Review published 16 October 2020

Energy transition researchers take heed: Keynes is back!

Review of: Zachary D. Carter, *The Price of Peace: Money, Democracy and the Life of John Maynard Keynes.* New York: Random House; 628 pages

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Abstract

Zachary Carter's new biography of John Maynard Keynes is an essential resource for energy transition researchers. Today they work an era of resurgent Keynesian-style government funding of recovery programmes and central bank support for the financial sector, while Keynesian-inspired green new deals are promoted in leading economies. Keynes is back. His arguments for deficit funding of public works are highly relevant to today's aspirations to decarbonize our economies. Relevant to energy justice, Carter shows that the heart of Keynes' thinking was his ethic that the poor should be lifted to a standard of living well above subsistence level and that economic systems must be designed first and foremost to achieve this. But Carter also documents the fierce, well-resourced opposition Keynes' ideas and influence encountered from McCarthyism allied with the emerging neoliberal economics movement. He argues that Keynes' one great weakness was his naïve belief that others would agree with his basic ethic and see the sense of good argument, an error which those who aspire to decarbonize economies today need to strenuously avoid.

Review

Energy researchers might ask what Zachary Carter's new biography of John Maynard Keynes has to do with climate change, the energy transition and energy justice. But to begin with, Keynesian economic ideas have made a comeback during the coronavirus pandemic, with countries in every continent resorting to massive deficit funding to keep their economies going during lockdowns and slowdowns. Research on climate protection and the energy transition now take place in a milieu of resurgent Keynesianism - even though, ironically – some of today's Keynesian-inspired central bank actions are lopsided in favour of the billionaire class [1].

A second reason is that Keynesian-inspired "green new deals" are increasingly emerging as options on the table in big economies [2]. As Carter documents in *The Price of Peace*, Keynesian economics and Keynes' own personal influence lay at the heart of US President Franklin Delano Roosevelt's "New Deal", the big-government, heavily deficit-funded spending program of the mid-1930s that began to lift the US out of the Great Depression. The Green New Deal (GND) resolution introduced by US Congresswoman Alexandria Ocasio-Cortez and Senator Ed Markey [3] overtly traces its fiscal inspiration to the Keynesian foundations of Roosevelt's New Deal, as did Bernie Sanders' exposition of it in his policy platform [4,5]. Since most of Sanders' platform is incorporated in Joe Biden's decarbonization policy, we will soon know if Keynesian economics is set to drive the decarbonization of the biggest economy on earth. Meanwhile the European Union has produced its own green deal, somewhat less ambitious but also showing evidence of Keynesian-type funding aspirations [6].

A further reason energy researchers should read this book has to do with possible collateral damage from the transition to a climate-neutral economy. As Madlener [7] recently outlined, an energy transition that keeps global heating within 1.5ºC or even 2.0ºC will not only be costly but could jeopardize the wellbeing of vulnerable groups if not done carefully. Carter emphasises that Keynes was deeply concerned for the wellbeing of vulnerable people. His basic ethic, which he held logically prior to his views on the mechanics of a successful economy, was that an economy should first and foremost function for the benefit of all people and, in particular, lift the poor well beyond a level of basic subsistence: not just basics like nutritious food, good healthcare and comfortable housing, but also access to art, fine music, good literature and stimulating education. In his cultural tastes Keynes had all the trappings of an upper-class playboy, but he wanted these trappings for everybody, not just is own privileged class. The struggles of the poor were real to him because he knew so many of them personally, in part a consequence of his riotous youth and kinky sexual adventures among the lower classes. When he finally settled down to heterosexual monogamy in his early 40s with international Ballet star Lydia Lopokova, her own background of poverty in Russia gave him further insights into the trials and deprivations such people face. The economic principles Keynes developed were deliberately geared to helping countries achieve a high life for all such people. That was the heart of his thinking, rather than any particular economic theory.

But how would abundance for all for all be possible in a world of scarcity and want? As Carter explains it, one of Keynes' great insights was that in the world of the 20th century there was no excuse for scarcity. While scarcity had long been a feature of human society, the industrial revolution and rapid technological advances of the 19th and early 20th centuries made scarcity no longer inevitable. By the 1920s the world – or at least Europe, North America, Oceania and Japan – had the means to produce more "stuff" than their populations could ever need. The challenge, then, was to arrange economies in such a way that they achieved this potential by running at full capacity.

"Full capacity" is a persistent, underlying theme in the biography. It means making it possible for every physically able person to work, utilizing good tools and abundant natural resources in well-functioning markets. Keynes reasoned that to achieve this required targeted government funding rather than the ebbs and flows of free markets. It also meant governments must have no artificial restrictions on the amount of money they could spend.

This led Keynes to ponder on what money is. He reasoned that money is not, essentially, a rare good like gold, nor a set of pre-existing tokens used for bargaining in a marketplace. Instead, money is something the state creates, by fiat, out of nothing, and which it can dissolve back into nothing at will if there are too many dollars chasing too few goods and services. The so-called chartalist economists, inspired by Georg Friedrich Knapp, had developed this idea in theory [8]. Keynes refined it, supported it with his own historical studies, and attempted to apply it to the governments of his day. His basic equation was that governments should ramp up the money supply to make it just sufficient for the economy to work at full capacity.

