What would Keynes have thought of the budget?

John Maynard Keynes was the greatest economist of the 20th -- and, so far, the 21st – century. He died in April, 1946, just sixty two years old, worn out by his mighty contributions to keeping Britain’s wartime economy afloat, and preparing it and the world for the peace. His younger colleague, Lionel Robbins, said that ‘he has given his life for his country, as surely as if he had fallen on the field of battle’; his long-time intellectual opponent, Friedrich Hayek – guru of monetarism and neoliberalism – wrote simply that Keynes was ‘the one really great man I ever knew.’

So it’s tempting to play the enjoyable thought experiment of asking: “If the great Keynes came back to earth, what would he make of our economic situation? What would he recommend we do now?”

Keynes in 2011 would certainly get some culture shocks. He would ask: “Why don’t the young gentlemen wear hats? And why don’t the young ladies wear much of anything?” Possibly the most striking observable change would be the near eradication of smoking in public places – Keynes might be a bit rueful about this, since his own heavy tobacco habit undoubtedly contributed to his heart problems and early death.

But of course, this is all foolish whimsy. In the real world, people don’t come back to life. There is not even any good evidence of reincarnation.
But we always have the spirit world. Absent corporeal reincarnation, there’s always the option of trying to communicate through the ether with the departed spirits of the earthly dead. I don’t doubt some of you here have tried your hand at the Ouija Board, possibly with some success.

Of course it’s usually Elvis or Marilyn or deceased family members who are being hooked up with, but suppose a group of eager New Zealand macroeconomist spiritualists – and let me tell you modern macroeconomists are wacky enough to do this – broke through to Keynes last week – specifically last Friday, the day after the budget.

Keynes himself would be desperate for information. He had died less than a year after the end of the War. What had happened since? How had his ideas panned out in the postwar political economy? He might have preferred to have got through to spiritualists in Britain or the United States, rather than New Zealand, but he will make the best of the situation.

‘So what’s all the go in Kiwiland?’ he asks jovially.

‘Well, Professor Keynes…’

Keynes interjects; ‘Not a professor, not ever. Couldn’t see the point of it.’

‘Well, Dr Keynes…’

‘Not one of those, either. No Ph D; not even a degree in Economics. Learnt it all on the job. Just call me Maynard – I’m too old for formalities.’
‘Well, Maynard, this visitation is actually very timely. Our Minister of Finance has just brought in his Annual Budget.’

‘Indeed,’ says Keynes. ‘So tell me…’ but then reception begins to break up. There’s major static on the spirit line. ‘I may be losing you,’ shouts Keynes desperately. ‘Just answer me one key question: In this budget, what is total government expenditure as a percentage of National Income?’

‘35%,’ shouts out one of the macroeconomist. The static roars. They just hear Keynes’ anguished cry; ‘Oh no!’, before all communication is lost.

‘What’s he so upset about?’ asks one of the younger macroeconomists. ‘I thought Keynes was the big public spending man.’

But a wise old professor shakes his head. ‘You must remember the history. For anyone who lived in the first half of the twentieth century, a 30-40 percent government budget was a war budget – that’s what the public sector share of GDP or National Income reached in the War in the UK. In fact, in NZ, it was actually less than that in WW2. In peacetime, public expenditure was tiny by today’s standard – less than 15% of GDP. So Maynard will have quickly deduced that we are a world at war, yet again. That was always his worst fear- that the debacle after WW1 with the forced German reparations would be repeated.’

Then the static miraculously clears. Normal transmission resumes. Keynes comes back on the line. The economists hasten to reassure him: ‘We’re not at war, Maynard. And
thanks in part to your ideas there hasn’t been a major conflagration since 1945. The Americans are always invading some poor country and slaughtering its people, but basically, wars between nations are rare now.’

‘Well thank God -- or whoever – for that,’ says Keynes. ‘But what’s this huge government budget for then? Have you all become socialists? That was the dangerous attraction in the 1930s, and that’s what I was trying to save capitalism from.’

‘No, no, _au contraire_,’ says one of the more cultured economists. ‘Again thanks largely to your work, Maynard, the western world entered its Golden Age of Economic Growth after the War. A quarter century of unprecedented growth in living standards with no slumps. By the early 1970s the mixed economy – social democratic capitalism – was supreme, and Communism was coming apart at the seams. The Soviet Bloc had collapsed by 1990.

