

# The Socio-Economic Philosophy of Keynes: Lessons for the 21st Century

Eric Berr  
University of Bordeaux

The Third Nordic Post-Keynesian Conference  
Aalborg – Denmark  
22-23 May 2014

université  
de BORDEAUX

# Introduction

## → Statement

- › Keynes is undoubtedly the most influential economic thinker of the 20<sup>th</sup> century
- › However, his ideas has been “forgotten” during the ongoing neo-liberal period
- › Nevertheless, he gives us the key to understand the failure of the present neo-liberal prescriptions and is relevant to deal with sustainable development

## → Aim

- › To reassess the great topicality of Keynes ideas
- › Chapter 24 of the General Theory: a guide for Keynes’ socio-economic philosophy
- › Keynes and sustainable development: a precursor that ignores himself?

# 1. Chapter 24 of the General Theory: a guide for Keynes' socio-economic philosophy

- According to Keynes, “*the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes*” (Keynes, 1936)
- The roots of Keynes' socio-economic philosophy appear to be fighting against unemployment and inequality, thus questioning the role of competition
  - › Unemployment
  - › Inequality
  - › Cooperation versus competition

# Unemployment

- Unemployment is caused by a weak effective demand
- Full employment can be reached either by mean of investing, consuming or working less
- Keynes shows that technological unemployment, “*due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour*” (Keynes, 1930) may result in reducing the sorrow of each one, that is, “*to make what work there is still to be done to be as widely shared as possible*” (Keynes, 1930)
- He confirms in a letter to the poet T.S. Eliot in 1945 that cut in working time is the best solution to fight against unemployment – and we should add especially in times where investment and consumption are depressed and generating low growth
  - › “*the full employment policy by means of investment is only one particular application of an intellectual theorem. You can produce the result just as well by consuming more or working less. Personally I regard investment policy as first aid. In U.S. it almost certainly will do not the trick. Less work is the ultimate solution (a 35 hour week in U.S. would do the trick now). How you mix up the three ingredients of a cure is a matter of taste and experience, i.e. of morals and knowledge*” (Keynes, 1945)

# Inequality

- One of the most important features of the Keynesian “revolution” is the alternative explanation given to the relation between investment and saving
  - › *“in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed”* (Keynes, 1936)
- The scale of investment is promoted by a low rate of interest and financed by credit, there is no room for providing incentive to save and to favour capital accumulation
  - › *“the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital”* (Keynes, 1936)
- *Piketty (2014) is re-discovering... Keynes*

# Cooperation versus competition

- In his famous pamphlet *The Economic Consequences of the Peace* (1919), he warns the allies, in their own interest, not to further consider the defeated Germany as an enemy but as an economic partner instead
- This idea of cooperation can be found throughout his work and would lead him to militate in favour of a gradual movement of relative withdrawal of national economies from international trade and finance
  - › *“I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel—these are the things, which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national”* (Keynes, 1933)
  - › *“The protection of a country’s existing foreign interests, the capture of new markets, the progress of economic imperialism—these are a scarcely avoidable part of the scheme of things which aims at the maximum of international specialisation and at the maximum of geographical diffusion of capital wherever its seat of ownership. Advisable domestic policies might often be easier to compass, if, for example, the phenomenon known as “the flight of capital” could be ruled out”* (Keynes, 1933)

## 2. Keynes and sustainable development: A precursor that ignores himself?

- Sustainable development is a notion that is widely accepted nowadays and represents the biggest challenge of the 21<sup>st</sup> century
- How to promote modes of development that are socially fair, ecologically sustainable and economically viable?
- Need to break with the neo-liberal perspective and renew with Keynes who can be of leading inspiration whereas not being involved in such issues in his time
- Organisation of part 2
  - › What is sustainable development?
  - › From radical uncertainty to the precautionary principle
  - › The search for beauty

