# The Confidence Fairy in Historical Perspective

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# Settled Doctrine (I Had Thought)

# Making Say's Law True in Practice…

- Here today to talk about a puzzle in the development of economic thought and policy
- I had thought that the task of business-cycle understanding and management—of macroeconomic policy—was to figure out how to set things up to make Say's Law true in practice, even though it was false in theory.
- * I thought this had been well-understood:
    - Since Jean-Baptiste Say had abandoned his belief in Say's Law in the aftermath of the British canal-bust crisis of 1825-6
    - Since John Stuart Mill had put his finger on a general glut:
        - An excess demand for *money*
        - In a time when the private sector cannot make "money"
        - And thus excess demand for money is deficient demand for currently-produced goods and services

# John Stuart Mill

- **John Stuart Mill**: *1829*: Sellers and the buyers… must, by the metaphysical necessity of the case, be an exact equipoise to each other; and if there be more sellers than buyers of one thing, there must be more buyers than sellers for another.... If, however, we suppose that money is used, these propositions cease to be exactly true.... What they called a general superabundance, was... a superabundance of all commodities relatively to money.... Money... was in request, and all other commodities were in comparative disrepute…. The result is, that all commodities fall in price, or become unsaleable. When this happens to one single commodity, there is said to be a superabundance of that commodity; and if that be a proper expression, there would seem to be in the nature of the case no particular impropriety in saying that there is a superabundance of all or most commodities, when all or most of them are in this same predicament… <http://www.bradford-delong.com/2015/03/time-for-a-rant-why-oh-why-cannot-we-have-better-economists.html>

# Jean-Baptiste Say

- **Jean-Baptiste Say**: *1829*: The Bank [of England]… forced the return of its banknotes… cease[d] to discount commercial bills…. Commerce found itself deprived at a stroke of the advances on which it had counted, be it to create new businesses, or to give a lease of life to the old. As the bills that businessmen had discounted came to maturity, they were obliged to meet them, and finding no more advances from the bankers, each was forced to use up all the resources at his disposal. They sold goods for half what they had cost. Business assets could not be sold at any price. As every type of merchandise had sunk below its costs of production, a multitude of workers were without work. Many bankruptcies were declared among merchants and among bankers, who having placed more bills in circulation than their personal wealth could cover, could no longer find guarantees to cover their issues beyond the undertakings of individuals, many of whom had themselves become bankrupt… <http://www.bradford-delong.com/2010/04/the-two-faces-of-jean-baptiste-say.html>

# Policy in a Business-Cycle Downturn

- When there is an excess demand for *money*, in a time when the private sector cannot make "money"
- And thus deficient demand for currently-produced goods and services
- Then you use:
    - Expansionary lender-of-last-resort policies—to restore the "money" character to private assets and to diminish the demand…
    - Expansionary monetary policies—to expend the supply of "money"
    - * Expansionary fiscal policies—because the key is to match planned spending to potential output, and the government's spending is as much effective demand as anyone else's
- All this was, I thought, settled…

# The Puzzle

# The Puzzle

- But when the rubber hit the road in 2009 and since, this turned out not to be settled doctrine at all…
- Today I want to think only about the fiscal-policy piece…
- Some vociferously objected on the grounds that expansionary fiscal policy could not, logically, boost spending and put people back to work under any circumstances…
- And some vociferously objected on the grounds that what was needed was not expansionary but contractionary fiscal policy…
    - That it was necessary to get the government's fiscal house back in order *quickly*…
    - And that contractionary fiscal policy would, in fact, not be contractionary…

# From Chicago I…

- **John Cochrane**: *February 27,* 2009: If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can't help us to build more of both. This is just accounting, and does not need a complex argument about "crowding out"… <https://web.archive.org/web/20120220064333/http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm>

- **Eugene Fama**: *January 14,* 2009: The problem is simple: bailouts and stimulus plans are funded by issuing more government debt. (The money must come from somewhere!) The added debt absorbs savings that would otherwise go to private investment. In the end, despite the existence of idle resources, bailouts and stimulus plans do not add to current resources in use… <https://web.archive.org/web/20090118231138/http://dimensional.com/famafrench/2009/01/bailouts-and-stimulus-plans.html>

# From Chicago II…

- **Robert Lucas**: *March 30,* 2009: If the government builds a bridge, and then the Fed prints up some money to pay the bridge builders, that's just a monetary policy…. If we do build the bridge by taking tax money away from somebody else, and using that to pay the bridge builder… it's just a wash…. And then taxing them later isn't going to help, we know that… <http://www.cfr.org/united-states/why-second-look-matters/p18996>

# Evaluation

- You can say:
    - Eugene Fama and John Cochrane are assuming a cash-in-advance economy with a fixed outside money stock, no inside money, a hard technological limit on monetary velocity, and money as a dominated asset.
        - But why would anyone assume these things?
    - Robert Lucas is assuming (a) a representative agent, (b) Ricardian equivalance, and (c) that government purchases are perfect substitutes for private consumption expenditures
        - But, again, why would anyone assume these things?
- But much more important: claims the expansionary fiscal policy in a depressed economy is pointless or destructive leak outside of economists' discussions. They take over policy…

# Examples—and Anguished Critique

# Barack Obama

- **Barack Obama**: *January 27, 2010:* Families across the country are tightening their belts and making tough decisions. The federal government should do the same. So tonight, I'm proposing specific steps to pay for the trillion dollars that it took to rescue the economy last year. Starting in 2011, we are prepared to freeze government spending for three years. Spending related to our national security, Medicare, Medicaid, and Social Security will not be affected.  But all other discretionary government programs will.  Like any cash-strapped family, we will work within a budget to invest in what we need and sacrifice what we don't.  And if I have to enforce this discipline by veto, I will. We will continue to go through the budget, line by line, page by page, to eliminate programs that we can't afford and don't work.  We've already identified $20 billion in savings for next year… <https://www.whitehouse.gov/the-press-office/remarks-president-state-union-address>

# Jean-Claude Trichet

- **Jean-Claude Trichet**: *September 3rd, 2010:* We encourage all countries to be absolutely determined to go back to a sustainable mode for their fiscal policies. Our message is the same for all, and we trust that it is absolutely decisive not only for each country individually, but for prosperity of all. Not because it is an elementary recommendation to care for your sons and daughter and not overburden them, but because it is good for confidence, consumption and investment today… <http://www.investmentpostcards.com/2010/09/04/trichet-austerity-equals-confidence/>

# Paul Krugman

- **Paul Krugman**: *July 1, 2010*: For the last few months, I and others have watched, with amazement and horror… [as] somehow it has become conventional wisdom that now is the time to slash spending, despite the fact that the world's major economies remain deeply depressed. This conventional wisdom… rests on what we might charitably call sheer speculation, and less charitably call figments of the policy elite's imagination—specifically, on belief in what I've come to think of as the invisible bond vigilante and the confidence fairy…. Don't worry: spending cuts may hurt, but the confidence fairy will take away the pain.

