

The strange fate of Keynesian economics

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Summary

In this study the expression “Keynesian economics” is understood in a broad sense. Indeed, apart from Keynes himself, many economists took an active part in developing these ideas: e.g. in Japan, Takahashi Korekiyo (1854-1936) was called Japan’s Keynes but was in fact a precursor of Keynes; some sixty years later in France around 1980 Edmond Malinvaud (born in 1923) attempted a new synthesis between Keynes and neo-classical economics.

The paradox to which the title refers lies in the fact that while being shunned by most present-day economists, Keynesian policies are used all the time both at micro- and macro-economic level.

In the first part, it will be shown that in many economic sectors which require long-term investments (e.g. aeronautics, nuclear power plants, railways) the concept of a “pure” market in which the state would play no role is a proposition which is not consistent with observation. This argument will be illustrated by considering the airliner industry.

In the second part we emphasize that since 1945 Keynesian economic stimulation has been used on a permanent basis in the United States as well as in other countries. Thus, instead of withdrawing the state continues to play a major economic role. Yet, there is one area from which the state has really withdrawn, namely the organization of labor relations. The consequence was a quick deterioration of the situation of unions and workers.

Finally, in the last part we wonder how neo-classical economics managed to win the “war of ideas”? We briefly describe some social networks which played a major role in this respect.

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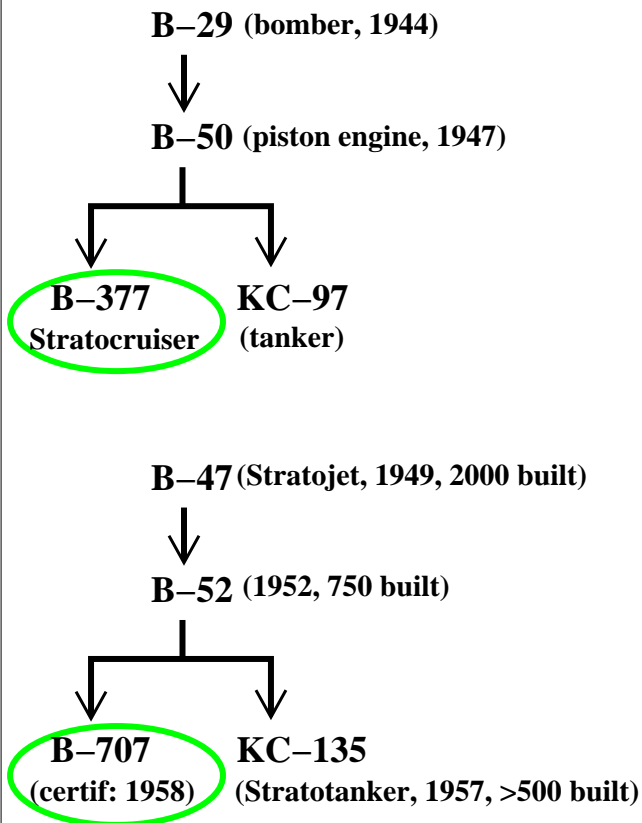
Contents:

- **In many economic sectors the concept of a pure market is a highly unlikely proposition: example of the airliner industry**
- **Keynesian macroeconomic stimulation was used recurrently after WWII in the United States as well as in other countries**
- **Yet, in economic theory keynesianism was shuned.**

Role of governments in the design, manufacturing and marketing of airliners

- | | | |
|-------------------------|----------|--|
| 1) Design phase | → | a) By deriving the design from a military aircraft, the length and cost of the design phase will be much reduced.
(wind-tunnel tests, avionics, metal fatigue, etc)
b) The design phase requires low rate loans |
| 2) Manufacturing | → | a) Previous experience in mass production of similar military aircraft will help to organize the production line
b) Parallel production of military aircraft on the same production line reduces production costs per unit
c) Government loans help to start production |
| 3) Marketing | → | a) Thanks to 1ab, 2ab it becomes possible to offer an attractive sale price
b) Good bilateral relations between governments speed up delivery of airworthiness certification
c) Favorable credit rate through Import-Export bank |

WORKED WELL



WORKED POORLY

● Douglas DC-9, certified in 1965

Used the wing design of the P-38 fighter. Ultimately, turned out a very good aircraft. But as Douglas was short on capital, it entered into cost-sharing with low capability subcontractors. In 1966, Douglas faced bankruptcy and was taken over by McDonnell.

