The return of Keynes

ciani scarnicci, manuela

December 2010

THE RETURN OF KEYNES
"the Return of The Master" of Skidelsky
Manuela Ciani Scarnicci

Skidelsky's last work « The Return of the Master" gives a new perspective to his previous studies about J.M. Keynes. In this new light, he studies the Keynesian theories, no longer in the historical context in which they were developed, but using them to explain and to try to find a solution to modern economy. This work almost represents a denunciation towards the new economic theory system that loses sight of the importance of the uncertainty, and overestimated the value of currency, and have not considered other values such as ethics and morals.

This new work's starting point is the 2008 economic crisis.

This book points out how, had the Keynesian theories been used to analyze modern economy, it couldn't have, in any case, helped to foresee this crisis. Keynes was, in fact, overly convinced of the impossibility to foresee events, but he surely would have theorized the possibility of a financial collapse, and would have therefore drawn theoretical lines in order to avoid it.

… the economy is crumbling, and the politics carried out to stimulate it are failing.

War has always been a perfect economic incentive instrument, but we now need new politics. The 2008 crisis brought to light another Keynesian concept: the problematic of human behavior and the moral judgment in economy. This emphasizes how the economic decline of the last years has given the opportunity to bring economy back to higher, more sensible and fairer values.

According to traditional economic theories, this crisis shouldn't have happened. Such a conviction was based on the fact that just the full flexibility of prices and wages, should have brought economy to its fullest investment. Besides, the perfect information shouldn't have allowed such an economic ruin. According to the author, the Keynesian theories are to be considered as fundamental, as it was exactly these mistaken economic theories that have legitimated the disturbance of finance, bringing the economic agents to believe illusory reality, and how finance and economic growth couldn't have limits. The uncertainty about the future represents the mainspring of Keynesian theories. Economists cannot have certain expectations about the future, especially in times of crisis. This represents the key to abandoning traditional economy, based on expectative analysis, to go back to an economy seen as a moral and unnatural science.

An economic crisis is an unexpected and unpredictable fact, it's a "Black Swan", according to N. Taleb's theory. The "Black Swans" are isolated facts, they create a large impact, and they can be judged only afterwards. N. Taleb's theory demonstrates how we have to get rid of everything we know, in order to embrace the "Theory of Uncertainty".

It is our nature to learn from experience and repetition. We concentrate only on things we know in order to follow familiar paths, while we lose out of sight new opportunities. N. Taleb's theories aren't in any case

Keynesian, as they suggest a statistic model to individuate the events called “Black Swans”.
According to the author, although the 2008 crisis has had very strong characteristics, it will last less than the 1929 one. He bases this on the existence of an international cooperation that didn’t exist in 1929, and on the use of Keynes’s ideas, that hadn’t been heard during the Great Depression. Interest rates reduction is a classic move during an economic crisis, but this cannot be a solution. First of all, banks can loan at different rates than those imposed by central banks, and moreover the investments positively depend most of all on profit expectation. Without these two aspects, it is useless to reduce the interest rates. The importance of profit expectation is one of Keynes’s inheritances. Skidelsky emphasizes in his work how neoclassics and neokeynesians have betrayed Keynes’s inheritance. They dwelled too much upon data and elaborated statistics that were based on present and past information, without considering informative asymmetry and uncertainty. Many authors maintained that the Gauss curve presented problems in interpreting stocks, but they were never heard out. A very interesting debate is the one involving two Economy Nobel Prize winners, R. Krugman and G. Becker.
Krugman has always been a supporter of an expensive fiscal politic, through increasing public expenditure, in order to improve the uncertainty of monetary politics. The problem that emanates from the public deficit should be put on a second level, compared to the improvement of economy. The state should aim at intervening with

unemployment subsidies, help for public administrations, family support and creation of new infrastructures that can create new developments. Krugman emphasizes how Roosevelt hasn't exactly followed Keynes's indications with the New Deal, elaborating support plans that were too shy.
Therefore, according to the economist, US President Barack Obama should learn from past mistakes, understanding better what the country's actual needs are, and developing politics of public expenditure in order to create new developments. The desired expansive fiscal politic wouldn't be one of fiscal relief, for that would only translate in an increase of savings, and not in an increase of development.
Becker, an economist from the "freshwater" movement, disputes Krugman's theories, since he maintains that politics of public expenditure contemplated for the mere hope of improving economy, could have harmful consequences. Many authors belonging to Becker's same movement, maintain that such politics would only have the effect of paralyzing the private sector.
Therefore, this economist group's theory to solve the crisis, is determined by a concrete assistance to industries. Motivating thus the supply and not the demand. G. Soros upholds that the economic crisis is a failure of the market system. It has been created by the banks' speculative role, by the lack of economic theories that would alert governments on the risk of financial market disturbance, and finally, by a system based only on values that do not take into account problematic related to well-being. This

last point can be linked back to Keynes's thoughts about a "harmonious society".

According to the author, today's governments should operate to encourage information spread, and should also give more importance to the uncertainty of the markets. Uncertainty is in fact present in all these markets that influence the most the stability and the growth of an economy. And it is precisely uncertainty that causes booms and recessions.

The conclusion of this work represents the author's wish and recommendation for future economists They should be men of general knowledge, that pay more attention to the study of social subjects, rather than scientific ones.