- "The idea that austerity measures could trigger stagnation is incorrect," declared Jean-Claude Trichet, the president of the European Central Bank, in a recent interview. Why? Because "confidence-inspiring policies will foster and not hamper economic recovery. What's the evidence?… There have been historical cases of spending cuts and tax increases followed by economic growth. But… those examples… [are] cases in which the negative effects of austerity were offset by other factors… not likely to be relevant today….

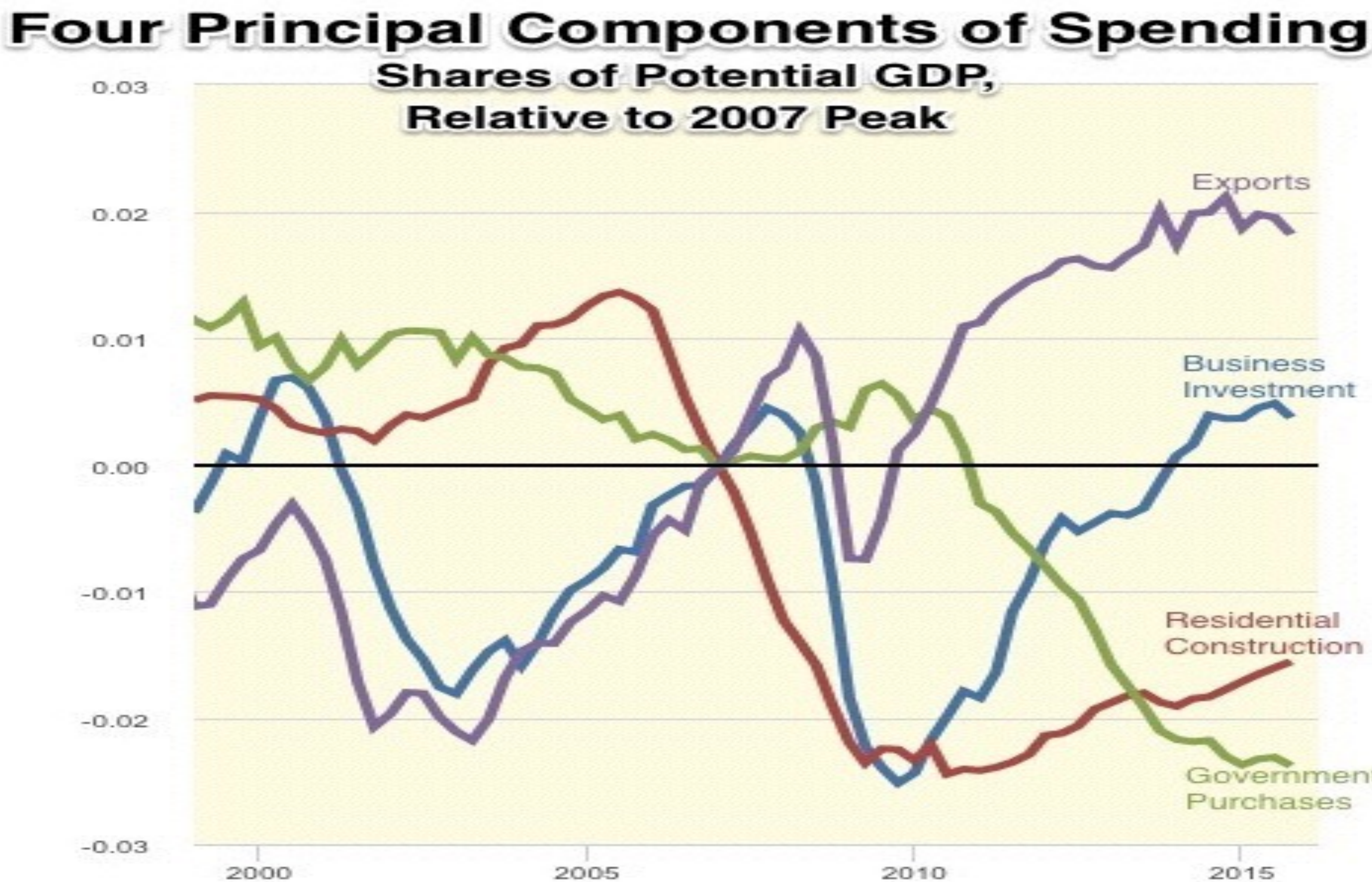
- The next time you hear serious-sounding people explaining the need for fiscal austerity, try to parse their argument. Almost surely, you'll discover that what sounds like hardheaded realism actually rests on a foundation of fantasy… invisible vigilantes will punish us if we're bad and the confidence fairy will reward us if we're good. And real-world policy… is being built on that foundation… <http://www.nytimes.com/2010/07/02/opinion/02krugman.html>

