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Is 'Keynesian Policy' Still Viable?

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Keynesian theory is not *just* a theory that validates "demand management" by fiscal policy.

J Robinson: Marx is a Socialist who analysed Capitalism
Marshall is a Capitalist who analysed Socialism
Keynes is a capitalist who analysed capitalism

But Keynes' analysis of capitalism uncovered flaws in capitalism due to the very nature of capitalism.

The euphemism of "monetary production economy" rather than the honest description of what we have: a capitalist economy with complex financial structure ~~[illegible]~~ in which the preferred organizational form is a corporation.

[The New Deal "Reforms" ~~[illegible]~~ of ~~the~~ corporate law, financial markets, and banking made clear the importance of the corporate sector]

Keynes was aware of what was going on in the states. He came to ~~the~~ Chicago in 1931 to *sell* the analysis of "the Treatise on Money" ~~[illegible]~~ he left

Chicago with the germ of The General Theory.

In Chicago in 1931 Real estate + other assets were falling in price.

The problem for the banks of falling prices was the piece that resulted from the Chicago trip.

Instead of focusing on the relation between money and the price level the question became what determines the price level of capital assets: what determines the flow of financing for investment

The lost message of the General Theory: Keynes ~~spoke~~ ~~lost~~ - which Keynes never fully recognized - although it is "explicit" in his Fisher festschrift paper + in his rebuttal to Viner.

also in his q, c, l. arguments in The G.T. - He may not have shed all his "skins"

Capitalism is an economic order in which
1) those who control capital assets + firms have borrowed money to achieve this control
2) Capital ~~Assets~~ firms, parts of firms are bought, sold + refinanced

It follows that there are two price levels in a capitalist economy

(1) the "conventional" cpI or gnp deflators

(2) the price level of "existing capital assets": of bonds, stocks, subdivisions etc

What happened during the great contraction of 1929-1933.

end result.

output ↓ 30%
prices ↓ 30%
gnp → 50% $(.7 \times .7) = .49$)

but Dow Jones, Standard + Poors
→ ↓ 85%

The Great Depression in the United States decimated the wealth of large sections of the economy: Arthur Miller's The Price as a preferred statement of the impact of the Great Depression:

(Saw it in Cambridge Eng at the Arts Theater which I believe was a gift of Keynes to Cambridge)

Why was there a great decline in the price level of capital assets

"Make positions by selling out positions" → drop in price of assets of financial institutions.

~~Prevent~~

drop in value of institutions liabilities →

Bankruptcy of Banks → decrease in liquid assets of public

stop financing flows.

drop the value of assets below the ~~value of~~ cost of production of investment outputs

In a small government capitalism

$\Pi = I$: the value of the gross cash flows the Π's ↓

P_K = Present Value of {Expected Profits

Keynesian Policy

a) Contain explosions of "liquidity" value which lower Px

b) prevent a collapse of the numerators which ~~lower~~ drastically lower Πy.e.

IN THE FIRST REAL TEST OF The viability of the Financial System in the late 1980's–1990's:

Government refinanced "financial institutions" so that there was no need to "make position by selling out position" i.e. prevent a drastic fall in price of assets underlying Bank assets.

So called "Keynesian" demand policy ~~is only part of a "policy package"~~ truth is ~~Hansenian~~ "Hansonian"

Belief in the exhaustion of investment ~~[illegible]~~ opportunities. → emphasis upon "consumption"; i.e. transfer payments, the so called entitlements

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~~Keynesian policy~~

In K's days G as big ~~as~~ % of G.N.P. as we now have was "~~outside~~ off limits". H. Simons' radical position called for G ~~$~~ not to 10% GNP financed by progressive income tax to reduce the dispersion of income &

MY view ~~...~~ "Stabilizing ~~...~~ an Unstable Economy"

A. ~~Government~~ GOVERNMENT big enough to maintain Π when I + (Trade balance) do not maintain Π

Keynesian Policy:

Investment oriented spending above + beyond the "operating element" of G.

~~Sustain~~ Price of ~~money~~ assets so that demand for investment is sustained

B.3 inefficient