1-1-1997

Government Investment Programs (The Socialization of Investment)

John B. Davis
Marquette University, john.davis@marquette.edu

Published version. "Government Investment Programs (The Socialization of Investment)," in *An Encyclopedia of Keynesian Economics*. Eds. Thomas Cate, Geoff Harcourt, and David C. Colander. Cheltenham, UK: Edward Elgar Publishing, 1997: 210-214. Publisher Link.

that reaches back to the nineteenth-century French libertarian socialist Pierre-Joseph Proudhon (see Dillard, 1942b; Darity, 1995). Both Gesell and Keynes opposed nationalization of industry and central planning (although Gesell did advocate nationalization of land in conjunction with stamped currency to prevent a flight to land as an alternative to a flight to money). Both were dissatisfied with capitalism on grounds of maldistribution of income and the waste of unemployment, and both rejected 'communism' as an alternative on grounds of destruction of individual liberties; Gesell and Keynes were champions of the 'middle way'. Both sought to reconcile individualism with the need for state action to maintain economic prosperity. And both saw the extension of prosperity – rather than social revolution – as the best avenue towards the end of capitalism and its attendant social ills.

WILLIAM DARITY, JR.

See also:

Liquidity Trap; Monetary Policy; Money; Real Balance Effect.

Bibliography

Darity, William Jr. (1995), 'Keynes' Political Philosophy: The Gesell Connection', *Eastern Economic Journal*, **21**, (1), Winter, pp. 27–41.

Dillard, Dudley (1942a), 'Gesell's Monetary Theory of Social Reform', *American Economic Review*, **32**, (2), June, pp. 348–52.

Dillard, Dudley (1942b), 'Keynes and Proudhon', *The Journal of Economic History*, **2**, (1), May, pp. 63–76.

Fack, Hugo R. (1931), 'The Age Old Secret of Money Power Revealed', *The Way Out*, December, pp. 7–10.

Gesell, Silvio (1934), *The Natural Economic Order: Money Part*, San Antonio: Free Economy Publishing Company.

Gesell, Silvio (1936), *The Natural Economic Order: Land Part*, San Antonio: Free Economy Publishing Company.

Keynes, John Maynard (1936), *The General Theory of Employment, Interest and Money*, London: Macmillan.

Government Investment Programs (the Socialization of Investment)

In the last chapter of *The General Theory* Keynes said that the 'outstanding fault 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, p. 372). These problems were linked by the classical theory of the rate of interest that justified high interest rates as needed to generate savings for investment: high interest rates contributed to significant inequalities in fortunes accumulated by the rentier class and reduced investment below full employment levels. However, were interest rates low, it would be possible 'to increase the stock of capital up to a point where its marginal efficiency had fallen to a very low figure', so that 'capital instruments would cost almost nothing' (ibid., p. 375). Depriving capital of its scarcity value 'would mean the euthanasia of the rentier' or 'functionless investor' (ibid.) and would also imply a responsibility for the state to formulate policy regarding what inducements to investment and influence upon the propensity to consume were necessary to achieve a rate of accumulation sufficient for full employment. Keynes adds,

> it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine the optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment. (Ibid., p. 378).

This involved neither 'state socialism' nor state ownership of the means of production. Indeed, 'apart from the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialise economic life than there was before' (ibid., p. 379) – efficiency, freedom and private initiative being the likely casualties of attempting to do so.

Keynes's long-term economic policy thus focused on the state 'taking an ever greater responsibility for directly organising investment' (ibid., p. 164). In his wartime Treasury memoranda of 1943–4 concerning postwar economic adjustment he was more specific about the extent of this responsibility:

> If two-thirds or three-quarters of total investment is carried out or can be influenced by public or semi-public bodies, a long-term programme of a stable character should be capable of reducing the potential range of fluctuation to much narrower limits than formerly, when a smaller volume of investment was under public control and when even this part tended to follow, rather than correct, fluctuations of investment in the strictly private sector of the economy. (1973–89, XXVII, p. 322)

Thus Keynes allowed that the state could carry out programs of public investment itself, and/or encourage such programs being developed by organizations independent of the state but which still possessed some public character. There are two ways in which he apparently understood the latter, both deriving from views Keynes expressed much earlier in 'The End of Laissez-Faire' (1926).