# Joe Stiglitz

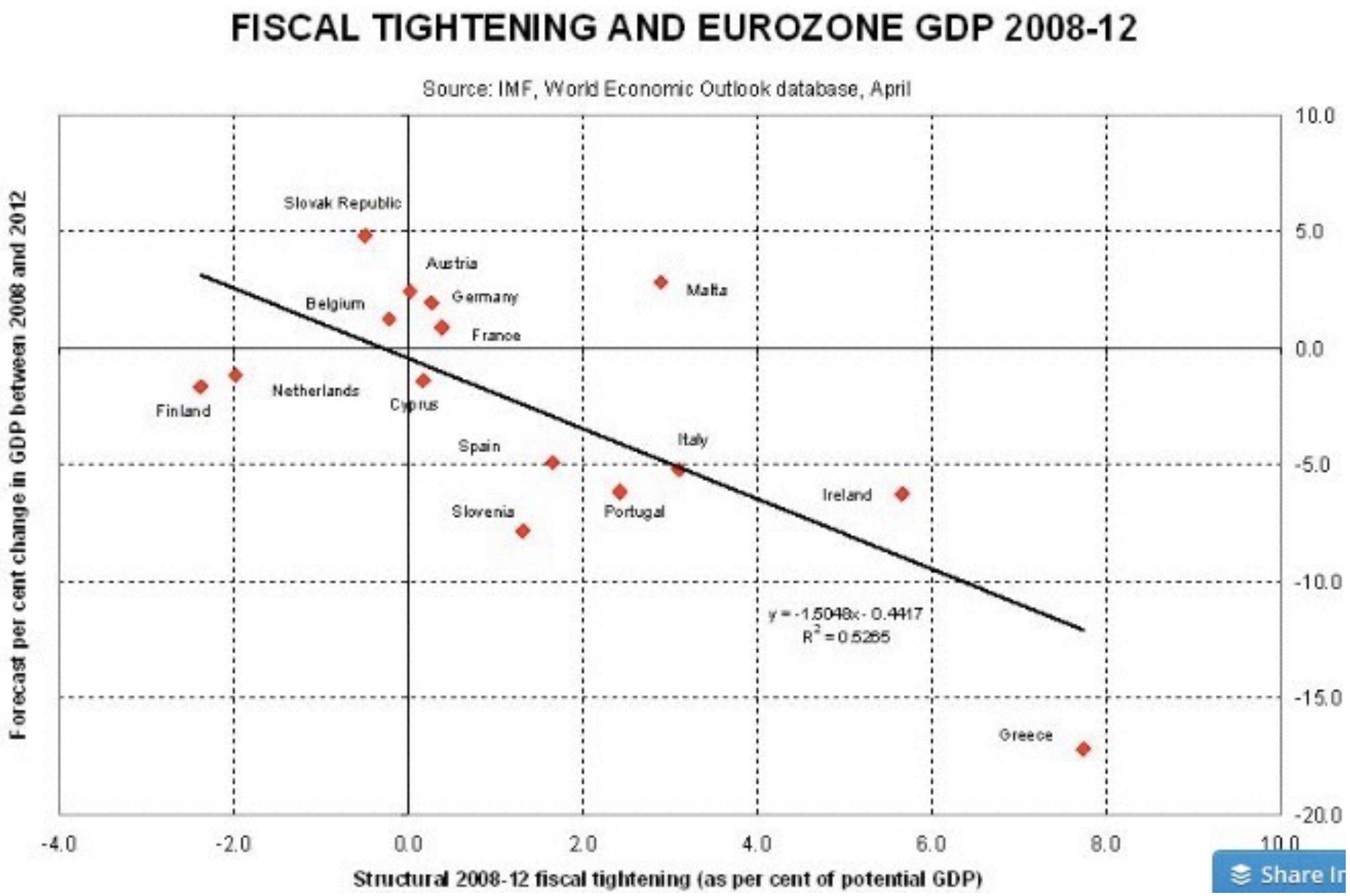
- **Joe Stiglitz**: *October 19, 2010*: Advocates of austerity believe that mystically, as the deficits come down, confidence in the economy will be restored and investment will boom. For 75 years there has been a contest between this theory and Keynesian theory, which argued that spending more now, especially on public investments (or tax cuts designed to encourage private investment) was more likely to restore growth, even though it increased the deficit…. Thanks to the IMF, multiple experiments have been conducted… and almost all come to the same conclusion: the Keynesian prescription works. Austerity converts downturns into recessions, recessions into depressions. The confidence fairy that the austerity advocates claim will appear never does, partly perhaps because the downturns mean that the deficit reductions are always smaller than was hoped… <http://www.theguardian.com/commentisfree/cifamerica/2010/oct/19/no-confidence-fairy-for-austerity-britain>

# The Relevance

# American Austerity



# European Austerity




http://www.theguardian.com/business/ng-interactive/2015/apr/29/the-austerity-delusion

# The Method

# It Is Traditional to Start with Keynes's "Madmen in Authority" Quote

- **John Maynard Keynes:** *1936*: Is the fulfilment of these ideas a visionary hope? Have they insufficient roots in the motives which govern the evolution of political society? Are the interests which they will thwart stronger and more obvious than those which they will serve? I do not attempt an answer in this place.... But if the ideas are correct... it would be a mistake, I predict, to dispute their potency over a period of time....

- The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas…. The ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil…

# Ways of Thinking About the History of Ideas, Doctrines, and Policies…

- Orientations:
    - New and better ideas…
    - Reflections of material circumstances—or of other currents of ideas in other areas of thought…
    - Quadrilles—as we engage in path-dependent hops around a landscape of ideas, without ever coming to any sort of rest…
- Level of conceptualization:
    - Systems of analytical thought…
    - Propensities to accept different analytical conclusions…
    - Slogans…
- Works to be examined:
    - Masterpieces…
    - Journeyman-work…
    - The brine in which we are all pickled…

# Orientations

- New and better ideas…
- Reflections of material circumstances—or of other currents of ideas in other areas of thought…
- Quadrilles—as we engage in path-dependent hops around a landscape of ideas, without ever coming to any sort of rest…

# New and Better Ideas

- **Alexander Hamilton**: *1787*: The science of politics… has received great improvement. The efficacy of various principles is now well understood… The regular distribution of power into distinct departments; the introduction of legislative balances and checks; the institution of courts composed of judges holding their offices during good behavior; the representation of the people in the legislature by deputies of their own election: these are wholly new discoveries, or have made their principal progress towards perfection in modern times. They are means, and powerful means, by which the excellences of republican government may be retained and its imperfections lessened or avoided… http://avalon.law.yale.edu/18th_century/fed09.asp>

# Level of Conceptualization

- Systems of analytical thought…
- Propensities to accept different analytical conclusions…
- Slogans…

# Works to Be Examined

- Masterpieces…
- Landmarks…
- Journeyman-work…
- The brine in which we are all pickled…

# The Brine in Which We Are Pickled…

- **John Maynard Keynes**: *1926*: It was the political campaign for free trade, the influence of the so-called Manchester School and of the Benthamite Utilitarians, the utterances of secondary economic authorities and the education stories of Miss Martineau and Mrs Marcet, that fixed laissez-faire in the popular mind….

- In Mrs Marcet's *Conversations on Political Economy* (1817), Caroline stands out as long as she can in favour of controlling the expenditure of the rich. But by page 418 she has to admit defeat…. The *Easy Lessons for the Use of Young People*, by Archbishop Whately, which the Society for Promoting Christian Knowledge was distributing wholesale, do not admit even of those doubts…. The dogma had got hold of the educational machine; it had become a copybook maxim. The political philosophy, which the seventeenth and eighteenth centuries had forged in order to throw down kings and prelates, had been made milk for babes, and had literally entered the nursery.

- These many elements have contributed to the current intellectual bias, the mental make-up, the orthodoxy of the day…. To suggest social action for the public good to the City of London is like discussing the *Origin of Species* with a bishop sixty years ago. The first reaction is not intellectual, but moral. An orthodoxy is in question, and the more persuasive the arguments the graver the offence. Nevertheless, venturing into the den of the lethargic monster, at any rate I have traced his claims and pedigree so as to show that he has ruled over us rather by hereditary right than by personal merit… <http://www.panarchy.org/keynes/laissezfaire.1926.html>

# How I View the Problem

- The idea that “business confidence” is an autonomous force relatively little connected with other fundamentals
- The idea that the most important thing to be done in guaranteeing prosperity and eliminating the down-phase of the business cycle is to restore “business confidence”
- And that the best way to restore business confidence is by cutting government debt and spending
- Where do these ideas come from?
- And why do they have such hold?