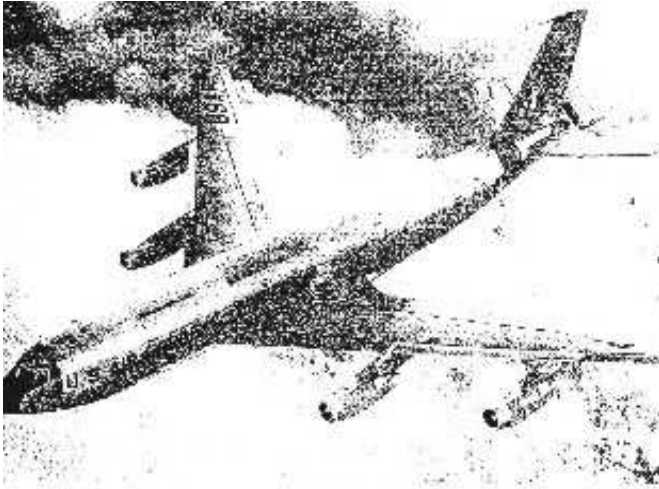
Conclusion:

Douglas was mainly a commercial aircraft manufacturer; 2,400 DC-9 were built, but because it was not paralleled by a military model it was hardly profitable.

● Lockheed Electra L-188, 1958

First turboprop airliner in the US. Did not follow the design of a previously built military version. Lack of confidence in the design after fatal crashes (resonance problem); only 170 built (including for Navy)

The British Comet met a similar fate.

