

## **“We're All Dead”**

### **How J.M. Keynes--and His Critics--Went Wrong**

Victor V. Claar, Ph.D.

Henderson State University

#### **Economics Rightly Viewed** -- Descriptive, Moral, & Cultural

#### **Four Observations about Human Nature Central to Western Thought on Economics**

- WORK: We survive and prosper through it
- PROPERTY: We claim/assign ownership over nonhuman resources for our work
- EXCHANGE: We need the work of others, and they need us
- DIVISION OF LABOR: We specialize in--and offer in exchange--the work we can accomplish at low opportunity cost

#### **These Observations Were Historically Linked to Moral Imperatives**

- WORK: Sloth reduces mutual potential for surviving and flourishing
- PROPERTY: People ought to own property and practice good stewardship of it
- EXCHANGE: There is a moral imperative due to its potential for mutual benefit; should not be fraudulent
- DIVISION OF LABOR: Richer options for all

#### **Linking Economic Thought About Human Nature to Moral Imperatives**

- Human action is always both **teleological** and **normative**  
Teleological = Has a purpose!  
Normative = Presupposes rules concerning what to do (and not to do)
- Implication: Human action must be viewed through a moral lens

#### **“Culture” is “Shared Understanding”**

- Culture is our shared understandings, presuppositions, and stories regarding human action
- Cooperative action is driven by socially-shared understandings of meaning and purpose

- Our cooperative action has moral dimensions – both teleological and normative

## **Economics: A Long, Rich Tradition of Factual, Moral, and Cultural Observation**

- Aristotle
- Scholastics
- Adam Smith & the Physiocrats

### **A Fact-Value Fracturing Begins**

Ricardo (1772-1823)

*"...it is not the province of the Political Economist to advise: - he is to tell you how to become rich, but he is not to advise you to prefer riches to indolence or indolence to riches"*

### **The Crack Widens**

- **Nassau Senior** (1790 – 1864)
- Desire to see economics stand alongside other sciences

*"[w]henever he gives a precept, whenever he advises his readers to do anything, or to abstain from anything, he wanders from science into art, generally into the art of morality.... We cease to be scientific...."*

### **The Crack Widens**

- **J.S. Mill** (1806 – 1873)
- Approaches the 'positive-normative' distinction  
*"Propositions of science assert a matter of fact....A scientific observer....is not an adviser for practice.... Whatever the ends themselves are such as ought to be pursued,...science alone will never qualify him for the decision...."*

### **Cairnes, Jevons, & Sidgwick**

- *"...Political Economy is a science in the same sense in which Astronomy, Dynamics, Chemistry, Physiology, are sciences."*
- Economics *"has nothing to do with laissez-faire any more that with communism;...It stands apart from all particular systems..."*

--J.E. Cairnes

### **Cairnes, Jevons, & Sidgwick**

- *"I know not when we shall have a perfect system of statistics, but the want of it is the only insuperable obstacle in the way of making economics an exact science"*

--William Stanley Jevons

## **Wayland & Perry**

Throughout most of the nineteenth century, the clergy in America were still writing about economics in the natural law tradition

**Francis Wayland**

**Arthur Latham Perry**

## **J.N. Keynes and *Scope and Method***

- Solved the British version of the *methodenstreit*
- Became the definitive articulation of the Cambridge method
- Made room for the historicists, but subsumed within an economics built around abstract theory and deductive reasoning
- Positive – Normative – Art

## **Legacy of *Scope & Method***

- Made possible the success of Marshall's *Principles*
- Creation of the Economics Tripos at Cambridge – separate from the existing Moral Sciences Tripos  
"economics...only became a science by escaping from the casuistry and moralizing of medieval thought" --Kenneth Boulding

## **Legacy of *Scope & Method***

"Economists as social scientists try to steer clear of normative statements..."

--Bade & Parkin, 2013

"...a 'disinterested social science' has never existed, and for logical reasons cannot exist...our very concepts are value loaded."

--Gunnar Myrdal, 1958

## **John Maynard Keynes -- Economist as Savior**

### **John Maynard Keynes**

- British economist, 1883-1946
- Father—and namesake—of Keynesian macroeconomics
- Began with his 1936 book, *The General Theory of Employment, Interest, and Money*

## **Great Depression, 1929-39**

- In 1933, the US economy operated at about 70 percent of capacity
- 25 percent unemployment in the same year

## **Great Depression, 1929-39 -- Doubt Shadows Macro**

- Extreme pessimism about the self-correcting power of market forces
- State ownership and planning began to look increasingly attractive as an alternative

### **Keynesian Economics**

Stresses the inherent *instability* of an market economy, and the *need* for active policy intervention to achieve . . .