# The History

# Walter Bagehot

- **Walter Bagehot**: *1873*: The panic of 1866 is the best instance to test it…. Just before, the Bank had 5,812,000l. in its reserve; in fact, it advanced 13,000,000l. of new money in the next few days, and its reserve went down to nothing, and the Government had to help. But if the Bank had not made these advances, could it have kept its reserve? Certainly it could not. It could not have retained its own deposits. A large part of these are the deposits of bankers…. They are only able to keep those deposits at the Bank by the aid of the Clearing-house system, and if a panic were to pass a certain height, that system, which rests on confidence, would be destroyed by terror….

- What is wanted and what is necessary to stop a panic is to diffuse the impression, that though money may be dear, still money is to be had…. Lend freely, boldly, and so that the public may feel you mean to go on lending…. The holders of the Bank reserve ought to lend at once and most freely in an incipient panic…. They ought to know that this bold policy is the only safe one, and for that reason they ought to choose it… <http://oll.libertyfund.org/titles/bagehot-lombard-street-a-description-of-the-money-market>

# Alfred and Mary Marshall

- **Alfred and Mary Marshall**: *1879*: Though men have the power to purchase they may not choose to use it. For when confidence has been shaken by failures, capital cannot be got to start new companies or extend old ones…. Thus commercial disorganization spreads…. The chief cause of the evil is a want of confidence. The greater part of it could be removed almost in an instant if confidence could return, touch all industries with her magic wand, and make them continue their production and their demand for the wares of others…. Confidence by growing would cause itself to grow…. The revival of industry comes about through the gradual and often simultaneous growth of confidence among many various trades; it begins as soon as traders think that prices will not continue to fall…

# John Maynard Keynes (1931)

- **John Maynard Keynes**: *1931*: The problem of recovery…. The solution… has two sides… a fall in the long-term rate of interest so as to bring a new range of propositions within the practical sphere; and… a return of confidence to the business world so as to incline them to borrow on the basis of normal expectations of the future…. Failing the restoration of confidence, we may easily have a vicious circle…. Nevertheless, there is perhaps not a great deal that can be done deliberately… restoration of confidence must be based, not on the vague expectations or hopes of the business world, but on a real improvement in fundamentals…. If results can be achieved along the two remaining lines… favorable effects may be magnified….

- The second line of approach consists in new construction programs…. It is not easy to devise at short notice schemes which are wisely and efficiently conceived and which can be put rapidly into operation on a really large scale. Thus I applaud the idea and only hesitate to depend too much in practice on this method…. The third line of approach consists in a reduction in the long-term rate of interest…. The main volume of investment always takes the forms of housing, of public utilities and of transportation. Within these spheres the rate of interest plays, I am convinced, a predominant part…

    - <http://www.bradford-delong.com/2016/05/todays-economic-history-john-maynard-keynes-1931-unemployment-as-a-world-problem.html>

# Thus Up Through 1931 We Have This "Landmark" Based View

- "Confidence" and its maintenance is of great importance…
- But "confidence" is itself very closely tied to fundamentals
  - For Bagehot, "confidence" is based on confidence that the Bank of England will in fact act as a proper lender-of-last-resort—thus wiping out the bad DD panic equilibrium…
  - For Keynes 1931, "confidence" rests on fundamentals and is a force multiplier of other (fiscal, monetary) policies…
  - For Alfred and Mary Marshall, "confidence" is closely tied to the end of whatever deflation is ongoing…

# Herbert Hoover

- **Herbert Hoover:** *1932*: The whole of the administrative officials are cooperating with the special Economy Committee appointed by the House of Representatives in the drive to bring about further drastic economies in Federal expenditure.... There is very little room left for reductions by administrative action and the House Appropriations Committee has passed upon the major supply bills except the Army and Navy. Further economies must be brought about by authorization of Congress....

- Nothing is more important than balancing the budget with the least increase in taxes. The Federal Government should be in such position that it will need issue no securities…. That is vital to the still further promotion of employment and agriculture. It gives positive assurance to business and industry that the Government will keep out of the money market and allow industry and agriculture to borrow the monies required for the conduct of business. I cannot overemphasize the importance of the able nonpartisan effort being made by the Ways and Means Committee and the Economy Committee of the House whose work are complementary to each other. <http://www.presidency.ucsb.edu/ws/?pid=23478>

# John Maynard Keynes (1936)

- **John Maynard Keynes:** *1936*: Apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism…. Most, probably, of our decisions to do something positive… can only be taken as a result of animal spirits — of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities. .. Enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus…. If the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, enterprise will fade and die; — though fears of loss may have a basis no more reasonable than hopes of profit had before…. Enterprise which depends on hopes stretching into the future benefits the community as a whole. But individual initiative will only be adequate when reasonable calculation is supplemented and supported by animal spirits…