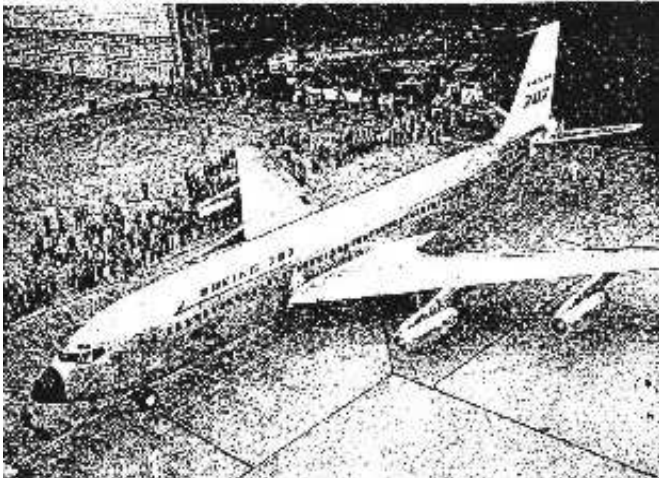


KC-135

Length=41.5 m

Wingspan=39.9 m

Height=12.7 m



Boeing-707

Length=41.2 m

Wingspan=39.9 m

Height=12.6 m

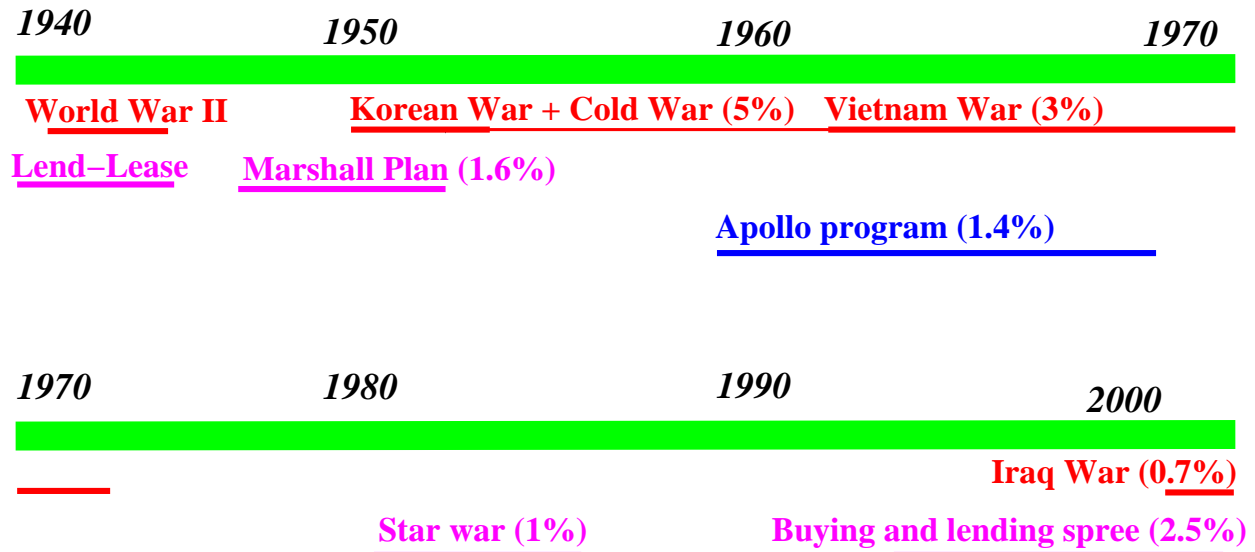
Apart from airliners, similar observations also apply to other heavy equipment such as: helicopters, ships, tanks, nuclear power plants, spacecraft, refineries, fast trains, etc.

Consequently, the notion that the markets for such equipment can be kept free from government interferences is not consistent with evidence.

That notion can nevertheless be entertained by:

- **economists whose reasoning remains at a very theoretical level**
- **governments who want to hide their own interferences or to embarrass other governments (see the recent critics about the behavior of BAE in Saudi Arabia)**

Keynesian stimulation in the United States by subsidising private companies



Figures such as (1.6%) give the annual percentage of GDP spent for the corresponding program

- The expenditure of the US Federal Government has been about 20% of GDP over the past 50 years; Reaganomics did not change that. Such a federal budget gives ample means of economic intervention. For the sake of comparison, in 2007 that ratio was 11% in Germany, a country with a similar federal organization.
- Powerful federal institutions (such as the Treasury, Import–Export Bank, Fannie Mae) give the Federal Government the possibility to help US Corporations in many ways.
- The main idea of Reaganomics, Thatcherism and neoliberalism is to reduce government spending and stop its interference with market forces. Government spending has remained unchanged, we have seen, has there been a change in its interference? Answer is: YES

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→ **Title**
Subversive Program:
MG-49 Statistical Reports

↓
 NINTH SERVICE COMMAND
 REPORT TO THE PROVOST MARSHAL GENERAL FOR MONTH OF December, 1943,
 ON
 PERSONNEL SECURITY ACTIVITIES.

→ **Ninth Service Command [West]**
 → **Loyalty Investigations Program**
 → **Total cases received: 224,012**

A. Loyalty and Character Investigations Program.

1. a. Total cases received to 1st of month 224,012
 b. Routine cases received during month 7,066
 c. Special cases received during month 4,351
 d. Total cases received to date 232,449
2. a. Cases completed to 1st of month 206,927
 b. Routine cases completed by sergeant-investigators during month _____
 c. Routine cases completed by civilian personnel of this office during month 254
 d. Routine cases completed by commercial companies during month 4,551
 e. Routine cases completed at plant level during month 10,421
 f. Special cases completed during month 2,329
 g. Total cases completed to date 223,682
3. Routine cases on hand at end of month 6,926
4. Special cases on hand at end of month 1,841
5. a. Routine cases over 30 days old in hands of sergeant-investigators end of month _____
 b. Routine cases over 30 days old in hands of commercial companies end of month 1,535
 c. Special cases over 30 days old end of month 1,015
 d. Total cases over 30 days old end of month 2,550
6. Credit Companies used:

Name of Company	Number Assigned	Number Completed
Dun & Bradstreet	0	814
Hooper Holmes Bureau	21	1,173
Na't'l Consumers Credit Report, Corp.	504	892
O'Hanlon Reports	891	1,138
Retail Credit Company	412	534
7. Cases now in hands of companies:

Name of Company	Total Outstanding	No. over 30 days old
Dun & Bradstreet	325	325
Hooper Holmes Bureau	417	404
Na't'l Consumers Credit Report, Corp.	622	197
O'Hanlon Reports	969	155
Retail Credit Company	814	434

→ **Credit Companies used**
Dun & Bradstreet
Hooper Holmes Bureau
Na't Consumers Credit Report Corp
O'Hanlon Reports
Retail Credit Company

Loyalty investigations during World War II

On the left-hand side is a scanned version of a document from the American National Archives. As it is hardly readable its text has been reproduced on the right-hand side. It shows that a part of the loyalty investigations were conducted by private credit companies. This specific document is for the 9th Service Command which corresponds to the West of the United States, but the 5 companies listed here were the same in other regions.

There is at least one field from which the US government has withdrawn which is the organization and regulation of the relations between workers and unions on one hand and management on the other hand.

The New Deal had given many rights to unions but in the decades after the Taft–Hartley Act of 1947 the clocks were progressively turned back.

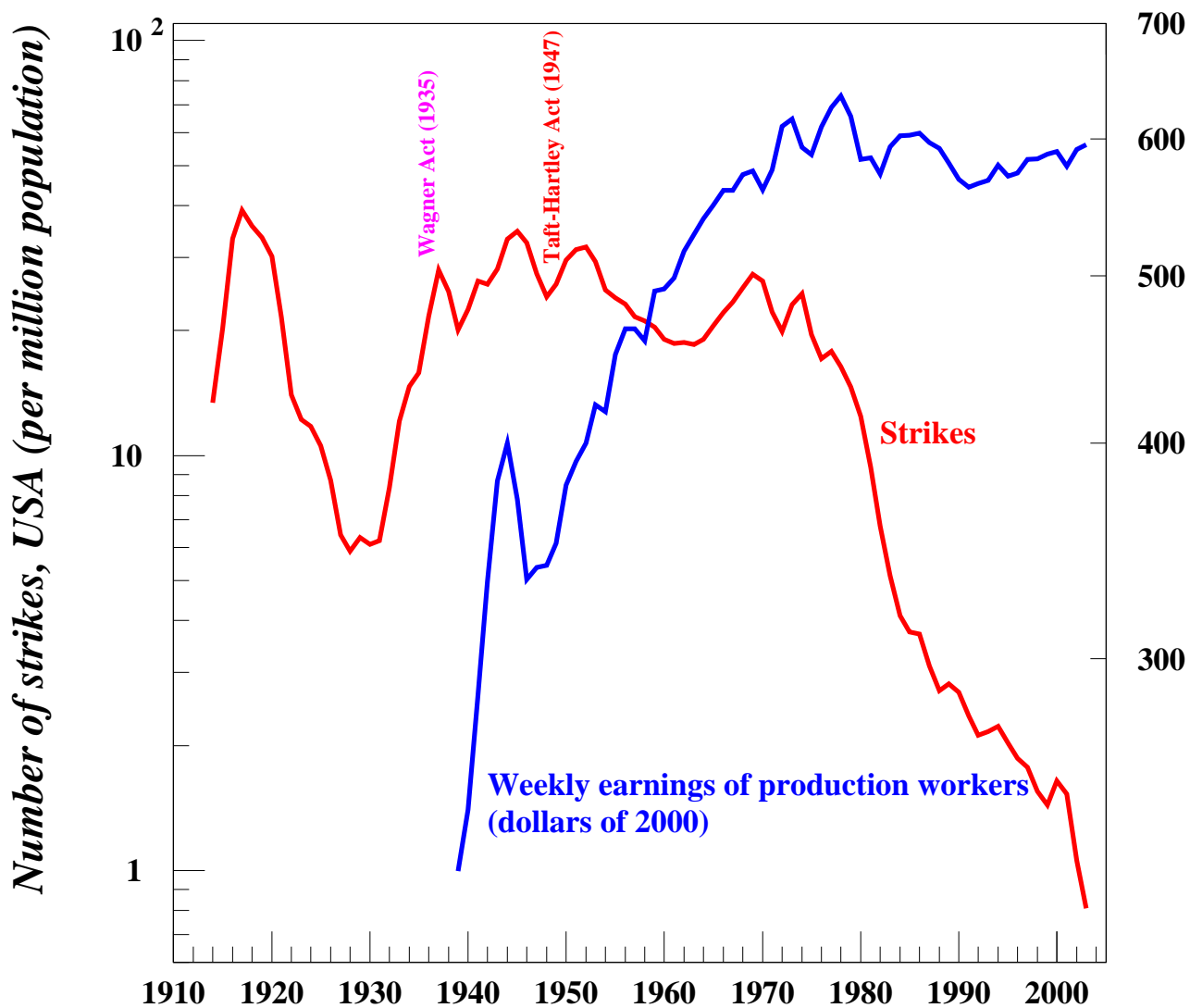
What effects would one expect from that withdrawal?

