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Economic policies for monetary economies

Políticas econômicas para economias monetárias

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RESUMO: Uma nova onda de pensamento conservador em teoria e política econômica, surgida em meados dos anos 70, fez da dominância de visões keynesianas entre macroeconomistas seu alvo prioritário. Esta onda assume várias formas, mas todas têm em comum a crítica das ideias intervencionistas comumente atribuídas a Keynes ou a seus seguidores. Não há dúvidas de que o keynesianismo, em todas as suas encarnações, tem um componente fortemente intervencionista. Este trabalho examina os fundamentos deste viés intervencionista na obra original de Keynes, explorando trabalhos pouco explorados ou conhecidos como os produzidos durante a Segunda Guerra Mundial, em que aquele autor serviu como alto assessor do governo inglês
PALAVRAS-CHAVE: Keynesianismo; demanda por trabalho; política monetária; desemprego; história do pensamento econômico; Keynes.
ABSTRACT: A new wave of conservative thinking in economic theory and policy, which emerged in the mid-1970s, made the dominance of Keynesian views among macroeconomists its priority target. This wave takes various forms, but all have in common the critique of the interventionist ideas commonly attributed to Keynes or his followers. There is no doubt that Keynesianism, in all its incarnations, has a strong interventionist component. This work examines the fundamentals of this interventionist bias in Keynes' original work, exploring works little explored or known as those produced during the Second World War, in which that author served as a high advisor to the English government.
KEYWORDS: Keynesianism; labor demand; monetary policy; unemployment; history of economic thought; Keynes.
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> "I look forward with every emotion of satisfaction to the prospect that the world may be forced in my lifetime to the substitution of a scientific control of the lever which works the balancing factor in our economic life."
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> *John Maynard Keynes, April 1930*

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1. INTRODUCTION

Since the mid-70s we have been witnessing an unexpectedly strong and durable rise of a new conservative wave in economic theory and policy. Its main target was the perceived dominance of Keynesian views among policy-makers and macroeconomists. The counter-revolution moves forward under many guises. Friedmanite monetarism, new classical policy irrelevance theorems, Ricardian equivalence models, all of these in the theoretical arena; supply side incentives, independence for central banks, privatization and deregulation, balance budget amendments, all in the policy field. All these proposals aim at a common enemy: the interventionist ideas attributed to Keynesianism. That Keynesian theory itself or, for that matter, Keynes's own writings, could hardly be blamed for policies like nationalization, for instance, did not deflect conservative criticisms because Keynesians were at least guilty of allowing any crackpot ideas on the responsibilities of the state over the economic sphere to find an audience. For conservative ideologues, Keynesianism should be condemned on moral grounds just for having given legitimacy to the encroachment by the State on private life[1].

Models of political business cycles were created based on the idea that policy-makers suffer from a disease called inflationary bias (Cukierman, 1994). Society as a whole is considered myopic in its intertemporal preferences, incapable of realizing the future gains to be expected of present sacrifices. Politicians would then cater for the demands of such a society, trading a solid future for immediate but ephemerous benefits, such as creating inflation, risking long-term stability, to obtain short-lived increases in employment. Keynes was to blame for all this confusion because he attacked sound finance and gave strength to those who think that prosperity can be reached by means other than hard work and abstention. Keynes's message was subversive, undermining the attempts to keep society's self-destructive impulses under control.

Under the flag of the Natural Rate of Unemployment, activist monetary and fiscal policies were attacked in the academy and were on the verge of being abandoned by some governments. Independent central banks and balanced budget amendments seemed to be the core of policy initiatives in the late 80s and early 90s.

Keynesian policies in fact had been under attack practically since the publication of The General Theory and, in a sense, even before it. Left-wing criticism was directed against policies seen as seeking mitigation of structural problems that could only be solved for good by a radical transformation of society. Stripped to its essentials, Keynesianism consisted in the appeal to demand policies to attempt to sustain the profit rate against the forces that caused its alleged declining tendency. The guarantee of employment would bribe workers into supporting these profit-defending initiatives. From the right-wing, however, criticisms were even

[1] Among numerous works of criticism of Keynes and Keynesianism, see, for instance, Buchanan (1987) and Ture (1985).

more intense. Keynesian policies were hopelessly inflationary, placating the unions by offering jobs at higher than sustainable wages, threatening social discipline, stimulating dependence on welfare and the dole, and leading the general public to believe that prosperity could be the result of governments trickeries instead of the honest sacrifice of present satisfaction by forward-looking savers.

One would think that the ideas that generated all these passionate opinions had been clearly stated by Keynes or his followers, so that one could assess and pass judgment on them in as definite way as mentioned above. As a matter of fact, Keynesian policies were taken by these critics as an omnibus concept that came to include any kind of active intervention in the economy, from demand management to nationalization of industries. This should not be surprising at all since supporters of Keynes themselves did not always saw eye to eye in this matter. It was easy to tel1, especially in the 60s, "right-wing" from "left-wing" Keynesians, the latter characteristically proposing policies to change income-distribution profiles, ample programs of public investment, progressive tax schemes, etc., that, besides their direct impact on welfare, could also be said to be Keynesian on the grounds that they were policies that would stimulate consumption and sustain aggregate demand[2]. "Right-wing" Keynesians, on the other hand, would seek income and employment stability without touching social structures and minimizing intervention. Typically, left-wing Keynesians, like, for instance, Galbraith, would propose demand policies based on government expenditures to provide public goods to low-income groups, while right-wing Keynesians, like Walter Heller, would prefer tax reductions to boost private demand.

An influential book published in 1989 gathered papers on Keynesian policies from authors of diverse geographical origin and professional capacities (Hall, 1989b). One cannot avoid being surprised by the extent to which different meanings are attributed to the expression "Keynesian policies". Some define them as consisting of compensatory (anti-cyclical) deficit-spending policies (cf. Pekkarinen, 1989). Others consider this to be a pre-Keynesian policy, taking Keynes to propose the permanent appeal to fiscal policy as a means to prevent the economy from settling down into unemployment equilibria, instead of cyclical unemployment (Winch, 1989). Others still take Keynesian policies to mean demand management, through fiscal and monetary measures. For some, it is the emphasis on the generation of fiscal deficits rather than balanced budgets that is characteristically Keynesian[3].

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[2] Boyer (1985) distinguishes between "fundamentalist" and "fine-tuning" Keynesians, the former focused on policies that affected large areas of the economy in contrast to the latter that would just "manage" the existing structures.