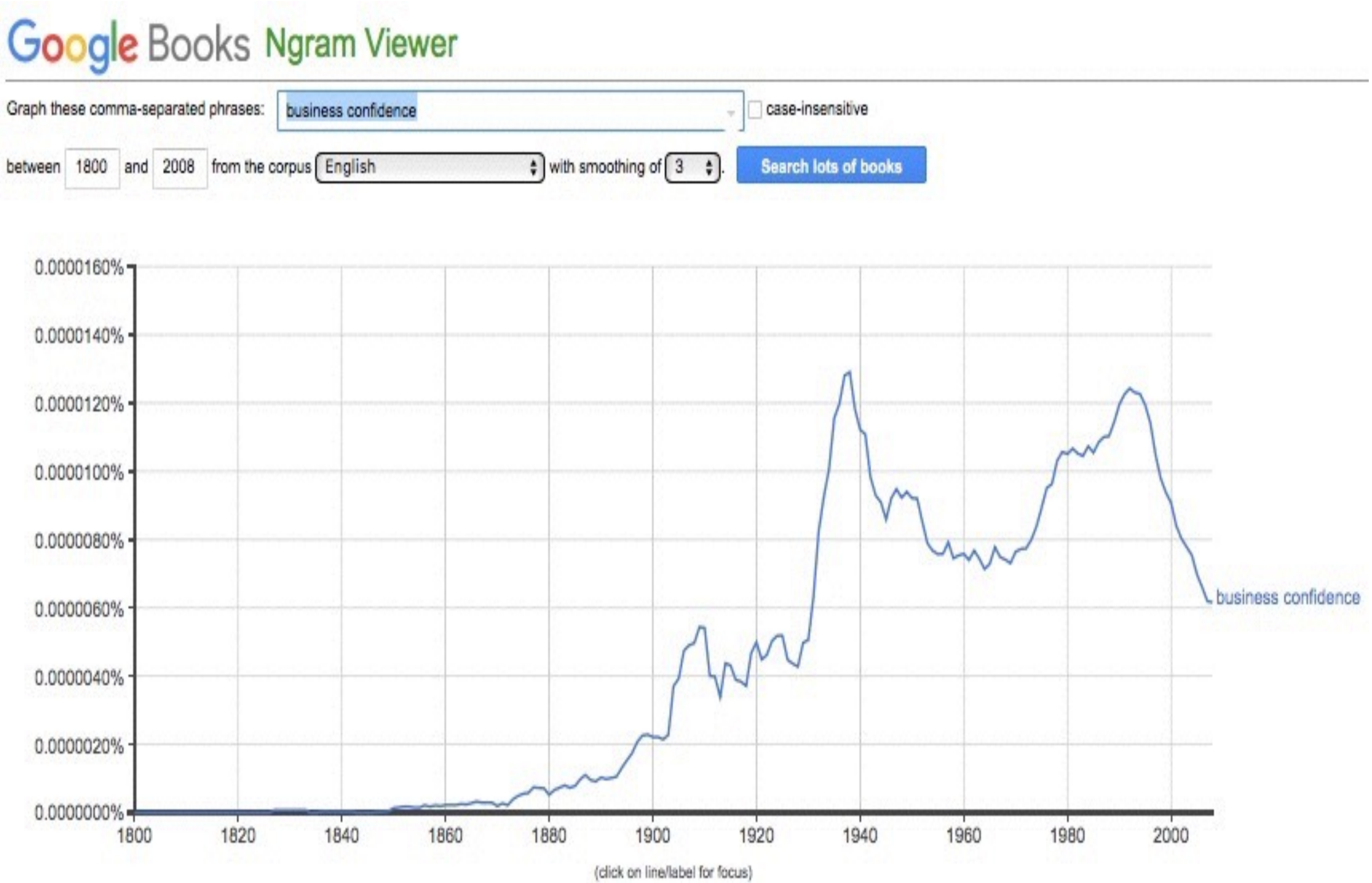
# John Maynard Keynes (1936) II

- **John Maynard Keynes:** *1936*: …This means, unfortunately, not only that slumps and depressions are exaggerated in degree, but that economic prosperity is excessively dependent on a political and social atmosphere which is congenial to the average business man. If the fear of a Labour Government or a New Deal depresses enterprise, this need not be the result either of a reasonable calculation or of a plot with political intent; — it is the mere consequence of upsetting the delicate balance of spontaneous optimism. In estimating the prospects of investment, we must have regard, therefore, to the nerves and hysteria and even the digestions and reactions to the weather of those upon whose spontaneous activity it largely depends… <https://www.marxists.org/reference/subject/economics/keynes/general-theory/ch12.htm>

# This Landmark-Based Tour Is Inadequate

- Our seven landmarks:
- Say
- Mill
- Bagehot
- Alfred and Mary Marshall
- Keynes (1931)
- Hoover
- Keynes (1936)
- Still left as a gap: why is fiscal austerity thought to be such an important driver of animal spirits?

# We Cannot Do Big-Data Intellectual History—Yet



# Then Came
# 2009-2010

# Alberto Alesina

- **Alberto Alesia**: *2010*: Many even sharp reductions of budget deficits have been accompanied and immediately followed by sustained growth rather than recessions even in the very short run. These are the adjustments which have occurred on the spending side and have been large, credible and decisive…. Governments which have initiated thorough and successful fiscal adjustment policies have not systematically suffered at the polls… especially… when the electorate has perceived the sense of urgency of a crisis or in some cases in the presence of an external commitment. On the contrary, fiscally-loose governments have suffered losses at the polls…. Thus relatively painless (economically and politically) fiscal adjustments might be possible; whether government will take the opportunity remains to be seen… <http://scholar.harvard.edu/files/alesina/files/fiscaladjustments_lessons-1.pdf>

# Reinhart and Rogoff

- Matthew O'Brien quotes Senator Tom Coburn's report on Reinhart and Rogoff's briefing of the Republican Congressional Caucus in April 2011:
  - Johnny Isakson, a Republican from Georgia and always a gentleman, stood up to ask his question: "Do we need to act this year? Is it better to act quickly?" "Absolutely," Rogoff said. "Not acting moves the risk closer," he explained, because every year of not acting adds another year of debt accumulation. "You have very few levers at this point," he warned us. Reinhart echoed Conrad's point and explained that countries rarely pass the 90 percent debt-to-GDP tipping point precisely because it is dangerous to let that much debt accumulate. She said, "If it is not risky to hit the 90 percent threshold, we would expect a higher incidence."

# Is There an Argument Here?

# Naive Keynesian Ways of Looking at Fiscal Expansion

- The Keynesian-cross goods-market way:
  - $Y = C(Y - T) + I(i - \pi + \rho) + G$
- The Hicks-Wicksell bond-market way:
  - $S(Y - T) = I(i - \pi + \rho) + [G - T]$
- In both of these, increases in G raise economy-wide spending for constant i…

# Karl Smith's Way of Looking at Fiscal Expansion

- The Karl Smith financial-intermediaries way:
  - $S(Y - T) = BL(i - \pi + \rho^*)$
  - With $\rho^*$ the riskiness of bank portfolios as a whole—not of lending to firms undertaking investment spending
  - An increase in G thus affects anything only if it lowers the risk premium on bank portfolios as a whole—only if government debt is less risky than private debt, and only if more government does not raise the risk premium on private debt by enough to offset…

# Karl Smith's Way of Looking at Fiscal Expansion

- Karl Smith: [In naive Keynesianism]government borrowing changes the game... because the government is... always a good credit risk. Indeed, in a world where reserves are swapped for government bonds [because the government can always print reserves] the government can't not be a good credit risk. Thus a rise in government borrowing suddenly makes overall lending safer and the BL curve moves out. Governments which may directly default (rather than inflate) lose traction.... It is not at all clear that Greece can move the BL curve… <https://modeledbehavior.com/2011/10/08/more-on-bl-mp/>