# What is sustainable development?

## → Definition of sustainable development (Brundtland report, 1987):

*“Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future”*

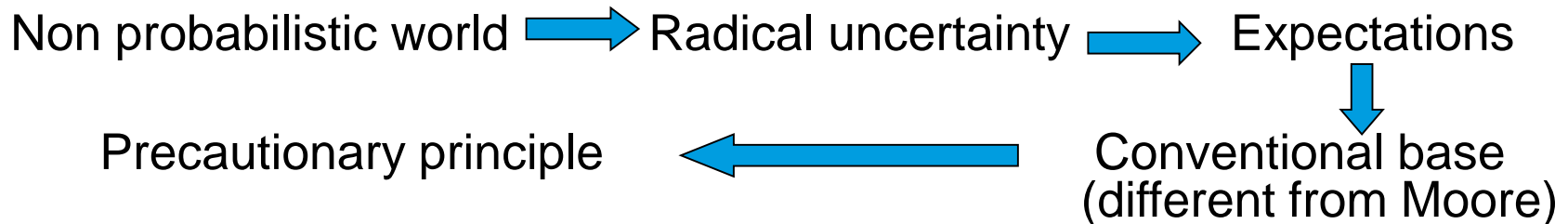
- › Weak sustainability (Brundtland report, Rio summit, MDGs)
    - Monetary evaluation of the environment
    - Environmental Kuznets curve
    - Substitutability of production factors
  - › Strong sustainability
    - Opposition to the monetary evaluation of the environment
    - Complementarity of production factors
    - Emphasis on distribution, equity, full employment, satisfaction of basic needs, etc.
    - Approach which breaks with mainstream economics
- Obvious links between Keynes and strong sustainability



# From radical uncertainty to the precautionary principle

- Influence of George Moore who considers that we can never be sure of the results of our actions nor even of their desirable nature
- Keynes rejects the rationality principle

*“the attribution of rationality to human nature, instead of enriching it, now seems to me to have impoverished it. It ignored certain powerful and valuable springs of feeling”* (Keynes, 1938)



- Rio declaration on environment and development (1992)  
(Principle n°15)

*“In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation”*

# The search for beauty

- Keynes feels that the purpose of life is to enjoy beauty, knowledge, friendship, and love, all concepts that are not primarily concerned with economics
- He rejects the “classical” vision, based on Benthamite utilitarianism
- He condemns environmental destructions and reacts to the disfigurement of the planet
- He thus realises that economic and financial logic are in opposition with ecological and social reason
  - “the same rule of self-destructive financial calculation governs every walk of life. We destroy the beauty of the countryside because the unappropriated splendours of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend” (Keynes, 1933)*
- Arts, as nature, must be disconnected from economic considerations
  - “the exploitation and incidental destruction of the divine gift of the public entertainer by prostituting it to the purposes of financial gain is one of the worse crimes of present-day capitalism” (Keynes, 1936)*

# Keynes' socio-economic philosophy rests on the following ideas

- He considers that the role of economics is to allow the satisfaction of essential needs (food, health, education, etc.)
- He rejects an immoderate pecuniary accumulation
- He conflicts with speculation
- He believes that solutions are national and promotes a trade regime based on mutual aid rather than on competition
- He favours a balanced international trade
- He promotes a cut in working time
- Confiscation of the power by the “powerful”?

# Conclusion: are ideas more important than vested interests?

- Keynes has always been sure of the power of ideas, and especially his own
  - › *“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”* (Keynes, 1936)
  - › *“I believe myself to be writing a book on economic theory, which will largely revolutionise – not, I suppose, at once but in the course of next ten years – the way the world thinks about economic problems”* (Letter to G.B. Shaw, 1935)
- Keynes was also concerned by the possible confiscation of the power by a minority for its own interest
  - › *“it is the modern method—to depend on propaganda and to seize the organs of opinion; it is thought to be clever and useful to fossilise thought and to use all the forces of authority to paralyse the play of mind on mind”* (Keynes, 1933)
  - › *“We were not aware that that civilisation was a thin and precarious crust erected by the personality and the will of a very few, and only maintained by rules and conventions skilfully put across and guilefully preserved”* (Keynes, 1938)