck the public eye first as an ingrate who had turned maliciously against his political superiors. For when he resigned in disgust from the British delegation to the 1919 Versailles Peace Conference, he was an important adviser to Prime Minister Lloyd George, and one of a Big Four whose other members were no less than Woodrow Wilson, Georges Clemenceau, and Vittorio Emanuele Orlando. Deeply distressed though he was by the cynicism and treachery of the others, Keynes according to polite convention should have resigned and kept his mouth shut. Lloyd George would surely have written him a pleasant letter of regret.

Silence seldom struck Keynes as the best course of action, then or later. At the end of 1919, he published one of the great polemics of the century, *The Economic Consequences of the Peace*. By respectable criteria, this detestable volume did everything wrong. Keynes attracted his readers' immediate attention with four mordant sketches of the central actors at Versailles. Lloyd George had encouraged Britons to believe that the devastated German economy could pay

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vast sums in reparations to the winners, at the same time as the winners refused to buy German exports—the only conceivable source of the reparations. No doubt to the victors belonged the spoils. But, cried Keynes, just imagine that the losers' cupboard is bare. What price spoils then? The guts of the book were its statistical and analytical demonstration that German resources and commercial opportunities were much too sparse to justify any but very moderate reparations.

Keynesian magnanimity, if it had become Allied policy, might have removed the injustices of Versailles as a major theme of German politics during the Weimar period. If the German economy had been allowed to recover more quickly after 1918, the country presumably might have avoided the hyperinflation which wiped out middle-class savings and made that class ripe for recruitment by the Nazis. It is also possible that a consistently Draconian policy of repression might have kept Germany so weak that even Hitler would have hesitated to start a new world war. The vacillations of actual Allied policy between indulgence and harshness preserved German grievances and prevented full recovery of prewar prosperity.

History cannot be rerun. The aspect of *Economic Consequences* most relevant to the 1970s was Keynes' concern for the stability of capitalism. Keynes spent much of his time searching out innovative economic policies to salvage his own beloved England. "Here," he sighed in 1931, "are collected the croakings of twelve years—the croakings of a Cassandra who could never influence the course of events in time."<sup>32</sup> What terrified Keynes especially was the fragility of democratic institutions, the delicacy of public psychology, and the weakness of the economic arrangements

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which institutions and psychology had made possible. Looking back in 1919 upon the comparative success of Western society between 1870 and 1914, Keynes discerned the operation of a good deal of luck:

Europe was so organised socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the masses of population, society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a regime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in view.

Unfortunately these moderately benign arrangements were inherently unstable because,

... this remarkable system depended for its growth on a double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded or cajoled by custom, convention, authority, and the well-established order of society into accepting a situation in which they could call their own very little of the cake that they and nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice.<sup>33</sup>

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Keynes thought it unlikely that in the postwar atmosphere either the thrift of the affluent or the docility of the working class could be restored to prewar standards. For one thing, "the war had disclosed the possibility of consumption to all, and the vanity of abstinence to many."<sup>24</sup> For another, capitalists were so unconfident of the future that they took to spending their incomes on immediate pleasures rather than saving them for investment in an uncertain future. Far less deferential to their betters who were setting this poor example, workers and unions demanded with mounting determination larger slices of the cake they had helped to produce.

During the 1920s, Keynes' gloom deepened as the English economy sank into a sea of troubles. Even before 1914, English merchants and producers had been losing ground steadily in world markets to more vigorous German and American competitors. Victory failed to interrupt this long trend, and errors of policy compounded the adverse effects of slow growth in English productivity. In a misguided attempt to recall the imperial glories of the past, a Conservative government and a conservative chancellor of the exchequer, none other than Winston Churchill who understood glory better than exchange rates, revalued the pound in 1925 at its old parity with the American dollar. However, in 1925 the pound was worth much less and the dollar far more. English exports after 1925 became artificially more expensive and English imports of American merchandise unrealistically cheap.

