

Did Keynes Make His Case?



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Abstract. Presentation considers Keynes' case for fiscal stimulus under depression conditions – a case that remains prominent in both policy and academic literature. It highlights three specific real-history instances where, Keynes argued, monetary measures alone would not have restored prosperity and, hence, where fiscal activism would have been desirable. These were: 1) the depression of the 1890s; 2) the Roosevelt Recovery in 1933; and 3) the 1937-38 contraction in the US. But evidence from all of these, gathered here, points to overlooked monetary causalities. Talk then shifts to Keynes' theoretical rationale, where it turns out that Keynes well understood the impact of money injections both on interest rates and on the Marginal Efficiency of Capital (MEC) -- but often highlighted only the first. Keynes de-emphasized the second, the direct impact of money expansion (or contraction) on MEC, in part because he argued separately that MEC was in long-term decline and economies were in stagnation. Keynes historical illustrations fail; modern-day Keynesians often miss Keynes' understanding of monetary causalities; and the stagnation theses of the 1930s have been falsified by 80 years of expansion and innovation since WW2. Keynes' case for the precedence of fiscal over monetary policy has collapsed.

Biography:

Clark Johnson worked for much of two decades in economic development in the Middle East and central Asia, including as a contractor, direct employee and team leader with the US State and Defense Departments. He is the author of *Uncommon Arguments on Common Topics: Essays on Political Economy and Diplomacy* (KSP Books, 2022), and of *Gold, France, and the Great Depression, 1919-1932* (Yale, 1997), which received an award from the Association of American Publishers. Recent papers include "Did Keynes Make His Case?" (2016), "Supply-side Economics and the 2017 Tax Act" (2018), "A Different Cold War? the 1963 European Settlement and Aftermath (2022), and "From Keynes' Clearing Union to the Eurozone and the Renminbi"(2022). He is an economics advisor to Trade Engine LLC, a software development firm, and tutors students in economics, finance, French and German. He has taught finance or international economics at three universities. He has a PhD (1994) in Economic and Diplomatic History from Yale University.