[3] The editor of the collection, Peter Hall, seems to be situated in a middle ground between those views, defined Keynesian policies according to observance of three principles: the appeal to aggregate demand management to sustain employment; emphasis on fiscal policy to regulate demand; and the adoption of a counter-cyclical budget policy, seeking deficits during recessions and surpluses during prosperity (Hall, 1989a). Tobin, on the other hand, offers a slightly different view, also suggesting three principles to distinguish Keynesian policies: 1. to aim at real objectives, instead of the nominal targets pursued by

An additional measure of confusion was contributed by Keynes himself, with his cryptical reference, in the last chapter of *The General Theory* to the desirability of some degree of "socialization of investment". Despite Keynes's remarks in favor of private property and private decision-making, some saw in the "socialization of investment" idea an overture to socialist ideas and to nationalization.

There can be no doubt that Keynes was an interventionist and that the policy implications of his *General Theory* (and other writings) are clearly in favor of activist policy-making. It is still obscure, however, what kind of intervention is favored and to what extent. Most of the time, what is taken as Keynesian policy come from writings of Keynes published much before *The General Theory* or by authors that freely interpreted what those policies should be. More recently, much work has been done examining Keynes's political views, frequently based, however, on papers he wrote in his youth. Relatively less attention has been given to Keynes's own proposals made after the publication of *The General Theory* and, in particular, during the war or planning post war reconstruction[4].

Many historians of Keynesian thought locate the immediate origins of *The General Theory* somewhere between 1932-33, when he moved from attempting to extend and correct his Treatise on Money towards a more radical rupture with his own "classical" roots. This change was reflected in the drafts of *The General Theory* as well as in papers and pamphlets published in those years and afterwards. At approximately the same time, Keynes began producing papers on policy matters that were exploring his new theoretical insights, an effort that lasted until his death in 1946. In particular, in second world war's final years Keynes took vigorous part in the debate around post-war reconstruction, proposing many policy instruments that could be handy to implement employment-support measures. These papers, pamphlets and memoranda gives us a set of views that are frequently at variance with established opinion as to the nature of Keynesian policies but fit much better with some interpretations of the core ideas that constitute the Keynesian revolution, if ever there was one. In this paper, we want to recover the approach to policy developed in those works and to relate it to the model of a monetary economy proposed in *The General Theory* and in the debates that happened immediately after its publication. We try to examine the nature and means of intervention that may be seen as inherent to the theory to contrast with the popular views of Keynesian policy, particularly the one that reduces it to deficit-spending. We will see that Keynes was much more aware of some of the dangers later pointed out by both right – and left-wing critics that it is usually acknowledged.

"Classicals"; 2. the use of demand management policies; and 3. coordination of fiscal and monetary policies (Tobin, 1985). More recently, Cunnigham and Vilasuso (1994/5) just equate Keynesianism with deficit-spending.

[4] Most of these papers are published now in Keynes (CWJMK, 27). Pioneers in the study of this material are Kregel (1983) and Wilson (1982).

2. *THE GENERAL THEORY:* A MODEL OF A MONETARY ECONOMY

In 1933, a short paper called "A Monetary Production Economy" came to light. In the work, Keynes defined his "research program" as consisting in the quest for a meaningful concept of monetary economy. Keynes did not really presented the concept but established the requirements for its definition. A monetary economy, he wrote, " ... is an economy in which money plays a part of its own and affects motives and decisions and is, in short, one of the operative factors in the situation, so that the course of events cannot be predicted, either in the long period or in the short, without a knowledge of the behaviour of money between the first state and the last" (Keynes, CWJMK, 13, pp. 408-9, emphases added).

A little earlier, Keynes seems to have stated in a lecture: "On my view, there is no unique long-period position of equilibrium equally valid regardless of the character of the policy of the monetary authority" (Keynes, CWJMK, 29, p. 55).

The need for such a specific concept of monetary economy was due to the fact that: "The idea that it is comparatively easy do adapt the hypothetical conclusions of a real wage economics to the real world of monetary economics is a mistake" (Keynes, CWJMK, 13, p. 410).

From Keynes's work from that time onwards, one can retrieve the elements that defined a monetary economy (Carvalho, 1992). This is a private property economy where production and investment decisions are taken and carried out by firms whose sole goal is "to end up with more money than it started with" (Keynes, CWJMK, 29, p. 89). Firms, thus, aim at accumulating money rather than goods (id., p. 82). On the other hand, consumers (and savers) also aim at earning money incomes and accumulating money wealth. Keynes does not rely on any kind of monetary illusion. His argument as to why economic agents prefer the money form is double. Firstly, as in the Clower aphorism, money buy goods and goods buy money, but goods do not buy goods. There is, thus, a preference for money because it is a means of payment. On the other hand, "money in terms of which the factors of production are remunerated will 'keep' more readily than the output which they are being remunerated to produce" (id., p. 86), which explains the preference for liquid forms of wealth. Keynes pointed out later that it is with respect to the role of money as an asset that the most important difficulties arose for Classical economists. The reason was that, according to Keynes, they could not deal properly with the problem of uncertainty as opposed to calculable risk[5]. Uncertainty cannot be

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[5] There is already a vast literature on Keynes's views on uncertainty and how his concept was to be contrasted to the one accepted by orthodox economists. This author discussed this point in Carvalho (1992), chapter 4. Although the difference between calculable risk and uncertainty has also been recognized, perhaps in even more definite terms, by a neoclassical author, Frank Knight, orthodox theory has generally chosen to ignore it. alleging, as Lucas did, that "[i]n cases of uncertainty, economic reasoning will be of no value." (Lucas, 1981, p. 224). Nevertheless, it would be unfair to state that no neoclassical theorists have been able to go beyond calculable risk in their views on uncertainty. A certainly distinguished exception is Stiglitz (see, for instance, Stiglitz (1985) for a report on the state of

measured. Under these circumstances, since one cannot write insurance policies against the uncertainties of economic life, it is necessary to develop other defensive strategies. Holding money, stated Keynes, is the most common of these strategies.