‘And actually, in this budget of ours, there’s provision for selling off of some of the few state-owned enterprises that are left on the government’s books.’

‘That’s interesting,’ says Keynes. ‘So why are they selling these companies? Are they performing very badly as state owned enterprises?’

‘No, not at all. In fact they are highly profitable. That’s why this government thinks it’s good to sell them.’

‘If they’re highly profitable it might be better to keep them,’ says Keynes. ‘Anyway, that’s none of my business, but do be
careful – you’ll find it difficult to get a fair price for them, especially if you are selling for non-commercial reasons.

‘But let’s get back to my puzzle. If you’re not at war, and you’re not socialist, why does your government need this huge budget?’

The macroeconomists are nonplussed. They’ve always rather taken the government budget for granted. One of them tells Keynes that NZ’s government spending percentage is actually second lowest of the 27 economies in the OECD. Keynes asks what the OECD is. ‘The rich countries club,’ he is told.

‘So there are 27 rich countries now. That’s good. Let me predict: I’d bet the big South American and African countries -- South Africa, Nigeria, Argentina, Brazil -- are all rich now, right? They’ve got the people and the resources.’

‘Er, no, Maynard, wrong,’ says one of the economists. She goes on: ‘But I’ve found a pie-chart -- never mind what that is – which breaks down the budget spending. Actually, over 30% of it is transfer payments, not purchases of goods and services.

‘Oh no!’ exclaims Keynes again ‘Where I come from, transfer payments are unemployment benefits. So, let’s do the sums.’

Keynes, in the pre-calculator days, was very quick at mental arithmetic. He reasons aloud: ’30 percent of 30-something percent is around 10% of National Income. If that’s unemployment benefits, and given that the unemployed get
only a fraction of the average wage – let’s say one half at most – then that means that at least 20% of the workforce is unemployed. That is terrible – you must have suffered some huge economic calamity.’

The macroeconomists look at each other meaningfully. Even the most rarified stochastic dynamic general equilibrium modeler amongst them is aware that there has indeed been a global economic calamity; the worst economic shock since the Great Depression; the Global Financial Crisis.

‘Yes, we have suffered a huge shock, Maynard. And we’ll tell you about it and see what you think. But that’s not really the answer to your question. Unemployment has gone up in NZ, but just from 4% to less than 7%. We, and the world, are not in a slump. Mindful of the lessons you taught us about the Great Depression, our Central Bankers and Finance Ministers avoided beggar-thy-neighbour nationalist policies. They all got together and coordinated a response to the shock which more or less contained it, though we’ve still got a fragile recovery.’

‘So,’ says Keynes – and it seems as though he is smiling. ‘The Bankers and Chancellors are all Keynesians now. How I wish I could have converted them in my own lifetime.’

‘Yes, they are, Maynard, but they don’t like to be called Keynesians. It sort of embarrasses them. I hope you’re not offended.’

‘I am beyond taking offence at anything,’ says Keynes. ‘But I’m intrigued – if not unemployment insurance, then what are
these transfers for? You tax people with one hand and then give the money back with another.’

‘Well, there’s sickness and disability benefits. They’ve grown enormously.’

Keynes has to be reassured that there hasn’t been an epidemic of illness and injury in New Zealand.

‘And there’s the Domestic Purpose Benefit. That’s become really big, too.’

This also has to be explained. Keynes is puzzled:

‘So you pay people to have babies, do you? Is there an under-population problem? The stagnationists in Britain used to worry about that in the 1930s.’

‘On the contrary, Maynard. The world has a huge over-population problem. There are 7 billion of us at the moment waiting our turn to join you in Heaven – that’s nearly three time world population when you died. I hope Heaven will have room for us.

‘But anyway, this DPB is not for everyone. Parents only get it if they promise not to live with the other parent and they promise not to get a job.’

‘Curiouser and curiouser,’ says Keynes. ‘But if you’re interested, I’ll tell you what I think you might do…’

Unfortunately, at this point, the static returned and swept the spirit away. The transcript ends. We will now never know what Keynes would do if he came back.
And I can’t tell you what he would come up with – except that it would be novel and creative -- because to do that I’d have to be as clever as Keynes, and no-one is that clever at the moment. And I can’t even tell you what I personally would do in the budget, because I am out of earthly time. Thank you.