Employers have always been well organized in a number of associations, such as the Chambers of Commerce or the National Association of Manufacturers (NAM). If unions are not allowed to organize in a similar way, they will obviously be at a disadvantage.

Thus:

- **if sympathy strikes are prohibited,**
- **if employers are authorized to recruit temporary workers during strikes,**
- **if bankruptcies can be used as a last resort means to overrule the unions, then, of course, one would expect the weight of unions to dwindle.**

Is this expectation confirmed by actual observation? Answer is: YES as will be seen in what follows.



Consequence in terms of earnings of the loss of influence of American labor unions.

There has been a dramatic decline in the number of strikes after 1970. Real wages reached their maximum in 1973. After this date the largest part of GDP was absorbed by the growth of non-salary earnings (e.g. income from financial assets, real estate profits, etc.) the share of which increased from 35% in 1950 to 55% in 2004. *Sources: Statistical Abstract of the United States.*

The [Mont Pélérin Society](#) was the main organization for promoting neoliberal ideas among economists. It was founded in 1947 by Friedrich Hayeck.

Of the 23 economists who served as president of this society between 1947 and 2004, 5 became Nobel prize winners shortly after the end of their terms as president as can be seen from the following table.

Presidents of the Mont Pélérin Society who won Nobel Prizes

Name	Term as president	Nobel prize
F. Hayek	1947 – 1961	1974
M. Friedman	1970 – 1972	1976
G. Stigler	1976 – 1978	1982
J. Buchanan	1984 – 1986	1986
G. Becker	1990 – 1992	1992

Notes:

- The French economist Maurice Allais (Nobel prize in 1988) attended the first meeting of the Mont Pélérin Society and was one of its founding fathers but he did not serve as president.

- Three other prominent members of the Mont Pélérin Society were Ronald Coase, Vernon Smith and Erik Lundberg. Coase and Vernon became Nobel laureates in 1991 and 2002 respectively.

Lundberg was a Swedish economist who held the following positions:

(i) President of the Swedish Bank (ii) member of the Nobel Committee for Prize in Economic Science from 1969 to 1979 (iii) chairman of this committee from 1975 to 1979.