In short, the distinctive feature of a monetary economy is that money is not neutral. It affects its short period position through two main channels: 1. to demand a commodity or service one needs money; 2. one can just hold money instead of having to spend it buying commodities, thus subtracting from total demand. More importantly, however, money was not neutral also with respect to long period positions, and this was due to money being a form of wealth in a monetary economy. As an asset, money competes with other assets, affecting the accumulation path of the economy, and thus the determinants of its actual long term performance. In a world of uncertainty and private property, money is a safe form of wealth. Being purchasing power, it is a general representative of social wealth in contrast with specific forms of wealth represented by specific commodities, as Marx put it long before Keynes. For this reason, money "lulls the disquietude" of wealth-holders (Keynes, CWJMK, 14, p. 116). Being risky in its actual returns, capital assets have to offer some compensation in order to compete with money, as wealth-holders demand some kind of payment to part with the safety of their money wealth.

Uncertainty affects the values of capital assets because plant and equipment produce specific goods that may or may not be demanded by customers[6]. On the other hand, capital goods are very illiquid so that their possessor is likely to suffer capital losses if he/she tries to sell them to move to other activities. Thus, capital assets are plagued both by income uncertainty and by illiquidity. Money, in contrast, is in a privileged position with respect to these risks. In Keynes's words: "The convenience of holding assets in the same standard as that in which future liabilities may fall due and in a standard in terms of which the future cost of living is expected to be relatively stable, is obvious" (Keynes, 1964, pp. 236 – 7).

Money is the basis for the creation of a system of (explicit or implicit) contracts that allow time-consuming capitalist production to develop (cf. Davidson, 1978). To remain as the basis for setting prices and writing contracts over time money cannot disappoint their holders' expectations as to the fundamental stability of its value, that is, its purchasing power. Money has to remain *liquid:* it is convertible into anything, since it is the means of payment of the economy, but its value must

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research on the matter by neoclassical economists). Tobin has also pointed out that Keynes's view of uncertainty has important implications for theoretical and policy analysis (see Tobin's interview in Blaug (1990). In Brazil, the peculiarities of the Knightian concept of uncertainty have been explored by authors like Simonsen and Werlang.

[6] One cannot ignore that most of the properties that make of money an asset was acutely perceived by Marx. For instance, the character of money as a general form of wealth was clearly pointed out in Marx's Grundrisse: " ... the accumulation of other commodities [but money J does not have the character of accumulating wealth in general, but of accumulating particular wealth ... in order then to realize the accumulated commodity in the form of general wealth ... I have to engage in trade with the particular commodity I have accumulated, I have to be a grain merchant, cattle merchant, etc. Money as the general representative of wealth absolves me of this" (Marx, 1977, p. 233, his emphases).

also be basically stable[7]. To guarantee its liquidity, Keynes argued, money has to have certain properties: low or negligible elasticities of production and of substitution (Keynes, 1964, p. 241 n.). But these properties cause an increase in the demand for money to be a subtraction from the demand for goods that cannot be compensated for an increase of employment in the production of money. The possibility of accumulating irreproducible wealth instead of labor-produced goods is the core of Keynes 's principle of effective demand, something, he wrote, that can only happen in a monetary economy.

The consequences of this reasoning are that: 1. money can influence the *volume* of employment, and not only its direction, because of the possibility that the public prefers to hold money instead of demanding goods either for present consumption or to provide for future consumption, that is, one can accumulate wealth without investing (Keynes, 1964, p. vii); 2. one can no longer define the long period positions of the economy without taking into consideration the behavior of money between the first moment and the last.

In sum, in a monetary economy agents can choose between money and goods as means of wealth accumulation. Money is an asset because in private property economies to get hold of money is a safe way to keep claims on the social product. Any society is plagued by uncertainty, but the latter has a particular influence in monetary economies because in these economies one is free to decide on the ways to accumulate but is also the only responsible for the outcomes of his/her decision. One reaps the benefits *and* the losses of one's acts. The test of the social validation of a given individual's choice as to how to accumulate wealth is his capacity to convert his/her wealth into money, that is, into power to command a share of the social product. Uncertainty and money play, thus, definite parts in monetary economies. Demand prices of capital assets are affected by monetary factors because money, as a means of accumulation, supplies *safety services* that capital goods cannot offer. Situations can emerge where heightened uncertainty depress so much those prices in terms of money that wealth-holders prefer to accumulate money causing unemployment in the capital goods sector. The reduction of incomes of those agents involved in producing these goods mean lower demand for consumption goods, spreading the initial contractionary impact throughout the economy. ln monetary economies, variable aggregate demand implies that national income is endogenously determined[8]. This is known as the *multiplier,* a central element of Keynesian macroeconomics. It is a *systemic flaw:* money has to be safe, to allow prices to be set intertemporally and contracts to be written; but this kind of money becomes a powerful way to hold wealth, so attractive that, under certain conditions, demand for other types of assets, including capital goods, may shrink to the point of disappearance.

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[7] The term stability is here proposed not in the sense of no change in the actual purchasing power of money but that the elasticity of inflationary expectations is zero or negligible.

[8] "Each individual is constrained to save [and to consume] the amount that he does by the size of his income; and the size of his income is determined by other people's expenditures on the goods that he produces" (Lerner, 1947, pp. 621-2).

3. THE NEED FOR INTERVENTION

In the final chapter of *The General Theory,* Keynes identified the two evils of modem capitalism as being an excessive degree of income concentration and the system's incapacity to sustain the full employment of its workers and productive capacity. Keynes considered the latter problem to be the worst since ways could be devised to attenuate inequalities. Keynes, like Schumpeter, did not consider complete equality as a goal because different rewards should accrue to people on account of their differences in effort, efficiency, aversion to risks, etc. The problem was not that income was concentrated but that it was concentrated beyond what is adequate in view of those factors and to stimulate enterprise. In particular, because of inheritance rights, for instance, wealth concentration was to a large extent unrelated to economic performance. The tax system should be oriented to correct these unjustified sources of inequality.

As to the incapacity to sustain full employment, the problem was much more complicated. Effective demand could be too low, with respect to productive potential, because uncertainty is pervasive and in a modem system of private property, responsibilities for decisions falls on the individual, that benefits from the rewards for his/her successes but also pays for the disappointments. Agents thus seek for safe havens against the uncertainties surrounding any given choice as to definite means of wealth accumulation looking for safety against capital losses in the form of money. The same stable money that allows the organization of an efficient productive system is what creates the possibility that income generated in the productive process does not return to the market as demand for the output produced. Money is a general form of wealth that allows individuals to postpone indefinitely the potentially fateful decisions involved in the choice of specific goods to accumulate. For the individual, thus, is a valid object of rational choice, notwithstanding the damages it may cause to society as a whole.