The consequent threat to the English balance of payments could be overcome by devaluation of the British pound—a political impossibility; an industrial investment boom—an economic implausibility; or a reduction in costs

especially of wages. The English government, adopting the third remedy, soon discovered that it was equally implausible. Attempted wage reductions sparked a general strike which has embittered labor-management relations ever since.

For nearly the decade which preceded the 1929 crash of the world economy, English unemployment was at depression levels in the Welsh coal valleys, the Scottish shipyards, and the manufacturing towns of the midlands. In the 1920s, the dole became as much a way of life for the long-term unemployed as welfare for many inner-city American families in the 1960s and 1970s.

What could be done? A man of endless ingenuity, Keynes turned first to currency reforms. If England went off the gold standard, or at least valued the pound more sensibly, English exporters could do better in world markets and English merchants would be less menaced by competition from American, Japanese, and German imports. Falling imports and rising exports are the usual tonic for any country's balance of payments. England, a country exceptionally dependent upon world trade, needed the tonic in generous doses. No English government was willing to accept Keynes' "croakings."

Keynes was by nurture and conviction a free trader. In desperation, he came to advocate, as a temporary measure, tariffs to protect English business. Against the grain of conventional opinion, he proposed to tackle unemployment directly. Making up his quarrel with Lloyd George, now an opposition leader, he composed a pamphlet *Can Lloyd George Do It?* which advocated public works, financed by government deficits, to absorb the unemployed in useful projects. He encountered another stone wall. The experts in the British Treasury solemnly averred that if the govern-

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ment borrowed more, less would be available for business investment. At most then, less important public jobs would replace economically more valuable jobs in the private sector.

Fallacies often have long lives. In 1974 and 1975 Treasury Secretary William Simon, the Ford administration's most vigorous exponent of economic error, repeatedly warned Congress that more stimulus to the economy would "crowd out" private borrowers, renew inflation, and lead to even worse recession. Minds unbefuddled by reading too many of Mr. Simon's statements might have concluded that when unemployment was running at 9 percent levels, eight or nine million people were looking for jobs, factories were operating at 70 percent of capacity, and inventories were stacked in warehouses, there were plenty of resources available to be put to work by money borrowed by both sectors of the economy—private and public.

Keynes' warnings went unheeded partly because employed blue-collar workers and most of the middle class were doing reasonably well. There was a second reason why the experts could safely brush Keynes aside. Keynes' job creation proposals were, on practical grounds, obviously sensible. He simply brought together idle men and women and useful tasks to engage their energies and restore their self-respect. Keynes' pamphlet, however, supplied no theoretical rationale for his economic therapy. Among economists this is a grave deficiency. By and large, the profession prefers good theory to bad, but even bad doctrine to none at all.

Between them the disasters of the 1930s and the analytically elegant *The General Theory of Employment, Interest and Money* removed both impediments to acceptance by

the public, politicians, and professional colleagues of the Keynesian faith. Rates of unemployment as high in the United States as 25 percent caused widespread distress among the middle class. Doctors, lawyers, and businessmen were all caught in the economic storm. In the face of such calamities, no sensible citizen was likely to retain his confidence in politics as usual and policies based on conventional economics.

*The General Theory*, as abstruse and difficult to comprehend as the most carping theorist could require, was Keynes' answer to two questions: What causes mass unemployment? How can the malady be treated and the patients cured? The crucial element in Keynes' responses was his substitution of human will for automatic market processes. For much too long a time, economists, bankers, and Treasury knights had been telling all who listened that, if only we were all as patient as they were, the normal mechanisms of a capitalist economy could be counted upon to restore full production. Clumsy interventions by the politicians simply sabotaged these mechanisms by postponing salutary bankruptcies by inefficient enterprises, and necessary reductions in wages.

Keynes, a manager of everything that caught his interest, from ballet companies and liberal journals of opinion to banks, life insurance companies, Cambridge colleges, and complex international negotiations, simply refused to believe that the human intellect was helpless to handle unemployment, inflation, or any other economic trouble. With unusual rapidity his defense of human competence began to influence public policy, economic research, and statistical practice even before the onset of World War II. By that time England and the United States had installed systems

of national income accounting faithful to Keynesian definitions. The New Deal response to the sharp 1937-38 contraction was an explicitly Keynesian resort to public works and new deficits.