On the one hand, Keynes emphasized the importance of a variety of 'semi-autonomous bodies within the state':

> I believe that in many cases the ideal size for the unit of control and organisation lies somewhere between the individual and modern state. I suggest, therefore, that progress lies in the growth and recognition of semi-autonomous bodies within the

> State – bodies whose criterion of action within their own field is solely the public good as they understand it, and from whose deliberations motives of private advantage are excluded. (1973–89, IX, p. 288).

As examples Keynes cited 'the universities, the Bank of England, the Port of London Authority, even perhaps the railways companies', and suggested that these institutions were rooted in an ancient English tradition that regarded such bodies as 'a mode of government' (ibid., p. 289). On this view, then, 'semi-public bodies' were public-spirited in concerning themselves with the public good (rather than shareholder interests), but still not part of the state proper. They might be thought part of an extended state, as compared to the nuclear state made up of Parliament, the Cabinet, the civil service and the judiciary (Jensen, 1994).

On the other hand, Keynes also though that 'joint stock institutions', which had traditionally made shareholder interests primary, tended to undergo an evolution in nature when they increased in size over time:

> when they have reached a certain age and size, [they] approximate to the status of public corporations rather than that of individualistic enterprise. One of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialise itself. A point arrives in the growth of a big institution … at which the owners of the capital, i.e. the shareholders, are almost entirely dissociated from the management, with the result that the direct personal interest of the latter in the making of great profit becomes quite secondary. When this stage is reached, the general stability and reputation of the institution are more considered by the management than the maximum of profit for the shareholders. (Keynes, 1973–89, IX, p. 289)

While such 'joint stock institutions' would still typically be involved in forms of production less public in character than that carried out by Keynes's 'semi-autonomous bodies within the [extended] State', the separation of management and ownership allowed for greater retained earnings and thus potentially higher levels of investment. The state might then well anticipate some success in designing inducements to investment for organizations of this sort, as compared to the more traditional owner-managed firms that predominated in the nineteenth century.

Given these different strategies for carrying out and/or influencing investment, a further issue for Keynes was how the state might coordinate and guide investment across its own agencies, the 'semi-autonomous bodies with the [extended] State' and manager-operated 'joint stock institutions'. In 1939, he wrote that 'we need, if we are to enjoy prosperity and profits, … much more central planning than we have at present' (1973–89, XXI, p. 492) and recommended creating a National Investment Board to assist in this purpose. Keynes, however, did not indicate clearly what proportions of public investment, semi-public investment and private investment he thought might be desirable. Presumably the point of having a National Investment Board was to determine what these shares ought to be on the basis of economic conditions.

An important philosophical theme in Keynes's thinking on these matters concerns the ethical goals underlying policy recommendation. Keynes was critical of utilitarian thinking from the time when he studied G.E. Moore's ethics as an undergraduate, and in a number of his early Apostles papers he discussed the ethical conflict between the goals of being good and doing good. In his post-*General Theory* 'My Early Beliefs' memoir, however, he defended rules and conventions – 'the extraordinary accomplishment of our predecessors in the ordering of life' (1973–89, X, p. 448) – as normatively valuable, because they helped individuals reconcile being good and doing good. Rules and conventions, moreover, were embodied in institutions in Keynes's view, and long-term economic policy could not but be concerned with the development of institutions (Davis, 1994). Thus we may infer that Keynes supported a socialization of investment, not just because he thought it would lead to higher levels of employment and reduce inequitable distributions of income and wealth, but also because he expected it would enable individuals increasingly to reconcile the twin moral requirements of being good and doing good. This theme is most prominent in his references to public-spiritedness in the 'semi-autonomous bodies within the [extended] State' and to the socializing of big enterprise. Essentially Keynes sought a closer blending of private and public purpose – a closer connection between being good and doing good, which should also be thought part and parcel of Keynes's liberal vision. Neither a state-commanded economy nor one driven by narrow self-interest was healthy either economically or ethically.