It is this contradiction between individual and social rationality that creates the need for intervention. If uncertainties cannot be eliminated and must be borne by individuals, one cannot expect that solutions emerge spontaneously. Something must be done from the outside of the economy.

Keynes was careful to point out that effective demand problems were not caused by relative price imbalances or by difficulties to allocate currently produced goods. He subscribed to the Marshallian view that allocation of goods and services was to be ultimately decided by private agents receiving price signals from the markets. Elimination of private property to transfer allocative decisions to the State was explicitly rejected by Keynes (cf. Keynes, 1964, p. 378). The flaw in the system had to do with relative prices, but of asset prices. It was in the allocation of assets among wealth-holders that markets failed. The burden of uncertainty on the expected returns of capital goods weighed too much on the formation of their demand prices, making them a frequently inferior choice, dominated by money, whose return in the form of safety was highly valued when uncertainty increased. In other words, because of uncertainty the prices of assets would be set in a way to penalize

capital goods, leading to demand prices lower than their flow supply price, which depresses investments, and causes effective demand to fall below the full employment level. One cannot repeat too much that it is not uncertainty as such that causes this result, but how it is borne in a private-property monetary economy and the way that is available to reduce it, i.e., through accumulation of wealth in the form of liquid assets, particularly money.

The important point is that, in contrast with the income concentration problem, the causes of insufficient aggregate demand cannot be eliminated nor can it be mitigated by private initiative alone or just by changing some rules of the game, like introducing taxes on inheritance. Money cannot be neutralized without changing the very properties of capitalism that respond for its positive qualities. Private responsibility cannot be replaced by other forms of decision. It is, on the other hand, implied by these rules that, left to themseives, individuals would tend to seek particular forms of defense that could only aggravate the final situation. As Keynes put it, in monetary economies full employment can only be reached by accident or by deliberate design, that is, by State policy[9].

4. THE POSSIBILITY OF INTERVENTION

Just to spot a systemic flaw is not, in itself, enough to justify State intervention. To call for Government action it is also necessary, and one should notice this is an independent assumption, to accept that the State is capable of dealing with the problem in a more efficient way. In other words, to point out that private agents are not capable by themselves of sustaining full employment does not mean the State could do better to solve the problem. The solution may well be beyond the possibility of conscious intervention.

This was in fact the view of most of business cycle theorists, that used to assume that recessions were the necessary consequence of prosperity, even to the point of suggesting that they perform some kind of cleansing operation on the productive sector, ridding it of non-competitive firms. Recessions would eventually dissipate, just to reappear after the next prosperity phase and nothing could or should be

[9] Despite this conclusion. one should avoid the impression that Keynes was pessimistic about the potentialities of modem capitalist economies. Quite the opposite. Although he actually feared that prolonged widespread unemployment could threaten the cohesion of society, raising the specter of social conflict and revolution, he not only believed that enlightened policy-making could put the economy right on track again but that society would ultimately be able to solve "the economic problem". In a famous paper published in 1930, "Economic Possibilities for our Grand-Children", Keynes tried to dispel pessimism stating that "[w]e [were) suffering, not from the rheumatics of old age, but from the growing-pains of over-rapid changes, from the painfulness of readjustment between one economic period and another .... But this is only a temporary phase of maladjustment. All this means in the long run that mankind is solving its economic problem" (Keynes, 1963, pp. 358,364, his emphases). Keynes's paradoxes of poverty amongst plenty, in this view, should be taken more as warnings against political inaction than manifestations of under consumptionist positions.

clone about it. This is also the view of natural-rate-of-employment theorists for whom employment fluctuations result from a changing assessment of the relative advantages of working and of leisure on the part of workers or from the impact of exogenous variables. In both cases, governments' attempts to intervene would only worsen the prospects of recovery.

The strongest criticism of intervention by government in the economy certainly carm out in the old controversy on the possibility of socialist economies to work properly. The central argument, that was later developed by Hayek, refers to the information necessary for the government to act, which is much more complex than that required by any private individual[10]. An agent is concerned only with his own neighborhood. A government would deal with whole economies. This controversy, however, referred to the possibilities of substitution of central planning for the price mechanism. Whatever one may conclude from that debate, we should notice that the Keynesian problem is much less complex than the problem of determination of the set of relative values of commodities in the absence of market mechanism: it consists in how to sustain capital asset prices in face of contractionary pressures on them rooted in the intensity of the uncertainty that surrounds private commitments. Keynes, as already mentioned, explicitly rejected the idea of eliminating private property and market mechanisms[11].

In fact, the Gordian knot was cut even further. We could conceive at last three possible kinds of policy to solve the Keynesian problem: 1. the State could assume direct responsibility for investment decisions; 2. the state could try to give special favors to private investment in chosen areas; 3. the state could seek to affect overall private investment by creating a safer economic environment within which private agents could be stimulated to make riskier choices than just accumulating liquid assets. The first policy, that some take to be the meaning of Keynes's proposal to "socialize investment", goes against the intent to preserve private and should be ruled out. As Keynes put it, the point was to make free enterprise work, not to kill it[12]. The second line of policy would involve the state directly in the process of resource allocation, something that in principle could require more information that governments usually have at their disposal, although more restricted experiments with industrial policies should not be discarded[13]. It is the third kind of policy that was advanced by Keynes. In a series of articles published in *The Times* in early 1937, Keynes recognized the difficulty of substituting government planning

[10] See Hayek (1949), particularly chapter 4.

[11] Even though he took the belief in the capacity of markets to promote allocation with a grain of salt. See section 5.iv, below.

[12] "I have not abandoned the view that something like free enterprise can be made to work" (Keynes, CWJMK, 27, p. 354).

[13] One should remember, for instance, Keynes interventions in the debate on the coal industry, in the twenties, and, more particularly, his discussion of commercial policy to be adopted after the second world war. See Keynes, CWJMK, 19 and 26, respectively, for each of these debates.

of investments for private accumulation decisions. The role of government should not be to take the place of private markets to assume the determination of private investments. Intervention should be designed to boost aggregate demand thereby reducing overall uncertainty as to the prospects for the whole economy.