His parallel insight was that, if governments were frightened of the idea of creating new money at will, they could at least borrow money from the private sector to stimulate full employment. Each newly created job would have a multiplier effect on the real economy as new workers spent their wages on goods and services, channelling money to producers and marketers, who could then employ more workers, and so on and thereby increasing GDP. As long as the increase in GDP is greater than the cost of interest on the money the government borrows, borrowing to spend is a very good investment. This Keynesian logic has become textbook economics for students of the business cycle.

The money multiplier is an essential element in proposals to decarbonize economies. Hepburn and others [9] document the views of central bankers and finance officials from G20 countries that government investment in green projects like renewable electricity development provide high Keynesian multiplier effects, some up to 2.5 or 3. A raft of studies on the US Green New Deal show similar confidence [10], and a recent report from the International Monetary Fund tends to concur [11]. The Keynesian concept of the money multiplier can ring loud bells of hope for those who fear that decarbonizing will be impossibly expensive.

But it is on the issue of government financed growth that the high drama of Carter's book begins to unfold. Keynes faced fierce resistance from ideological enemies, especially in the latter decade of his life (he died of heart failure in 1946). For it was in opposition to Keynes that neoliberalism was born. Austrian economist Friedrich von Hayek (who later dropped the "von" to appear less elitist) entered the fray with an intellectually problematic but scathing criticism of Keynes' *A Treatise on Money* in 1930. Hayek's argument, which he deepened and refined throughout his long and influential career, was that government activism in the economy would inhibit innovative natural market forces, lead to economic stagnation and make the world poorer. For Hayek and the burgeoning school of self-styled "neoliberal" economists inspired by his views – including, most notably, Milton Friedman – Keynesian interventionism was the start of a drift toward communism and the erosion of freedom.

In Carter's narrative the drama deepens as Keynesianism takes hold in the US just when McCarthyism is expanding its purge against "unamerican" suspects. It intensifies as US politicians' fear of closet communists permeating the system becomes interwoven with neoliberal economists promoting "freedom" as the great American virtue that Keynesianism was allegedly eroding. Hayek's followers, by then institutionally well established as the Chicago School, surreptitiously allied themselves with McCarthy's purges to weaken the presence and impact of Keynesian economists in US universities and government agencies. It was all dirty politics designed to elbow Keynesians aside. John Kenneth Galbraith was one of the victims, though his immense popularity and sharp political instincts enabled his own (somewhat watered-down) version of Keynesianism to continue to have influence.

Keynes died just as McCarthyism was beginning to take hold and neoliberalism was set to expand into universities throughout the US and beyond, setting the stage for the unravelling, in the 1980s, of the post-war Keynesian-inspired era of unprecedented egalitarianism and economic growth of the 1950s-1970s . But Carter argues that through this often vicious conflict, one of Keynes' biggest intellectual failures comes to light. He believed that most people shared his fundamental moral commitment to lift everybody to the highest level of economic wellbeing and that if you showed antagonists the logical and empirical evidence that government spending was the best way to achieve this, they would see the arguments and follow them with actions. Carter comments (p. 532):

"Keynes believed that good ideas would eventually triumph over bad ideas, that people could ultimately recognise good arguments and change their minds. At times, his faith seems admirable. At others, it is hard to disagree with Joan Robinson's assessment from the 1970s that Keynes was tragically naïve."

Carter vividly records the contrasts to Keynes' social idealism. Hayek openly declared that Keynesianism is a dangerous threat to the exclusive privileges of the wealthy class because it offers to lift the poor to their own privileged level. His followers displayed a very American preoccupation with "freedom": Keynesianism is unamerican and communistic because it restricts people's absolute freedom to use their money how they want to and let the markets run free. The lowest point in the book is where Milton Friedman advises Chilean dictator Augusto Pinochet on establishing a free market neoliberal economy despite Pinochet's "campaign of political assassinations and repression" (p. 463). Friedman maintained that freedom of the markets was the prize that would automatically put all evils right. The free market had achieved god-like status.

Today's energy researchers can learn from this conflict. If we employ Keynesian economics to decarbonize our economies we may face fierce resistance, in the name of freedom, the sanctity of the free market, and the threat that an emergent middle-class poses to privileged elites [12]. If there is one overriding message Carter's book brings, it is that wealthy elites do not give up their privileged position without a fight, and they are highly skilled fighters with huge resources, dug in for the long haul. If we want to decarbonize, we will ned both Keynes' economic insights and a stark realism about human nature that he appears to have lacked.

The Price of Peace is 534 pages and is a great read. It romps along like a good novel yet explains the esoterica of macroeconomics deftly along the way. I will stick my neck out and say it is essential reading for economists of all shades, for researchers concerned with the energy transition, and for anyone who wants to find a way to pay for the planet to be decarbonized.

Keywords

John Maynard Keynes; Keynesian multiplier; full employment; green new deals; neoliberalism

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