

Who Killed John Maynard Keynes?

Rory Carroll

"Magnificent, Poirot!" Hastings clapped the little Belgian heartily on the back as he delicately drained the last of his hot chocolate. "To have succeeded where the economists and historians of five continents have failed! To have solved the most sensational crime of the decade - the murder of John Maynard Keynes!"

Poirot made a lame pretence of modesty. "C'etait pas difficile, mon brave, if one only uses the eyes and the brain. Let me explain how I came to my conclusions." He leaned back and half closed his eyes.

"The first task was to consider the circumstances of the crime. You will recall that the authorities were quick to announce Milton Friedman's notorious Chicago gang as the perpetrators of the deed, acting independently of other groups. The 'lone gunman' so to speak. Fire was concentrated on two targets - consumption and investment.

"We know that Keynes favoured the psychological law that as aggregate income increased, so would consumption, but by a lesser amount. From this he concluded that unless investment increased to absorb the growing savings, total effective demand would not grow rapidly enough to keep all employed. It was this that provided

Friedman with his opportunity. First he prepared his alibi of rational consumer behaviour to explain that as some people have volatile incomes, they will save a disproportionate amount for lean years. Empirical evidence had proven Keynes wrong - as society got richer, the proportion of national income saved did not fall. Thus Friedman successfully exchanged Keynes' multiplier for a consumption function, thereby eliminating the spectre of underconsumption in the long-run because of the implausibility of savings exceeding investment.

"Yet for Friedman, it was not enough. He liked to 'kick a man when he is down', as you say. Wielding his Monetary History of the United States he battered Keynes' liquidity preference until money demand was seen to be stable. Thus, economic instability was not due to the instinct of businessmen, but due to governments' erratic changes in the money supply. It appears that the particular weapon here was quantitative equations.

"But of course the correct question to ask is why the dog did not bark in the night? Who might have known the plans of this dedicated assassin? So I had to consider the object of motive, objectively and without prejudice. First, who was the immediate beneficiary of

the deed? A.C. Pigou.”

“Great Scott, Poirot”, Hastings burst in “Pigou, the friend, the teacher of Keynes! Surely you could discount....”

Poirot raised an indulgent hand. “Mon cher Hastings, you have the feelings the most decent. I would, however, remind you that we speak of economics, of power. The elimination of Keynes reinforces Pigou’s attack on the liquidity trap which, you may recall, suggests that a fall in wages would increase aggregate demand, independent of a change in interest rates, because the real value of money cash balances and private wealth would increase consumption by reducing the need to save out of a given income level. In short, it denies Keynes’ liquidity trap by proposing a shift out of the IS curve. Yet the neglect of this theory embittered Pigou, thereby furnishing him with a motive to finish off Keynes.”

“On the other side we have that rabid fundamentalist of the Austrian school - Hayek...”

“That filthy swine, I’d like to get my hands on that cur.”

“Pas de zele, pas de zele, Hastings”, said Poirot beseechingly. “Of course, it is unlikely that he had any knowledge of the Monetarist plot, given that some of his shots ricocheted off Keynes and hit Friedman! Nevertheless, he first hit Keynes’ concept of realism, which, as you know, ascribes a real existence to

arbitrary statistical aggregates. Thus Keynes’ ‘wage’ cannot actually enter into economic relations. Secondly, he riddled the artificial depression of interest rates advocated by Keynes, arguing that it could cause boom and bust. The rationale for this was that capital, as a complex interlocking structure, cannot be treated as a homogeneous substance. Thus, lowering interest rates induces entrepreneurs to invest heavily - a commitment that requires much time and money to be fully integrated. Yet, such an increase in investment increases employment, consumption and wages - thereby diverting resources away from capital, choking off its cheap credit and leaving an incomplete and uncoordinated structure. Boom and bust, n’est-ce pas?

“Yet the story does not end here for Hayek likes to put the boot in a la Friedman. He also attacked the existence of quantitative functions in economics as the myriad behaviour of individuals in a constantly changing society as too complex to be formulated on arithmetic grounds. Thus Keynes had to be wrong if no fixed relationship existed between income and consumption. Yet naturellement such sentiments are not popular with economists as it renders much of their efforts futile. Perhaps, this accounts for our hostility - n’est-ce pas?”

Hastings reddened. “But Poirot, you are forgetting the Marxists!”

Poirot smiled soothingly. Always your favourite suspects, Hastings. Bien

sur, they had no love for Keynes, the man who highlighted the declining influence of private capital and formulated the theoretical underpinnings for the revived capitalist system. They too must be included in the list."

"I must say", Hastings broke in. "that meddling by the supply siders had something to do with it."

"Precisely. As usual, you have hit the nail on the head. Keynes' view - that if demand was correct, supply would look after itself, infuriated Say's cronies. They retaliated by using structural obsolescence and industrial concentration as a means of blunting the edge of traditional Keynesian fiscal and monetary instruments. Their coup de grace, so to speak, was the decay of market discipline produced by Keynesian economic rigidities - par exemple, the commitment to full employment would aggravate cost push inflation."

Poirot regarded his friend with amusement. "You are baffled, hein? Always, mon cher, you think with emotions. We must consider the theories with dispassion. To continue with our suspects - we must of course consider Schumpeter who distastefully compared democracy to a political market place where large groups pursue their self interest without the presence of budget constraints. Thus Keynes' short run money creation failed to account for the political nature of decisionmaking. The result - excessive, unsustainable deficits.

"Nor must we neglect our friends who follow the new fashion of undermining the significance of unemployment. As much is composed of mere women, untrained or uneducated blacks and restless teenagers - what is the urgency? Why fuss with Keynes if there is no real problem?"

"Enfin, to complete our list, we have the optimistically titled 'developing' world who are disillusioned with the widening gap between rich and poor. Unfulfilled expectations were created by the Keynesian concentration on fixed capital investment. It seems Keynes failed to appreciate the effects of an increasing population in soaking up the gains from capital accumulation and technical improvements that would otherwise have increased incomes and wages."

After a moment he said absentmindedly, "Ratchett."

"Eh, what's that, Poirot?"

"You will recall, Hastings, the murder of Ratchett aboard the Orient Express - an intriguing little mystery. But an instructive one, no?" Poirot raised his eyebrows humorously as he studied the face of his faithful friend.

"Of course, Poirot! That's what gave you the clue!"

"Precisely. They all killed Keynes!"