

Are the Keynesians back? - Japan Times 12.05.20

LONDON – Followers of John Maynard Keynes are very happy. They are convinced their time has come, or rather has returned. What the great British economist recommended in the 1930s, which was for governments to spend, spend, spend to counter the collapse of demand and drag economies out of the morass of appallingly high unemployment, seems suddenly relevant again in the current global pandemic crisis.

Now millions are once again out of work. This time there has been no hesitation and the taps of public spending have been well and truly opened. How it is all going to be paid for is being postponed into the future, whether by taxes as demand recovers and economic life resumes, or by borrowing on a gargantuan scale, which could of course lift interest rates above the minimal levels they have been at since the last financial crisis in 2008-2009, or just by inflation shrinking the debt away, or by a mixture of all these routes.

In the meantime, goes the claim, the big state is back, pouring out resources. This, of course, greatly pleases not only the political left, which has been pining for a return to large-scale state intervention and control since the rise of markets and the demise of state socialism in the last century, but also the school of economists that has been demanding more Keynes-type public spending all along over the last decade since the banking crisis and financial collapse a decade ago.

These voices have been loud not only in the United Kingdom but in Japan as well, where Keynesian thinking has been highly influential since early days.

In the British case, although by 2010 there was, in the words of one minister in the outgoing Labour government, "no money left" in the public purse, Keynesian enthusiasts have been vocally insisting ever since that far more should be borrowed by government at low interest rates and more, much more, should be spent.

Their particular target, aimed at with political fury and at times seeming to mix economic argument with ideology, has been the program of so-called austerity ushered in by the new Conservative and Liberal coalition government in 2010. This was the policy deemed necessary to stabilize the public finances again, after the astronomical public indebtedness incurred to offset the domino collapse of banks across the world at the time.

Needless to say, it proved highly unpopular and the original reasons for it became swiftly forgotten, with obloquy poured on the head of British Chancellor George Osborne by his Keynesian critics and political opponents.

Yet there were also facts and outcomes that should have made the big-spenders pause in their bitter condemnations — namely that following the austerity phase inflation remained completely subdued, unemployment low and employment itself, in both part-time and proper long-term jobs, rose to record levels never registered before in British economic history. At the same time there was large-scale credit creation.

But whoever was right about the past 10 years, the Keynesians and their big state political advocates have for the moment got their way with a vengeance. And marching with them have come those who use Keynesian policies as cover for a

different agenda, namely the return of the command economy and central control as in the heydays of 20th century socialism, and who now claim they were right all along.

Yet there is something false about the whole argument and its ideological frame. The most obvious point is that the present crisis is not economic at root at all. But the fallacies go deeper than that. Medieval scholars are said to have spent time arguing about how many angels could dance on the head of a pin. The debate between the Keynesians and the "austerians," (as they came to be called) has something of the same unworldly flavor.

The chief pro-Keynesian critics, both in the United States and the U.K., are brilliant and articulate figures, such as Paul Krugman in America and Robert Skidelsky, the renowned biographer of Keynes, in Britain. But are they just tilting at windmills? Do economies, and the mechanisms to control them, really exist any longer in the ways assumed?

Either side, and indeed most macro-economists, whether monetarist or Keynesian, still see something described as an "economy" as a vast system or machine that can be steered and tweaked by a choice of government policies. Even the constant use of the word "model" to describe economies is tell-tale because, of course, economies are not models or machines at all. It would be much closer to reality to view the economy as a *process*, sustained by constant innovation that in turn rests on the right social, legal and political conditions, just as flourishing plants rely on the right soil. Maybe in the past the state could play a much larger part in steering this process, most clearly in times of total war. But in no way can the "answer" now or in the future lie in a doctrinal and lasting return to the kind of heavy state ownership and dominance that characterized command economies in the last century.

This is not for ideological but for technological and digital reasons. There is simply a limit to what the human brain can grasp, manage or command. Command is weasel word, as the rulers of the collapsing Soviet Union discovered. The complexity of modern societies and markets far exceeds the managerial or controlling capacity of human beings. To package all economic activity into measurable aggregates, to be managed and manipulated, is no longer remotely feasible.

The current rescue through cascades of public spending may look like Keynesianism, but in fact it is little more than practical common sense in an utterly changed social and economic order, largely made possible by data and communications techniques hitherto thought impossible. Ideology and economic theory hardly come into it. A new kind of state has to learn to work with new kinds of markets, and vice-versa.

In short, this debate between economists, before and during the current pandemic is as unworldly as that of their medieval predecessors. It represents a colossal intellectual failure to perceive and understand what has actually happened to the way the world now works.

The ideologists and their economic outriders should go back to their ivory tower rival theories over deficits and borrowing, and over which constitutes the best form of economic management.

These disputes belong to yesterday. The future is for others.

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