# But Does This Argument Apply?

# Alberto Alesina

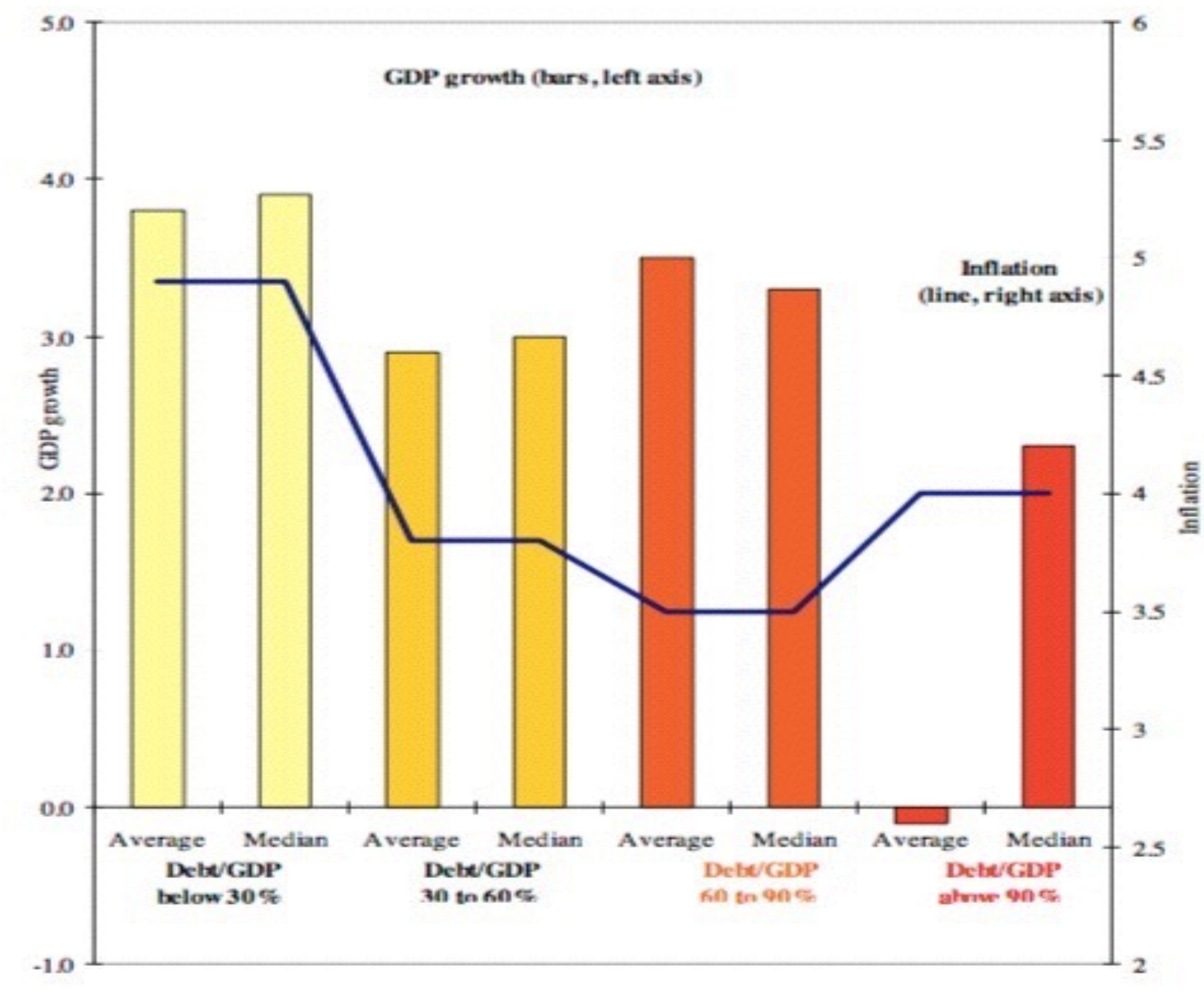
- **Alberto Alesia**: *2016*: The IMF, in 2010 wrote a rather pointed criticism about my work… whether there are cases where spending cuts accompanied by other policies can be expansionary, and the confidence argument that he makes fun of is actually confidence, one of the many aspects; and we can elaborate on that. But I think that there are several episodes in which fiscal spending cuts have been accompanied not by a recession, but by an expansion. So, I think that those kind of statements by Krugman are trying to push a view which is respectable but they are not proven by the facts. Or at least they are not supported by research… <http://scholar.harvard.edu/files/alesina/files/fiscaladjustments_lessons-1.pdf>

# A Parenthetical Remark…

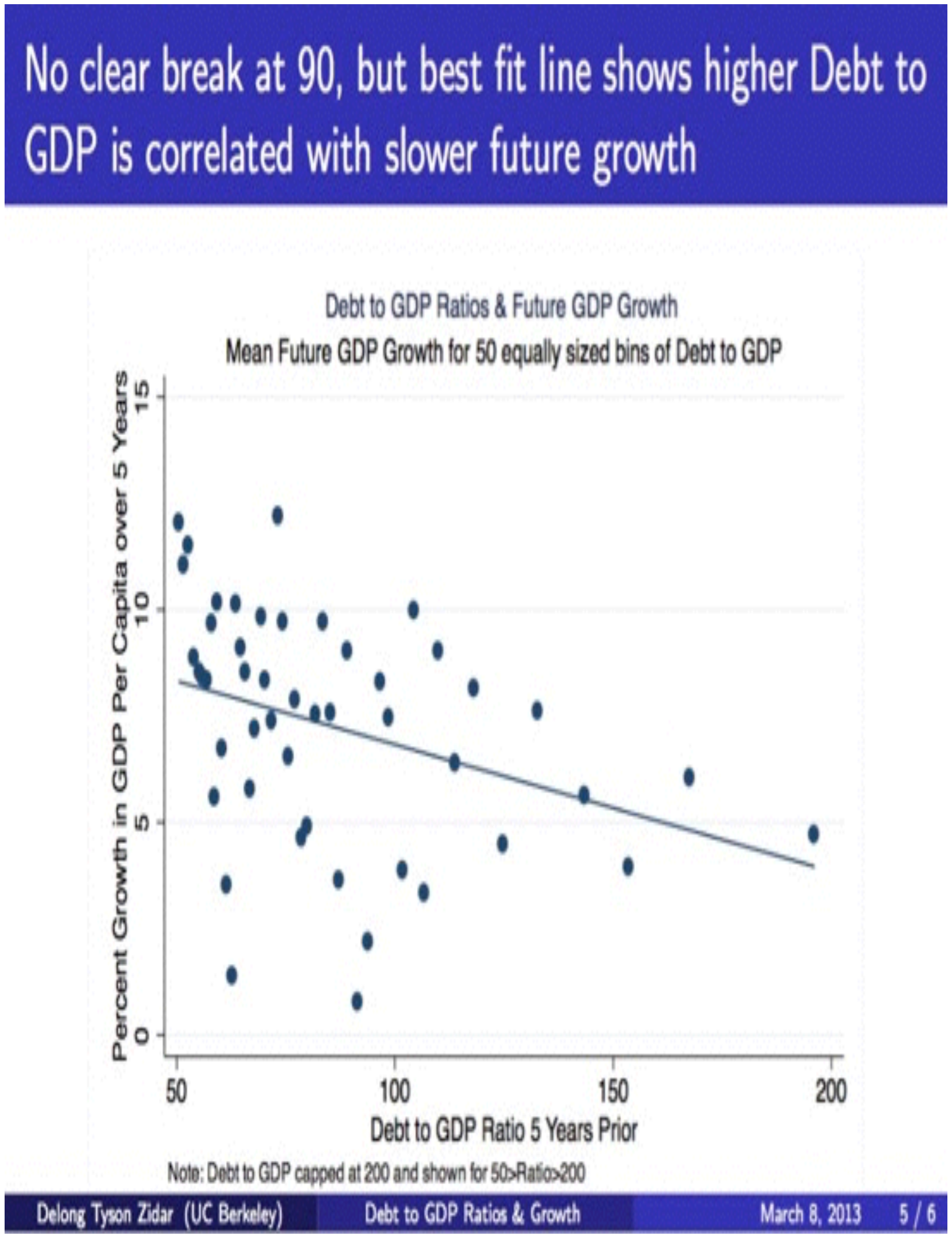
- I do find this, in 2016, surprising:
    - A great deal of the Alesina-Ardagna expansionary-austerity correlation came from situations in which there had not been austerity—in which the budget deficit fell as a result of rapid growth from other causes…
    - The rest came from situations in which there had been large expansionary shifts in monetary and exchange rate policy to offset fiscal contraction…
    - Yet Alesina continues to claim he has examples in which it is “confidence”—and the effects of fiscal austerity on “confidence”—that is the channel at work…

