

# Smith, Marx, Keynes: Cement Your Knowledge

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## **1. Reading Big, Difficult Books**

Knowledge system and cognitive science guru Andy Matuschak writes a rant called *Why Books Don't Work* <<https://andymatuschak.org/books/>>, about big, difficult books that take him six to nine hours each to read:

Have you ever had a book... come up... [nd] discover[ed] that you'd absorbed what amounts to a few sentences?... It happens to me regularly.... Someone asks a basic probing question... [and] I simply can't recall the relevant details... [or] I'll realize I had never really understood the idea...

though I'd certainly thought I understood.... I'll realize that I had barely noticed how little I'd absorbed until that very moment...

However, he goes on to say:

Some people do absorb knowledge from books... the people who really do think about what they're reading.... These readers' inner monologues have sounds like: "This idea reminds me of....," "This point conflicts with....," "I don't really understand how....," etc. If they take some notes, they're not simply transcribing the author's words: they're summarizing, synthesizing, analyzing...

But:

Unfortunately, these tactics don't come easily. Readers must learn specific reflective strategies... run their own feedback loops... understand their own cognition... [what] learning science calls "metacognition".... It's challenging to learn these types of skills, and that many adults lack them...

These points have strong relevance for students in U.C. Berkeley's Econ 105: History of Economic Thought: Do we live in a Smithian, Marxian or Keynesian World?

The core of the course is an assisted reading of three big books that are d—ably difficult: Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, Karl Marx's *Capital*, and John Maynard Keynes's *The General Theory of Employment, Interest and Money*.

We have our recommended ten-stage process for reading such big books:

1. Figure out beforehand what the author is trying to accomplish in the book.
2. Orient yourself by becoming the kind of reader the book is directed at—the kind of person with whom the arguments would resonate.
3. Read through the book actively, taking notes.

4. “Steelman” the argument, reworking it so that you find it as convincing and clear as you can possibly make it.
5. Find someone else—usually a roommate—and bore them to death by making them listen to you set out your “steelmanned” version of the argument.
6. Go back over the book again, giving it a sympathetic but not credulous reading
7. Then you will be in a good position to figure out what the weak points of this strongest-possible argument version might be.
8. Test the major assertions and interpretations against reality: do they actually make sense of and in the context of the world as it truly is?
9. Decide what you think of the whole.
10. Then comes the task of cementing your interpretation, your reading, into your mind so that it becomes part of your intellectual panoply for the future.

Follow this process, and your reading becomes active. Then you have the greatest possible chance of learning the books—of thereafter being able to summon up sub-Turing instantiations of the thinkers Adam Smith, Karl Marx, and John Maynard Keynes and then running them on your wetware. If you can do that, you can be closer to being as smart as they were. And at the same time you will be aware enough of their weak points and blindnesses that you can be wiser than they were.

To assist you in this process, we have compiled 150 questions-and-answers—50 about Smith, 50 about Marx, and 50 about Keynes—that we think you should review and learn as part of your active-learning incorporation of the thought of these three authors into your own minds.

“But”, you may well say, “simply learning these questions-and-answers merely gets me the ability to parrot verbal formulas. We want more: we want a least knowledge of facts, terms, and concepts; and we ideally want deep understanding”.

It is certainly true that there are many who can parrot verbal formulas yet lack knowledge of facts, terms, and concepts. It is certainly true that there are many who have knowledge of facts, terms, and concepts and yet lack deep understanding. But I am not aware of anyone who has deep understanding of a discipline and yet lacks knowledge of facts, terms, and concepts. And those who know the facts, terms, and concepts cold are the absolute best at parroting verbal formulas.

As our Economics Department Vice Chair Jon Steinsson says: “You sit there listening and it makes no sense”—you are at best parroting verbal formulas—“until one day you find that it does”: that the network of interlocking verbal formulas has become at least the beginning of knowledge, and hopefully some day deep understanding. These questions-and-answers are a way of getting you to ask your own questions of the text, and to hear it answer—to do your own active reading. If you do it well, than big, difficult books will come to be to you what they came to be to Renaissance diplomat and political scientist Machiavelli, who wrote <<http://www.j-bradford-delong.net/Politics/Vettori.html>> that his books were:

ancient men... [who] receive... [me] with affection.... I... speak with them and... ask them the reason for their actions; and they in their kindness answer me; and for four hours of time I do not feel boredom, I forget every trouble, I do not dread poverty, I am not frightened by death...

And so before he began reading them in the evening, he dressed up: “[took] off the day's clothing, covered with mud and dust, and put on garments regal and courtly...” (The “not frightened by death” part? When Machiavelli wrote this letter the Republic of Florence he had been worked for had been overthrown by the Medici dynasty, and he was rightly fearful that they might decide to arrest, torture, and execute him.)

For those of you reading this who are in the intended audience of Econ 105 students in the fall of 2019, here is an incentive:

1. The format of the final exam will be like these questions-and-answers.
2. The questions on the final exam will be constructed by the same process we used to construct these questions-and-answers.
3. Some of these questions will be on the exam.

## **2. Cement Your Knowledge: Adam Smith**

1. *What does Adam Smith think human motivations are?* Adam Smith believes that human motivations are chiefly but not exclusively greed-driven. We do have the moral sentiment: fellow-feeling, sympathy, altruism, whatever you want to call it. But it is relatively weak, needs to be trained up and nurtured if we are to have a peaceful society, and these moral sentiments should not be pressed too hard.
2. *What does a person dislike more: to have their little finger cut off, or for 100,000 people to die prematurely thousands of miles away?* A person dislikes having their little finger cut off far more.
3. *What kind of person would not trade their little finger to save a hundred thousand lives far away?* A moral monster.
4. *How does the naturally weak faculty of sympathy—the moral sentiment—acquire the strength that it has in society?* Through education, training, and social pressure.
5. *How is it that largely greedy individuals can nevertheless support a very large and usually peaceful societal division of labor?* By means of our moral sentiment of sympathy, and by means of the societal bonds—both affectionate and practical-utilitarian—built on top of our natural

propensity to truck, barter, and exchange: to form and maintain gift-exchange relationships.