Politicians, not the fastest of learners, had come to understand that unemployment, no act of God, was the almost banal consequence of inadequate spending by three kinds of customers—ordinary consumers, investors, and public agencies. To increase employment, somebody needed to spend more: simple as that. If the consumers could not be coaxed to buy more and save less, the government itself must take action. Lower interest rates encouraged hesitant investors, but if the best efforts of the Bank of England or the Federal Reserve were not enough, Congress or Parliament need only appropriate the money to construct additional hospitals, schools, subways, and houses, or, less sensibly, more tanks, bombers, missiles, and naval vessels.

Keynes recommended redistribution of income in the direction of equality partly on the ethical ground that extremes of wealth and poverty were disgraceful, but also because the poor spent more of their income than the rich. An excellent way to stimulate aggregate demand, accordingly, was to tax the rich to employ the poor. Full employment was the necessary means to the larger objectives of existence, the highest possible quality of civilized enjoyment, diffused among the entire population. Keynes, a creature of Bloomsbury as well as Cambridge, worried as much about life's quality as John Stuart Mill before him and contemporary partisans of the environment after him. Most American and British Keynesians have been almost unqualified partisans of rapid growth in GNP. Not so their master.



Our wishes sometimes are granted in unpleasant ways. It was World War II, a gigantic experiment in the macroeconomics of aggregate demand, that finally convinced the universe of the validity of Keynes' emphasis upon the symbiosis between employment and total spending. Just before the war began, unemployment in the United States was a distressing 14 percent. Mobilization of people and resources to win wars in the Atlantic and the Pacific reduced unemployment practically to zero, provisioned and munitioned thirteen million men and women in uniform, and miraculously raised domestic living standards at the same time. Massive military outlays generated an enormous federal deficit—and full employment.

In Keynesian terms what counted was the size not the shape of spending, a lesson too well learned by some followers of Keynes. Communities enlightened enough to finance universal health care, free public transportation, and free tuition in universities, as well as museums, libraries, orchestras, art galleries, and opera companies, could enjoy the simultaneous delights of full employment and civilized pleasure.

Even though successful politicians in high office quietly applied Keynes and, after 1948, successive editions of Paul Samuelson's *Economics* (and numerous imitations) carried the Keynesian word to legions of students, something more was required to complete public triumph. For in their public pronouncements, Republican and Democratic politicians remained curiously reluctant to surrender outworn celebrations of balanced budgets and misleading analogies between the conduct of family finances and the management of national economies.

Only in the 1960s, after appropriate domestication to the

desires and interests of powerful corporations and wealthy individuals, was Keynesian vision translated into conventional wisdom. In December 1962, persuaded by Walter Heller his principal economic adviser, John F. Kennedy asked Congress to reduce taxes on personal and corporate income even though the government was already running a deficit and the economy was languidly recovering of its own accord. The president explicitly connected an even larger deficit with acceleration of economic growth and a faster march toward his administration's 4 percent unemployment "interim" target. *Business Week* saluted eventual congressional passage of the tax cut in February 1964 as the triumph of an idea. Two presidents and Congress thus ratified the Keynesian premises upon which earlier administrations had privately operated.

With reason these days economists usually identify their occupation apologetically rather than boastfully. A decade ago, Keynesians were proud souls. The tax cut they had promoted was operating just as predicted. Between 1961 and 1969 the economy expanded without interruption from recession, one of the longest booms of business-cycle record. Almost best of all, until mid-1965 when irrational Vietnam escalation distorted all other federal actions, prices behaved beautifully, creeping upward at a discreet 1 or 2 percent each year. For a golden moment, growth became the magic author of many good things. The middle class and the wealthy rejoiced in lower taxes, larger profits, and higher dividends. For the poor, black, young, and urban, Great Society spectacles unfolded a bewildering array of novelties—Lyndon Johnson's "unconditional" war against poverty, medicare, medicaid, Title I funds for impoverished school districts, Head Start, model cities, community action,

neighborhood legal services, and more, much more. As the economy baked bigger pies, everybody ate better, even though in obedience to precedent the rich gobbled the bigger pieces and the poor feasted on the crumbs.