The socialization of investment summarized for Keynes a range of long-term policies meant to improve the functioning of the economy and raise the well-being of individuals in society generally. A first step involved the 'euthanasia of the rentier', and thus a shift in the balance of class power. A second step involved programs to enhance investment, including public investment, inducements for private investment and institutional change that would have an impact on investment decision-making practices. A third step involved embracing a new moral vision meant to overcome old dualisms produced by the historic shift from entrepreneurship to speculation. Generally these strategies and their rationales have been overlooked by economists since Keynes, who have restricted their understanding of his policy thinking to short-term policy issues. Keynes likely thought short-term policy operated within a long-term policy framework, and thus himself evaluated short-term proposals from this broader perspective.

JOHN B. DAVIS

See also:
Economics of Keynes and of his Revolution, Key Elements of the; Keynes, John Maynard; Keynes and Probability; Keynes, The Influence of Burke and Moore on.

Bibliography
Davis, J.B. (1994), *Keynes's Philosophical Development*, Cambridge: Cambridge University Press.
Jensen, H.E. (1994), 'Aspects of J.M. Keynes's Vision and Conceptualized Reality', in J.B. Davis (ed.), *The State of Interpretation of Keynes*, Boston/Dordrecht/London: Kluwer.
Keynes, John M. (1936), *The General Theory of Employment, Interest and Money*, London: Macmillan.
Keynes, John M., *The Collected Works of John Maynard Keynes*, vol. IX (1972), ed. Don Moggridge, *Essays in Persuasion*, London: Macmillan; vol. X (1972), ed. Don Moggridge, *Essays in Biography*, London: Macmillan; vol. XXI (1982), ed. Don Moggridge, *Activities 1931–1939: World Crises and Policies in Britain and America*, London: Macmillan; vol. XXVII (1980), ed. Don Moggridge, *Activities 1940–1946: Shaping the Post-War World Employment*, London: Macmillan.

Grossman, Herschel I.

Herschel I. Grossman was born in 1939 in Philadelphia, Pennsylvania. He received his BA (with highest honors) from the University of Virginia in 1960. Grossman also received a B. of Ph. from the University of Oxford (England) in 1962, and in 1965 he completed his PhD at Johns Hopkins University.

From 1964 to 1969, Grossman held the rank of assistant professor of economics at Brown, and was an associate professor of economics there from 1969 to 1973. He at present holds the Merton P. Stoltz Professorship in the Social Sciences at Brown University, where he has been a professor of economics since 1973.

During his distinguished career Grossman was a Fellow at the University of Essex (England) in 1969 and the Simon Sr. Research Fellow at the University of Manchester (England) in 1971. In addition he has held visiting positions at the State University of New York (1978), the Institute of Advanced Studies, Vienna (1979), the European University Institute, Florence (1980), the University Louis Pasteur, Strasbourg (1982) and the University of Bologna (1990).

Grossman also has a long and distinguished record as a research associate at the National Bureau of Economic Research, beginning in 1979, and was a John Simon Guggenheim Foundation Fellow during 1979–80. He was on the board of editors of the *American Economic Review* from 1980 to 1983, the board of editors for the *Journal of Monetary Economics* from 1977 to the present, and has served as the book review editor for this journal since 1984. In addition, Grossman has been a National Science Foundation grantee periodically since 1969, was a member of the Social Science Research Council in 1982, a Research Fellow at the United States Department of Labor in 1974 and 1980, and an IRIS scholar in 1991.