The ideal macroeconomic policy proposed by Keynes would in way inflate aggregate demand, expanding the economy like a balloon, leaving to private agents the decisions as to how the available resources would be employed. In short, the effective demand problem is that capital asset values, as we saw, are unfavorably affected by income uncertainty and illiquidity. Boosting aggregate demand reduces both risks and so it should raise demand prices of that kind of asset with respect to money. A rising wave would not lift all boats, but it was mainly to private agents to decide which boats should float and which ones should sink[14]. To do it, the government should implement investments of their own, in projects that would not compete with private investment, creating thereby an environment favorable to private initiative, regulating the pace of investments according to the need to compensate private demand failures to sustain a stable level of aggregate demand over time.

Keynes was a firm believer in the possibility that an enlightened government could implement such policies. He also believed that *The General Theory* had finally laid the foundations for the development of scientific macroeconomic management. A few years earlier, Keynes had welcomed the creation of an economic advisory body to the Prime Minister with these words: " ... a move along these lines would indeed be an act of statemanship, the importance of which cannot easily be exaggerated. For it would mark a transition in our conceptions of the functions and purposes of the state, and a first measure towards the deliberate and purposive guidance of the evolution of our economic life. it would be a recognition of the enormous part to be applied in this by the scientific spirit as distinct from the sterility of the purely party attitude ... " (Keynes, CWJMK, 20, p. 27).

The possibility of planning, in the sense of preparing intervention plans to compensate for the eventual lack of private investments, was enhanced, in Keynes's view, by the fact that government is not just another guess-maker as to future trends but is, to a large extent, a builder of the future, through its power to mobilize resources and to influence aggregate demand[15]. Its sphere of action did not overlap with the private sphere. On the contrary, government should help to create a stable and safe environment for private agents to act. It was for this reason that Keynes could write to Hayek, when the latter published his liberal pamphlet *The Road to Serfdom*, that he sympathized with Hayek's moral stand but believed that more, not less, planning was necessary to guarantee the freedom of men (Keynes, CWJMK, 27, pp. 385-8). These political concerns, besides considerations of efficiency, would also lead Keynes to propose in his *Essays in Persuasion* that these investments

[14] Again, this did not preclude industrial policies from influencing allocation when deemed wise. The point is that it would not be a macroeconomic policy.

[15] See, for instance, Keynes (CWJMK), 27, pp. 264 ss., particularly p. 269.

should be implemented by semi-autonomous bodies, entities that were not private but were not part of government itself.

In sum, Keynes believed in the need and the possibility for government intervention. The means to intervene, however, were quite different from what was known at the time and came out to be quite different from what one imagined, after the war, should be Keynesian policies.

5. THE PATTERNS OF INTERVENTION

A consequence of the preceding argument is that the particular character of Keynes's policy proposals consists in the definition of a set of measures designed to reduce or socialize the uncertainties that surround economic decisions and to boost aggregate demand through state intervention when private demand failed. In this way, the state could contribute to create a stable environment, more favorable to private investments. Governments cannot, of course, create stable *microeconomic* contexts. Agents must still run the risks associated with their accumulation choices, to benefit for their eventual successes. Governments can, however, reduce or eliminate global or *macroeconomic* risks, those that affect the economy as a whole and that may punish even those individuals whose decisions would be adequate in microeconomic terms. That is the point of Keynes's policies. The government has at its disposal an arsenal of measures to act upon the overall level of activity. The information to do it is or can be available, which is not necessarily the case of the information needed for microeconomic intervention. As uncertainty is pervasive and can flow through many channels, all levers must be pulled to assure that the economy will be kept in a prosperous state. Keynesian policies must consist of *concerted* actions in a multiplicity of arenas.

The need for comprehensive and concerted action is an aspect of Keynes's policy proposals that is often forgotten, specially by those who concentrate their attention exclusively on fiscal measures. Uncertainty can affect the economy in many ways. Consumers may fear for their incomes, the prices of goods and services, their availability, etc. Entrepreneurs may have to face technological innovations, creation of new good, changes in tastes or in the availability of means of production and labor, in the access to markets, etc. Uncertainties may be generated by the state intervention itself: economies where aggregate demand is sustained may be inflation-prone, higher state expenditures may lead to higher taxes or to higher interest rates if suitable monetary policies are not implemented, competitive advantages may be distributed asymmetrically as a result of public spending, etc. Uncertainty-reducing intervention requires concerted action in many fronts to avoid that local or sectoral policies end up just deviating uncertainty from its original points of impact instead of effectively reducing it. In this sense, it is better to identify Keynesian policies instead of a Keynesian fiscal policy or a Keynesian monetary policy. Moreover, as pointed out earlier, it is an essential element of Keynes 's economic theory the impossibility of separation between real and monetary factors.

Objectives cannot be formulated for a "side" of the economy in isolation of the other. Even though specific recommendations will be made for each one of these fields, it is the comprehensive nature of macroeconomic management that is characteristic of Keynes 's approach, rather than any particular use of any particular policy instrument. The choice of fields and of instruments has its own logic. Each policy impacts the economy through a different channel, with its specific timing and intensity. Also, the controllability and predictability of the instrument and its impact is policy-specific. A comprehensive strategy must be devised to use each tool with its maximum efficiency.

Purely macroeconomic policies, in any case, can hardly be conceived. There are no instruments that are able to impact the economy as a whole without changing in some way its structure, that is, favoring some sectors over others. The art of economic policy must reside precisely in the capacity of devising policies for which such effects are either minimized or, if it be the case, are consciously sought for, as it may happen when sectional bottlenecks emerge, or depressed areas are targeted for uplifting.

Keynes 's writings on economic policy, even on policy to smooth out general fluctuations, are numerous. We are concerned here with a subset of these works, those produced from the early thirties when the core model of *The General Theory* was at last defined. Two groups of works are of particular interest: 1. the three articles published by Keynes in *The Times* in early 1937, specifying policy proposals to maintain prosperity[16]; 2. the memoranda and other papers written during the war, especially those aimed at post-war reconstruction, collected in volume 27 of Keynes's writings. From these papers one can extract the pieces that may be put together to show how the concerted action mentioned above could be implemented. One should notice, however, that none of these works is theoretical in nature. The first group consists of newspaper articles and the second of official documents, intended to support specific policies rather than developing theoretical arguments about the efficacy of economic policy as such. Thus, the discussion that follows intends to identify the policies that were proposed by Keynes for debate within government.

5.1. Fiscal Policy[17]

Activist fiscal policy, the conscious appeal to the state taxing and spending powers to influence aggregate demand, is the best known instrument of Keynesian policy. One needs not to subscribe the fiscalist approach typical of the neo-classical synthesis Keynesians to realize that the main responsibility for maintaining macroeconomic stability is to be borne by fiscal policy measures. As we will see below,

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[16] The three letters are published as an appendix to Hutchison (1977).