- Full employment of resources
- Sustained growth

### **Keynesian Economics**

The intuition –

Recession and high unemployment are due to insufficient spending in the private sector by:

- Firms, on new capital and equipment
- Consumers, on goods and services

### **Keynesian Economics**

The remedy –

- The appropriate role of government is to step in and shore up the gap in spending, using deficit financing if necessary
- That is, if people are hurting today, and we have the power to relieve their suffering through policy, then we must do so

### **Obvious Keynesian Downsides**

- Critics of Keynes knew such actions – while pain-reducing in the short-run – would inevitably lead to two longer-term macro problems:
  - Inflation
  - Slower rates of long-term growth
- Keynes, *Tract on Monetary Reform* (1923):  
“In the long run we are all dead” (p.65).

## **The Legacy of Keynes -- Reframing the Economic Stakes**

## What I Will NOT Do Next!

- Demonstrate why Keynesian policy prescriptions are bad advice on his terms (e.g., unemployment, GDP)
- Doing so would be to commit the same error of Keynes's opponents in Chicago and Vienna: Battling Keynes on his terms

## Pre-General Theory Chicago Economists Already Sounded Like Keynes

**Frank Knight**, a founder of the "Chicago School," taught Friedman, Stigler, and Buchanan. Yet in a letter of support for the 1930 Wagner Bill, Knight wrote, "...economists are completely agreed that the Government should spend as much and tax as little as possible, at a time such as this—using the expenditure in the way to do the most good...."

## And What of Vienna?

**In Law, Legislation, and Liberty** Hayek argues that

- **Moral rules are socially constructed for evolutionary purposes.** We experience moral rules we learn from society as "objective" because they are outside our control; individuals cannot invent their own moralities because that is not how morality works.
- But **moral rules are not "objective"** in the sense that religious believers or conventional moral philosophers intend. Morality is driven merely by social groups learning how to survive and passing on that information.

## And What of Vienna?

- Paul Heyne argues that Hayek fails to articulate his core beliefs in the *Road to Serfdom* because  
"...a significant characteristic of Hayek's thought...[is that *h*]e was always troubled by the suspicion that he had no adequate grounds for his most important convictions" (from "Ethics on the Road to Serfdom and Beyond," italics in original)
- To the extent Austrians cannot do economics without answering the question, "how does this connect to transcendent purposes?," they have not fully freed themselves from Keynes's influence.

## A Word on Austrian Business Cycle Theory

- Though Austrians model the business cycle in a unique way—emphasizing the intertemporal nature of capital—they nevertheless keep the focus of their analysis upon quantifiable macro-level outcomes (see Roger Garrison's summary found in *Modern Macroeconomics* by Snowden & Vane, 2005)

## Flawed Anthropologies Lead to Flawed Economics

Today, although each school uses different models to attack the Keynesians, there exists a consensus regarding what constitutes a "good" macroeconomy:

*"The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long-run growth of the monetary and credit aggregates*

*commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of **maximum employment, stable prices, and moderate long-term interest rates.*** --2000 amendment to the Federal Reserve Act  
"Consumption—to repeat the obvious—is the sole end and object of all economic activity"  
(JM Keynes, *The General Theory*, p. 104).

## **A Flawed Anthropology**

- **Flawed anthropologies lead to flawed economic policy.** The Keynesian ideal is imbued with the notion that if we simply know enough economics then we can manipulate people into actions that create maximum employment. This is not economics as moral theory; this is economics as a video game.
- The Keynesian ideal caught hold in the same period that **men and women of science began to believe that systematic management of human beings was both possible and useful** in all areas of society. (e.g., Dewey)
- **Keynes served as Director of the British Eugenics Society** from 1937 to 1944. As late as 1946, shortly before his death, Keynes declared eugenics to be "the most important, significant and, I would add, genuine branch of sociology which exists."
- Economics is not about systematic management! For example, **even the very expression "the economy" is a modern invention. Keynes never uses it in the *General Theory*.** The closest he ever gets is in just two instances: "economic system" (p. 249) and "economic society" (p. 269).
- **In his book *Rule of Experts*, Timothy Mitchell asserts that as late as the 1930s, no one used the definite article in front of "economy."** The word "economy" meant something like frugality or good stewardship.

## **Conclusion**

### **On the Fed's 'Dual Mandate'**

- ***Price stability and full employment are not intrinsically valuable goals!***
  - They are a natural outgrowth of a healthy economy in which each of us has the fullest opportunities possible to live out lives of meaning, purpose, and service to each other
- ***What conditions lead to a genuinely healthy society full of opportunity?***
  - ***Well-functioning markets*** that let prices send strong signals to all of us regarding where our service may be needed most by others
  - ***Clearly defined and enforced property rights***; they lead to good stewardship
  - ***Influential institutions*** (i.e., churches and families) that share wisdom

*"...the Keynesian analysis has begun to filter down into the elementary textbooks; and, as everybody knows, once an idea gets into these, however bad it may be, it becomes practically immortal."*

--Paul Samuelson, 1946