# Reinhart and Rogoff

Figure 2. Government Debt, Growth, and Inflation: Selected Advanced Economies, 1946-2009



# Reinhart and Rogoff II

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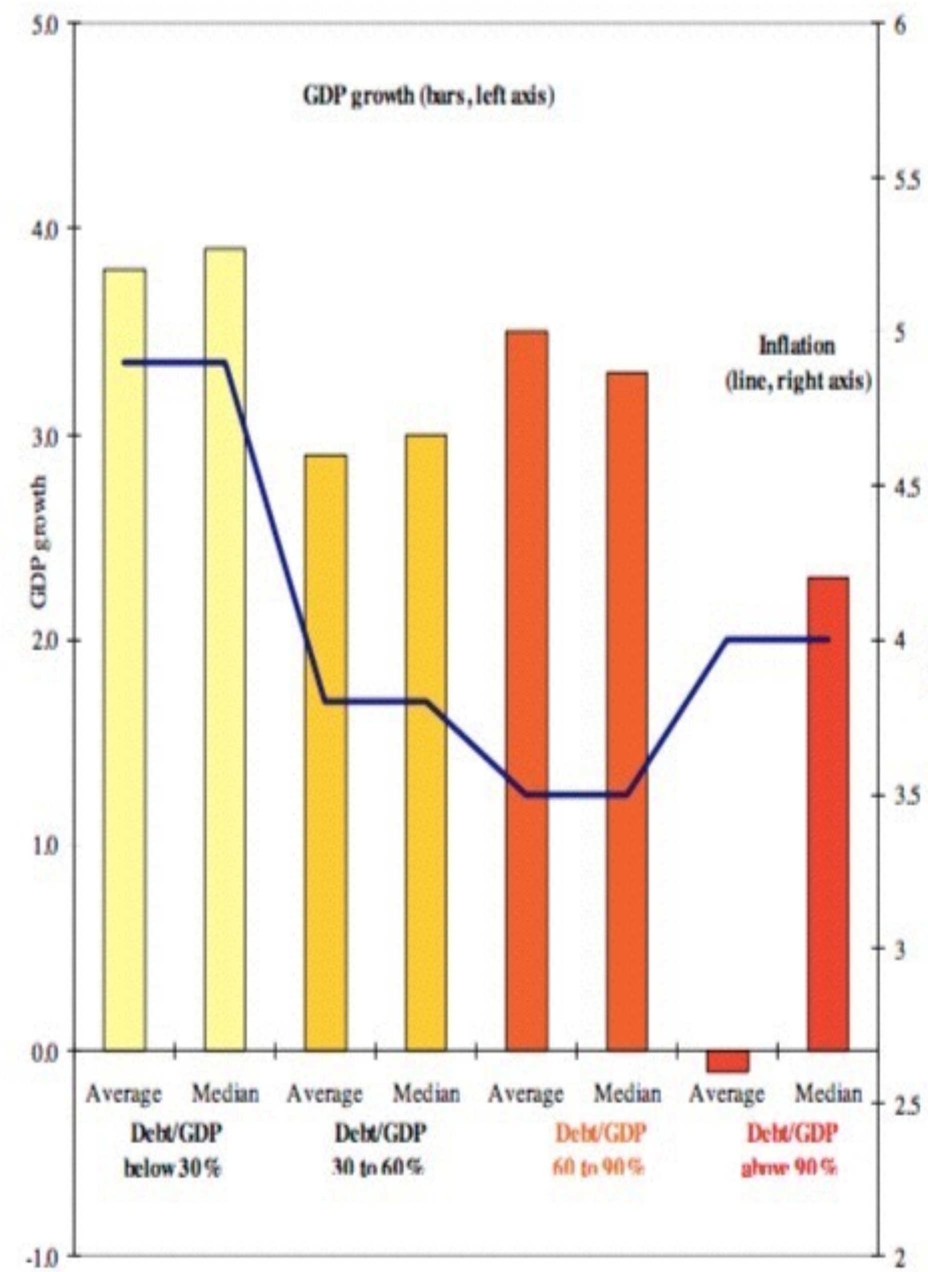
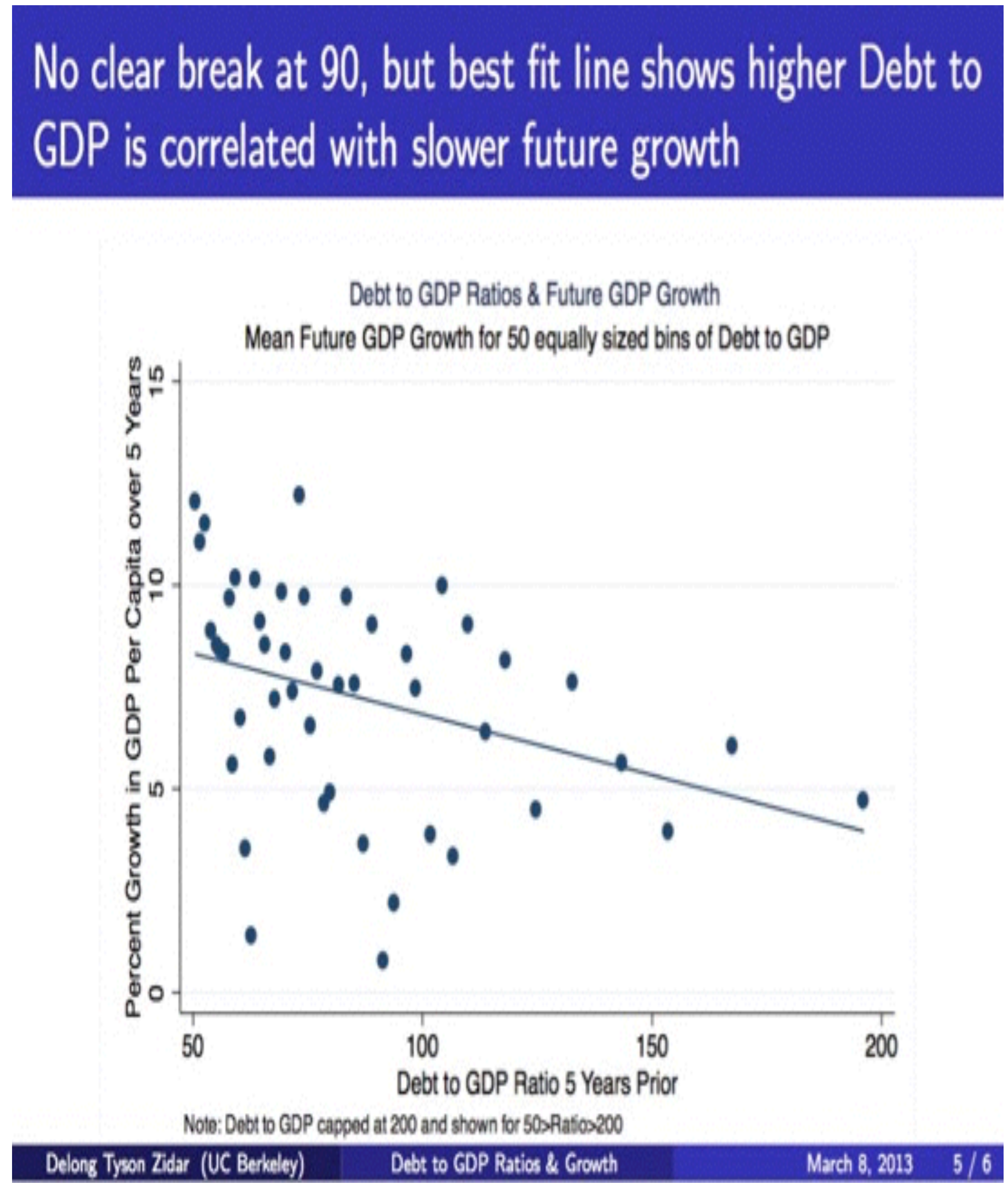