[17] This section is heavily influenced by Kregel (1983). See also Wilson (1982). The author has explored some of these arguments in Carvalho (1992), chapter 12.

Keynes did not doubt the efficacy of monetary measures but the wiseness of relying on interest rate changes as a tool for stabilizing income.

Fiscal policy is a very powerful lever to push aggregate demand up or down because it causes private income to change in a direct way, It increases or decreases income for those that supply goods and services to satisfy governments' demands (and for those who pay taxes), triggering a multiplier effect through the impact on the latter's expenditures. In particular, spending policies may have a direct impact on the demand for real capital assets (if expectations are not affected adversely): 1. on the one hand, it raises its demand prices, since higher aggregate demand improves the risk situation for all investors; 2. it also acts through improving the liquidity position of those who have debts outstanding, which we could call a *Minsky effect*.

To implement an activist fiscal policy, the government should prepare two fiscal budgets, one for the ordinary functions of public administration, the other for the governments' discretionary expenditures. The ordinary budget, Keynes recommended, should be balanced at all times (Keynes, CWJMK, 27, p. 225). There should be routine sources of finance for these expenditures to ensure that, in times of prosperity, when aggregate demand was high, the performance of the normal functions of government would not create any inflationary pressure on the economy. The ordinary budget was to be calculated without direct concern for stabilization needs. The discretionary, or capital, budget was the fiscal level the government would have at its disposal to push the economy toward full employment or to keep it there. This budget would cover investment activities that could be accelerated or decelerated according to the general state of business. Because of the possibly long lag between the decision to intervene and the implementation of the investment plan, the government should have plans in the shelf ready for action at the first signs of cooling off of the economy[18]. The pace of these investments would be set according to the need of sustaining aggregate demand, although Keynes did recognize that there may be technical difficulties in the way of this change of pace[19].

Similar investments-plans-in-the-shelf should be kept by local governments and the semi-autonomous bodies Keynes had already mentioned in the twenties, also to be put in action when the times required it. They would work in similar ways as to the capital budget, with some possible advantages however in terms of agility and political accountability.

Fiscal policy could also contribute to increase demand through redistributive measures that could push consumption up. Keynes was very creative to devise reforms to redistribute wealth, the boldest of which was the compulsory loans proposed at the beginning of second world war[20]. The scheme was initially just a sta-

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[18] As the prince of Denmark once put it, "the readiness is all" (Act 5, scene 2).

[19] See Keynes (CWJMK), 27, p. 322, and also pp. 122, 268.

[20] See "How to Pay for the War" in Keynes (CWJMK), 9. Keynes's contributions to the public debate around that paper is in Keynes (CWJMK), 22.

bilization program that would promote some inter-temporal distribution of purchasing power, transferring, through the compulsory loan, excess demand power from the high-employment war period to the occasion, that was expected to come after the war was over, when aggregate demand would sag. Gradually, however, it evolved from an emergency scheme to a broad program of social reform, aiming both at reducing wealth concentration and at smoothing out aggregate demand behavior[21]. The same reasons are at least partly to explain Keynes 's "wild enthusiasm" for the social security proposals contained in the Beveridge Report (cf. Keynes, CWJMK, 27, pp. 204,215, 225)[22].

The examination of the measures themselves should not divert out attention that ultimately the success of the plans was to be measured not necessarily by the volume of investment actually made by the government, and even less by the amount of deficit-spending made, but by the capacity to show to private agents that government was capable of intervening. The capital budget could be in deficit, but deficit-spending is not the instrument, but a result contingent on the behavior of tax revenues, dependent themselves on the speed with which the economy reacts to the stimuli represented by the increase in investments made by the government. In principle, it is the expenditure, not deficit-spending, that really matters. A successful initiative should convince private agents that aggregate incomes could be sustained, reducing their uncertainties and inducing them to put into practice their own investment plans. A completely successful expenditure plan could, in fact, never have to be implemented! Besides, even if implemented, it could generate enough tax revenues to fund it. Deficit spending was no more than a last resort instrument. In Keynes's words: " ... if, for one reason or another, the volume of planned investment fails to produce equilibrium, the lack of balance would be met by unbalancing one way or the other the current Budget. Admittedly this would be a last resort, only to come into play if the machinery of capital budgeting (sic) had broken down" (Keynes, CWJMK, 27, p. 352, emphases added)[23].

Keynes also raised the possibility of influencing private investment, but, as Wilson (1982) pointed out, it is not clear how this could be done beyond the general stimulus represented by an increase in aggregate demand. In particular, Keynes's reference to a desired degree of *socialization of investment* has been an enduring enigma. For some, it related to the creation of the "semi-autonomous bodies",

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[21] Repayment of the loans should be partly financed by capital levies. cf. Keynes (CWJMK), 22, pp. 123, 138 and Keynes (CWJMK), 28, p. 138.

[22] One should remember that stabilization policies may be needed against excess aggregate demand too. It is in this particular circumstance that compulsory loans could show its power. especially when workers are alert to cost of living rises and may respond to price increases by demanding higher wages. See Keynes (CW JMK) 22, pp. 121, 260. Keynes expected the same help from the establishment of a welfare net, to be financed by taxes that could be cyclically-sensitive.

[23] Keynes completed his reasoning as follows: "Thus the capital budgeting is a method of maintaining equilibrium; the deficit budgeting is a means of attempting to cure disequilibrium if and when it arises" (id., pp. 352-3).

something like public companies, to promote investments even when it could not be attractive to private entrepreneurs. For others, like Tobin, Keynes could be thinking of the kind of planning that came to be adopted in France after the war (Tobin, 1987, p. 8). Indicative planning, as it was called, consisted in orienting and stimulating private investment towards specific areas targeted for development. Seeking voluntary adhesion on the part of private firms, it was contrasted to the compulsory planning of command economies.

