



John Maynard Keynes is now dead... but his ideas still live

The greatest economist of the 20th century died of a heart attack on April 21, 1946. Yet his ideas flourish with the political and economic thinkers now in control of our money and economy. Paul Krugman, Martin Wolf, Robert Reich, Tim Geithner, Ben Bernanke, Paul Volcher, and many others are still espousing the ideas of Keynes and Keynesian philosophy as the best solution for our economic problems. All the Central Banks on this planet formulate their current policies based on Keynesian principles and philosophy. Keynesian ideas have ruled from 1944 – 2009.

What was the basic theory of Keynes? Basically, Keynes believed in government intervention and international institutions to resolve economic problems. He recognized that the common man was unable to create global prosperity, recessions, or depressions. Only large public expenditures could create the necessary change that was needed for a global society. He also advocated a stable currency (money) which promoted stability in prices over time. His logic, however, was steeped in mathematics and probability theory. His big idea was a global currency called the Bancor (probably any name would have been acceptable to him) which would function as a global clearing currency for balance of trade imbalances. Keynes advocated western style freedom and government management (via Central Banks) as the best system for the growth and progress for the Western democracies. Keynes was not fond of Karl Marx or of Marxian socialism; even though many critics of Keynes suggested that his philosophy might lead to this result (socialism) in time. A French economist by the name of Jacques Rueff was especially critical of the philosophy of Keynes. Yet John Maynard Keynes prevailed in the minds of most political leaders. Even Richard Nixon eventually became a Keynesian after closing the gold window on August 15, 1971.

John Maynard Keynes and Harry Dexter White were the key architects for the Bretton Woods Agreement of 1944. This agreement resulted in the monetary system which allowed the United States of America to dictate most economic and monetary policies for our planet. Keynes had many stressful health experiences during the negotiations over the terms of this agreement. However, his philosophy played a key role in the final outcome

of this agreement. At the end of the day, however, Harry Dexter White, Secretary of the Treasury of the USA, prevailed in many of the important economic issues (such as using the US dollar for the world reserve currency) although John M Keynes agreed on the eventual package of ideas. It was this agreement which eventually formulated the monetary system that we are now experiencing. Both John and Harry agreed that the global institutions should be the International Monetary Fund (IMF) and the World Bank. They both agreed that the dollar should be the world reserve currency, although Keynes would have preferred a separate world currency such as the Bancor for the settlement of trade imbalances. And they both agreed that gold should be the anchor of the system to assure that our dollar would be accepted by all the nations. They both chose the dollar (\$1.00) as the symbol for our global reserve currency; however, they made the symbol exchangeable into gold at the ratio of \$35 to 1 ounce of AU (foreign holders only). This provision collapsed as our gold supply diminished in the 60's and early 70's from 700 million ounces (1944) to 272 million ounces (1971), a 61% decline.

Shortly after this agreement of 1944 was finalized, John Maynard Keynes died of a heart attack on April 21, 1946 (reportedly Easter Sunday). Most government leaders gradually adopted Keynesian ideas and our schools and colleges taught his principles and philosophy as the best economic set of ideas for our planet. Those who emerged as contrarians of his philosophy were those in the Austrian school of economics; such as Friedrich von Hayek, Ludwig von Mises, Murray Rothbard, and to some degree Milton Friedman. Most of these economists fought Keynesianism on moral grounds and on the principle ideas which promoted Big Government and Central Bank control over all money. Others were contrarians because of the major emphasis which Keynesianism placed on mathematic models and probabilities. Personally, I recall many students (when I took a course in Keynesian economics back in 1967) criticizing Keynesian philosophy because of the lack of any teaching on economic history in the courses being offered to beginning students. Most of the teaching centered around graphs, formulae, and mathematical probabilities. Little or no mention was made of how our money was established by our founding Fathers. And little was mentioned about the principles of money included in our Constitution. The idea of gold as a standard of value was dismissed as archaic and unsound for modern economics. Mathematics was the thinking of the day. Mathematical models (of supply and demand, inflation, growth, etc.) were the thinking for those majoring in economics and advanced business courses. Numbers and math were espoused as the modus operand, thinking, and under pinning for understanding economic reality. The lessons of history were viewed as irrelevant for our modern age.

The benefits of Keynesian economics are many. First of all, this philosophy led to the greatest increase in overall material wealth on our planet. And the United States was the chief beneficiary. With 6% of the world's population we were able to consume 25% of the world's wealth from 1971 – 2009. And this economic system allowed our nation to promote economic growth and prosperity around our planet. It allowed us to become the greatest Super Power on planet Earth. So the benefits of Keynesian economics were favorable for the United States and most other Western nations. The major flaw in Keynesian economics was its reliance on mathematics and numbers (financial Capitalism) as the core under pinning for growth. Classical Capitalism focused on the

creation of physical goods (industrial and manufacturing products). This emphasis was partially replaced with Keynesian economics. What emerged from Keynesian economics was a major growth in the service sector and intellectual sector of economics. Risk management enterprises, insurance enterprises, structured contracts, derivatives, hedge funds, and other large enterprises and structured products...which had no emphasis on production of goods per se... emerged as necessary for the new financial Capitalism.

What has this philosophy produced and where is it leading? The philosophy of Keynes had its benefits and its contradictions. Its benefits were its flexibility and hopes for a more democratic economic system. Its core contradiction was its temporary nature as a viable economic system. As of today (02/09/2009), this system is in its final stage of collapse. The monetary philosophy of Keynesianism was based on debt and more debt to grow the wealth of the nations. Keynes recognized that in the long run we are all dead, so his philosophy emphasized short run thinking and rapid expansion of wealth via a type of financial Capitalism with Central Banks in control of each nation's money. We are now at the final stage of Keynesianism and the 'long run' has arrived. Worldwide debt has reached unsustainable levels and asset bubbles have produced such volatility that investors are now all seeking 'safe havens' to protect their wealth from disappearing. De-leveraging and deflation have arrived with a vengeance. And this trend is unlikely to change until all 'fluff' in the world economy has been removed. This is likely to take a few years and is likely to create a major revolution among the people who have invested in the realities of this philosophy. Political leaders are now becoming aware that the system is collapsing. They have, however, chosen to 'patch' the system with bailout programs and more bailout programs.

What is needed at this time in history? What is really needed now is to explain and educate the public about the economic history which has produced the current breakdown. Education may help us avoid a chaotic revolution and a total collapse of all trust and confidence in our leaders and the system. Basically, Keynesianism is dead and a New System must replace the corpse of this philosophy. But any New System can not emerge until the people are educated and fully aware of why the current philosophy is bankrupt. There needs to be a New Agreement which emerges from the people as logical and trustworthy. With the ability to inform and educate all the people via the media and internet in real time, this type of process is now feasible. A New Era has arrived and a New System is needed. Now is the time to begin the process!!! Think NOW!!!

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