# Reinhart and Rogoff III

- Once again:
  - How much of this is reverse causation running from slow growth to high debt/ GDP?
  - How much of this comes from cases where high debt is associated with high rather than with very low interest rates?
  - WTF "90%"?



# Conclusion

# Establishment vs. Politicians: Martin Wolf

- “Fiscal policy…. co-ordinated expansion of public investment… could… even lower the ratio of public debt to gross domestic product…. The austerity obsession, even when borrowing costs are so low, is lunatic….

- “If the fiscal authorities are unwilling to behave so sensibly — and the signs, alas, are that they are not — central banks are the only players. They could be given the power to send money, ideally in electronic form, to every adult citizen. Would this add to demand? Absolutely….

- “The economic forces that have brought the world economy to zero real interest rates and, increasingly, negative central bank rates are, if anything, now strengthening…. Policymakers must prepare for a new “new normal” in which policy becomes more uncomfortable, more unconventional, or both. Can the world escape from the chronic demand weakness? Absolutely, yes. Will it? That demands greater boldness…”

# Establishment vs. Politicians: Simon Wren-Lewis

- “The IMF, the OECD and pretty much the whole of informed opinion agree. Yet those subject to this austerity obsession are in charge of levels of public investment in the the US, Germany and the UK….

- “The diagnosis in the case of the Republican party in the US is reasonably clear…. What about evidence that more public investment would help everyone in the economy, including the rich? The problem is that this group suffers from the delusion that the only way to help the economy is to tax the rich less and starve the beast that is the state. It is a clear case of the patient being infected by the neoliberal ideology virus…”

- “The condition of the ruling class in Germany,.. is much more difficult to diagnose…. Swabian syndrome: a belief that the economy is just like a household… an aversion to… anything that sounds vaguely Keynesian. But the microeconomic case for additional public investment in Germany is also strong:… One possibility is that Swabian syndrome is being encouraged by an ageing population that worry about their pensions…

- “The Conservative Party in the UK… Swabian syndrome…. some… argue that in reality the party are feigning the symptoms as a means of winning elections….

- “Occasional counselling with well-trained economists, is having little effect…”

# In This Case, at Least, Keynes's "Madmen in Authority" Quote Appears Wrong

- **John Maynard Keynes:** *1936*: Is the fulfilment of these ideas a visionary hope? Have they insufficient roots in the motives which govern the evolution of political society? Are the interests which they will thwart stronger and more obvious than those which they will serve? I do not attempt an answer in this place.... But if the ideas are correct... it would be a mistake, I predict, to dispute their potency over a period of time....

- The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas…. The ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil…

# The Ruling Ideas Are Not Those of "Academic Scribblers"

- The ruling ideas appear to be much simpler:

    1. "The bankers have us by the plums…"

    2. "Government debt is bad…"

    3. "Business confidence is essential"

- The economics profession appears to have little relative autonomy…

- And the economics profession appears to have little impact on the policies that are being followed…

# Back to Keynes's *End of Laissez Faire*

- *John Maynard Keynes*: *1936*: The influence of the so-called Manchester School… utterances of secondary economic authorities… education stories of Miss Martineau and Mrs Marcet… fixed laissez-faire… contributed to the current intellectual bias, the mental make-up, the orthodoxy of the day…. To suggest social action for the public good to the City of London is like discussing the Origin of Species with a bishop sixty years ago. The first reaction is not intellectual, but moral. An orthodoxy is in question, and the more persuasive the arguments the graver the offence… <http://www.panarchy.org/keynes/laissezfaire.1926.html>

# Back to Keynes's *End of Laissez Faire II*

- *John Maynard Keynes*: *1936*: Nevertheless, venturing into the den of the lethargic monster, at any rate I have traced his claims and pedigree so as to show that he has ruled over us rather by hereditary right than by personal merit….

- I think that capitalism… can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable…. The next step forward must come, not from political agitation or premature experiments, but from thought…. There is no party in the world at present which appears to me to be pursuing right aims by right methods..… Europe lacks the means, America the will, to make a move. We need a new set of convictions which spring naturally from a candid examination of our own inner feelings in relation to the outside facts. <http://www.panarchy.org/keynes/laissezfaire.1926.html>