The moral appears to be that in conservative societies dominated by corporate interest Keynesian measures operate successfully during large and popular wars or, as in the early 1960s, during spells of economic growth rapid enough to offer a little something to the officially poor who populate the bottom fifth of the income distribution. What happens when growth potentials diminish is illustrated by Nixon-Ford responses to the challenge of inflation and unemployment. Their administrations arranged the mild 1969-70 recession and prolonged and deepened the 1974-75 mini-depression. The second episode in particular imposed major burdens of unemployment on the most vulnerable groups—women, blacks, teenagers, and urban poor. In all probability, income has been redistributed from poor to rich. Keynesian economics have been redirected from full employment to the pursuit of price stability.

As Keynes himself assumed, no economic technique or doctrine ever substitutes for the play of selfish interest and ideology which power the machine of democratic politics. It is therefore highly unlikely that by themselves Keynesian fiscal and monetary tools will ever again suffice to repeat the triumphs of 1961-65. Growth for the rest of this century and beyond is likely to be slow. Resource shortages, population pressures, declining American influence in the world, and altered relations between rich and developing societies argue against resumption of the 4 percent annual growth rates of American history which softened past struggles over the distribution of the national product.

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When growth slows or stops, the gains of one group are the inevitable losses of another. If the poor get more, the rich get less. Gains by blue- and white-collar workers must be matched by losses of income by doctors, lawyers, and other professional workers. Without democratic national planning and conscious selection of income priorities through the political process, slow growth eventuates either in perpetual inflation, persistent unemployment, a combination of the two, or an alternation of inflation and unemployment.

In the 1970s and after, Keynesian economics in their current, dominant conservative guise are an inadequate response to the transformation of national and world economies that has bewilderingly occurred. Economists need to read or reread portions of *The General Theory* usually ignored. Keynes was not only an advocate of income redistribution, he also foresaw probable need for a "somewhat comprehensive socialisation of investment." Addressing himself above all to the scandal of mass unemployment, he failed to foresee the trend toward even greater concentration of economic power in huge corporations. At a time of enormously deficient aggregate demand, Keynes devoted little attention either to inflation or the capacity of large units in concentrated industries to raise prices in good and bad times without discrimination.

Within the framework of socially chosen goals, Keynesian economics will again flourish. In the United States at the moment, conservative presidents and their corporate allies have learned, alas for the unrich and the nonpowerful, how to generate unemployment high enough to preserve and even improve their share of American wealth.

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In their way great social thinkers are a permanent second government. Marx is better remembered than Millard Fillmore, his contemporary. Veblen sends clearer messages than Chester Arthur. Keynes will be remembered when Stanley Baldwin and Ramsay MacDonald are forgotten. Keynes concluded *The General Theory* with this affirmation of the power, even the primacy of ideas:

... the ideas of economists and practical philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves exempt from any intellectual influences, are usually the slave of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not indeed immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.<sup>26</sup>

Six million Jews died because Adolf Hitler spent an unhappy youth reading anti-Semitic pamphlets and newspapers. The normal aggressions of large states are in Russia reinforced by the vulgar Marxism of its leaders. For good or evil, ideas rule society—whether they are implanted by God and nature, whether they reflect conflicts in the economic base or are responsive to evolutionary imperatives, or, as Keynes preferred to believe, are the fruits of unimpeded, free intellectual speculation.

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Contemporary critics of economic thought and action continue to draw inspiration from Marx and Veblen. The economic profession's shrinking and disheartened legions of celebrants mix a brew of Keynes and Adam Smith that displeases even the brewers. In the absence of superior alternatives, they content themselves with fiscal manipulation and an almost touching confidence in the operation of free markets. It attests to the power of past thought and the febleness of contemporary social analysis that the venerable quartet, Smith, Marx, Veblen, and Keynes, speak in louder voices than the bearers of fresher tidings and the creators of newer visions.