5.2. Monetary Policy

For many, Keynes's contribution to economic policy consisted in showing that money does not matter and that only fiscal policy can effectively influence aggregate demand[24]. Nothing, however, could be further from the truth. Keynes devoted most of his professional life to devising monetary arrangements, institutions and policies that could contribute to reaching and maintaining full employment. It is, in any case, true that after *The General Theory* his conception of an *activist* monetary policy became something of a paradox. In short, he proposed that to be effective, monetary policy has to be used sparingly. Keynes argued that interest rates are essentially *conventional*. People are supposed to form a view as to what is the *normal* rate of interest and to expect that actual rates gravitate around that level. Those that judge the actual rate to be higher than the normal rate, take measures to anticipate a future reduction of the interest rate, and conversely. It is through the anticipation of expected movements of the rates of interest that monetary policy acts. Of course, in Keynes 's view, *normal* rates have nothing to do with *natural* rates or any other concept of this kind. Normality is a subjective concept, related to an individual's experience. Divergence of opinion as to what is normal is an essential element of Keynes 's liquidity preference theory of interest rates.

Be it as it may, people are influenced by what they see in the markets when forming their idea of what is normal. For this reason, an employment-stabilizing monetary policy should inform the public that the normal rates *are* low and *will continue to be* low in the future. Otherwise, when cheap money was needed, the monetary authorities could find it difficult to keep actual rates low, because the public would anticipate its rise to the expected normal level, that is, low rates would not be seem as a normal situation but as a deviation of normally higher rates. For this reason, Keynes proposed that the authorities should keep rates permanently low, acting to reduce aggregate demand, when necessary, through other means (Keynes, CWJMK, 21, chapter 5; Keynes, 1977).

Monetary arrangements should be designed to permit monetary authorities to pursue those policies deemed adequate to national objectives, without being restrained by foreign obstacles (Keynes, CWJMK, 26, p. 19). This freedom was actually reached in Great Britain in the thirties with the collapse of the gold standard

[24] See, for instance, Buchanan (1987), pp. 132-4.

and the accumulation of foreign reserves. Under these circumstances, Keynes stated: "If we know what rate of interest is required to make profitable a flow of new projects at the proper pace, we have the power to make that rate prevail in the market" (Keynes, 1977, p. 73)[25].

An important condition for this power to be exercised was to avoid to try imposing the government's own liquidity preferences on the public. The kind of securities that should be placed had to be designed to satisfy the general public demand in order to avoid having to offer higher interest rates to compensate for lower liquidity[26].

One interesting aspect of Keynes's monetary policy was his discussion of the need for secrecy. Contrary to what became accepted by orthodox economists, Keynes defended openness, not secrecy, as a condition for monetary policy to be effective (cf. Keynes, CWJMK, 20, pp. 158, 262-3). A monetary economy could settle down on any one of many possible equilibrium states. Authorities should signal to agents which position was targeted. The clearer the directions government could give, the quicker and smoother should be the move towards the desired goal. Modern orthodox economists, on the other hand, believe that market economies tend to move spontaneously towards a uniquely determined equilibrium position, that corresponding to the natural rate of unemployment. In this case, governments can only move the economy away from that position by misleading agents into thinking that the foundations for their decisions are different from what they really are. Secrecy as to the true nature of those policies becomes, thus, a condition for its effectiveness.

5.3. Price and Wages Policies

The maintenance of high levels of aggregate demand obviously increased risk of the emergence of inflationary pressures and Keynes, contrary to another popular view, was not oblivious to it. Already in *A Treatise on Money,* Keynes had discussed the possibility of what he called income inflation, caused by increases in efficiency wages[27]. Cost pressures are much harder to contain under full employment (cf.

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[25] This statement was made conditional on some features of the period: "With the existing control over the exchanges which has revolutionized the technical position, and with the vast resources at the disposal of the authorities through the Bank of England, the Exchange Equalization Fund, and other funds under the control of the Treasury, it lies within their power, by the exercise of the moderation, the gradualness, and the discreet handling of the market of which they have shown themselves to be masters, to make the long-term rate of interest what they choose within reason." (id., p. 73, emphases added). Keynes repeated the statement in 1945, now without so many preconditions: "The monetary authorities can have any rate of interest they like" (Keynes, CWJMK, 27, p. 390). One should remember, anyway, that Keynes was favorable to the maintenance of controls on exchange and on the movement of capital after the war.

[26] See Keynes (CWJMK), 21, eh. 2; 22, p. 414; 27, p. 392.

[27] Not to be confused with modem usage of this expression by, for instance, New Keynesians.

Keynes, CWJMK, 27, p. 417), and Keynes devised means to ensure that also in these front uncertainties could be reduced by concerted action.

Two lines of attack could be conceived. On the one hand, one had to deal the possibility of cost pressures arising from fluctuations in the prices of raw materials. These prices tended to fluctuate, in an amplified way, with the business cycle. On the other hand, specific arrangements had to be developed to deal with the problem of money wages.

As to raw materials, an international stabilization fund should be created to contain price fluctuations within pre-defined intervals. The goal was to reduce the shor-term volatility of prices seeking to maintain a certain degree of stability around their long-term prices[28]. To stabilize prices, buffer stocks would be accumulated (id., p. 121), financed by another of Keynes 's proposed new institutions, the International Clearing Union. The fund would buy or sell commodities to limit price variations to intervals within which supply, and demand would settle at a given price (id., p. 116). If pressures emerged that could not be handled by the fund, quotas should be imposed (id., pp. 118-9).

As to wages, things looked more difficult. The determination of wages involved much more than just economic elements. In *The General Theory,* Keynes showed himself to be very skeptical about the efficiency of market mechanisms to determine wages. Under sustained full employment, things would be even more difficult in this front, because "[t]he task of keeping efficiency wages reasonably stable ... is a political rather than an economic problem" (Keynes, CWJMK, 26, p. 38) and the employment policies would certainly increase the political power of workers. Devising wages policies was sure to be very difficult. Discussing the issue during the war, when full employment had been achieved and the emergence of inflationary pressures were a distinct possibility, observed Keynes: "It is obvious that wage policy raises far-reaching psychological and political issues. It can only be handled by a simple, *trustful* and imaginative policy which covers a wider field than technical finance" (Keynes, CWJMK, 22, p. 223).

Keynes recognized that the use of incomes policy to stabilize money incomes should involve some kind of *quid pro quo:* "The standstill of wage rates, etc. could be accompanied by other measures aimed at making the programme as a whole socially just and politically acceptable. [Again] The choice of such measures is mainly a psychological and political problem ... " (id., p. 261).

For many of Keynes's followers, including neo-classical synthesis Keynesians, incomes policies had to be a natural complement of stabilization policies[29]. It is not entirely clear whether Keynes would have proposed permanent incomes policies and of what kind. The conscience of the difficulties involved in outlining wage

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[28] Keynes (CWJMK), 27, p. 114. Since many developing countries depend directly on the export revenues of raw materials, the fund would also contribute to stabilize international trade, by smoothing out those countries' incomes.

[29] See, e.g., Tobin (1985), p. 116, and Weintraub (1978).

policies led Keynes to often propose action to contain prices exactly to prevent them from provoking wage rises that would be much harder to control (e.g., Keynes, CWJMK, 22, pp. 7, 9). Nevertheless, it is reasonably safe to assume Keynes saw some kind of incomes policy as part of the required arsenal in a monetary economy. At least once, Keynes had the opportunity to indicate his preference for something other than just leaving wage setting to market mechanisms. Discussing the deflationary consequences of Great Britain's return to the gold standard in the mid-20s, Keynes concluded: "The truth is that we stand midway between two theories of economic society. The one theory maintains that wages should be fixed by what is 'fair' and 'reasonable' as between classes. The other theory – the theory of the economic juggernaut – is that wages should be settled by economic pressure, otherwise called 'hard facts', and that our vast machine should crash along, with regard only to its equilibrium as a whole, and without attention to the chance consequences to individual groups" (Keynes, CWJMK, 9, pp. 223-4).

Needless to say, Keynes subscribed the first of these theories.

5.4. Other Policies

Keynes contributed to the discussion of economic policies in many areas. The principle of concerted action is certainly not exhausted in the consideration of demand and price policies. Although industrial policies were never the focus of Keynes 's main concerns, and despite his aversion to intervention in allocation matters, he did warn against the idealization of the functioning of markets and of the price system when dealing with the desirability of stimulating certain industries. For Keynes, comparative advantages were not extensible to manufacture (Keynes, CWJMK, 26, pp. 262-3, 264), and prices themselves could not always be good indices of social needs (Keynes, CWJMK, 26, p. 288)[30]. The respect for the operation of markets did not exclude the appeal to instruments like the imposition of import quotas and controls on the circulation of financial capital.

Exchange policies, on the other hand, were a lifelong interest of Keynes's. He authored many blueprints for reforms, including his Bancor Plan, presented at Bretton Woods. Again, reduction of uncertainties and the promotion of employment through the creation of an elastic supply of international means of payment were at the center of his concerns. The ideal system would combine the drive to creating a situation in which national authorities would be autonomous to tackle their domestic problems with initiatives to coordinate actions to stabilize international trade and capital movements. Rules and flexibility to adapt were the passwords. The rules devised by Keynes in his Bancor Plan would impose the sharing of responsibilities for the elimination of balance of payments disequilibria between

[30] As he wrote in this occasion to Marcus Fleming: "I did not say that you should not be attached to the price system. (I share your attachment.) 1 said you should not be deceived by it" (CWJMK 26. p. 297).

debtor and creditor countries instead of laying all the burden of adjustment on the shoulders of the former. Besides, it would establish fixed, but adjustable, exchange rates. Its most distinctive feature, perhaps, was the creation of an international means of payment, the bancor, a type of credit money to be used exclusively by central banks. An International Clearing Union would manage the system, as a bank, issuing bancors when international trade was taking place. In case of need, countries could enjoy overdraft facilities put at their disposal by the ICU, financed by the balances of surplus countries, to go through temporary disequilibria or to gain breathing space while implementing more fundamental adjustments in their external positions. This was a crucial element of Keynes's plan. It would substitute the banking principle, that allows credit expansion, for the hoarding of foreign exchange reserves, and its contractionary consequences on economic activity.

6. CONCLUSIONS

The intention of this paper was two-fold. On the one hand, we wanted to show that there is an interventionist bias in Keynes's macroeconomics. This bias results both from his view on the uncertainties that plague private economic activity in modem capitalist economies *and* of his aprioristic beliefs about the possibility of state intervention on the economy, supported by a diagnosis that the main problem of a capitalist economy is not how to allocate resources but how to induce their full mobilization. This conception of economic policy allowed Keynes to avoid the Austrian criticisms against planning based on the impossibility of gathering and processing the information that would be necessary to replace markets in their allocative role. On the other hand, we wanted to identify, based mainly on official papers produced by Keynes during the war, what were his main policy proposals for the period after the war. It was certainly not our intention to examine theoretically these policies and even less to evaluate them in the light of more recent efficacy-of-policies debate.

In fact, we proposed in this paper that Keynes's stand as to the need for macroeconomic policy results from two sets of assumptions. Firstly, the concept of monetary economy, or monetary production economy, marked by the possibility of effective demand failures because non-producible money can dominate labor-using capital assets as a means to accumulate wealth. Secondly, that governments are able to assess the nature of these failures and to effectively attack them.

The effective demand failures are explained by the properties money has in a private-property market economy. Private activities are surrounded by uncertainties and money serves as a safe haven against them. Keynes had been concerned with the impact of uncertainty on economic activity for all his life as an economist. In 1926, for instance, he wrote: "Many of the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance. It is because particular individuals, fortunate in situation or in abilities, are able to take advantage of uncertainty and ignorance, and also because for the same reason big business is often a lottery, that

great inequalities of wealth come about; and these same factors are also the cause of the Unemployment of Labour or the disappointment of reasonable business expectations, and of the impairment of efficiency and production" (Keynes, 1963, p. 317-8).

Keynes then added: "Yet the cure lies outside the operations of individuals; it may even be to the interest of individuals to aggravate the disease" (id., p. 318).

The contradiction between individual and social rationality opened the possibility of state intervention in the economy. Keynes believed that *The General Theory* was capable of giving the necessary analytical tools to make a diagnosis of the problem of effective demand and to develop its cure. To fight uncertainty and ignorance, a comprehensive and concerted set of actions should be taken, to sustain aggregate demand and to reduce the risks of economic activity perceived by the individuals. If successful, these policies would raise the demand prices of capital goods and stimulate its accumulation.

Just to boost aggregate demand these macro policies should act on the economy as a whole, without concern for how it is structured. In fact, it is not possible to devise such a policy nor is it clear that one should not try also to promote some structural improvements. The Keynesian approach to this question seems to be rather pragmatic, dodging more ideological preoccupations. In any case, the state is expected to complement, rather than replace, private enterprise. As Keynes put it in a posthumously published paper, judging the need for intervention that could perhaps summarize his goals: "Here is an attempt to use what we have learnt from modem experience and modem analysis, not to defeat, but to implement the wisdom of Adam Smith" (Keynes, 1946, p. 186).

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