6. *Do other creatures form and maintain gift-exchange relationships—have a natural propensity to truck, barter, and exchange?* No: nobody ever sees a dog trade one bone for another.
7. *Upon what does human productivity depend?* Upon the fineness of the division of labor.
8. *Upon what does the fineness of the division of labor depend?* Upon the extent of the market, and also upon the accumulation of capital.
9. *Upon what do the extent of the market and the accumulation of capital depend?* Upon the maintenance of peace, good order, and easy taxes.
10. *What other ways than market exchange are there to get what you need and want?* By making it yourself, or by begging.
11. *What is wrong with getting what you need and want by making it yourself?* We need and want a lot of different things, and a jack of all trades is a master of none.
12. *What is wrong with getting what you need and want by begging?* We need things from many different people, and even a full lifetime of exertion is unlikely to get you more than four or five people you can regularly beg goods and services from. You can beg—but you must beg for money, that you then use to buy things.
13. *Why does it matter that most things we need and want are “rival”?*  
When a commodity is “rival”, then one person’s use of it right now excludes others from using it right now, and so reduces their opportunities. A well organized society would make the people doing

the using take that into account. Hence it makes sense to charge people a price for making use of “rival” commodities—and that it makes sense to charge people a price is what makes a market economy a possible thing, and quite likely a good thing.

14. *Why does it matter that most things we need and want are “excludible”?* “Excludible” commodities can have “owners” and can be traded—hence decision-making can be pushed out from an ignorant controlling center to the periphery of society, where the information is and where people know much much more about what the best way to make use of commodities is.
15. *What kinds of things do people need to know in a market economy in order to, say, get a large statue of Athene Fighting-in-Front built and installed next to the Parthenon on the Acropolis of Athens?* People need to know things like “the price of tin in Athens, Greece is higher than it is here in Syracuse, Sicily”?
16. *What kinds of things do people need to know in a command-and-control economy in order to, say, get a large statue of Athene Fighting-in-Front built and installed next to the Parthenon on the Acropolis of Athens?* The right person—the one in the center, in control—needs to know the values of tin in Athens and in all of the tin production sites, and how to arrange transportation of tin from the production sites to Athens.
17. *What other features of human nature are important in Smith’s mind, in addition to the propensity to engage in gift-exchange?* Language, so we can persuade each other, plan, and sympathize with each other; money, so we can greatly extend the division of labor beyond our narrow networks of immediate trust; and (weak) dominance, so that we can maintain a largely peaceful order of respect for persons and property rather than having, in Hobbes’s phrase, a “warre of all against all”.

18. *What does Smith mean by the “System of Natural Liberty”?* A system in which people respect one another’s property and fulfill contracts, and work diligently to provide for themselves via production and free-market exchange.
19. *Why is the SNL a system of “liberty”?* Because it leaves people free to do what they wanted with their labor and their possessions,
20. *Why is the SNL “natural”?* Because it asks no more of people that they conform to and behave in accordance with human nature.
21. *Why is the SNL a “system”?* Because it can be and is extended to the status of a general principle governing much of society. Let people decide what they want to do with their things and their labor, and they arrange themselves in a large highly-productive societal division of labor.
22. *Why is the SNL productive?* Because self-interest focuses people on creating value, and the division of labor allows people, in cooperation, to produce a great deal of value.
23. *What determines the average price—the natural price—the value—of commodities?* In the early and rude state of society, before land has become scarce and before the capital stock has been built up, values are proportional to labor required. Later on it becomes more complicated, but it is still the case that the required amount of labor time is the most important determinant of value.
24. *Why isn’t the SNL exploitative?* Because competition curbs any destructive focus of self-interest on accomplishing exploitation.

25. *What usually happens when government interfered with the SNL?* It usually then creates monopoly, which damages the system's ability to fulfill its proper role.
26. *What humans designed the SNL?* No human designed the SNL.
27. *Who or what designed the SNL?* It is not clear that anyone or anything did. In Smith's cosmology, people find themselves "led by an invisible hand to promote an end which was no part of his intention". But what invisible being this invisible hand belongs to is not clear. Chance? Nature? Nature's God? Probably something between the second and the third.
28. *What is government's proper role?* To support the workings of the market economy, of the SNL: to protect property and ensure that contracts are fulfilled. These are essential for a market economy to exist. And these can only be done by government.
29. *What are the three main roles that Adam Smith thinks government should fulfill, in addition to protecting property rights, judging contract disputes, and breaking up (or standing back and not supporting) monopolies?* Defense, public works and infrastructure, and public education.
30. *What does Adam Smith think of the Navigation Acts which require that British trade be carried in British ships?* He approves, because it keeps the number of British sailors up, without which Britain could not maintain its powerful navy, and even though it is an economic sacrifice "defense is more important than opulence".
31. *What does Adam Smith think the effects of the division of labor are upon the working class?* Adam Smith says: "the man whose whole life is spent in performing a few simple operations... has no occasion to

exert his understanding, or to exercise his invention... generally becomes as stupid and ignorant as it is possible for a human creature to become...". Hence the importance of public schools.

32. *What does Adam Smith think of poverty?* He hates it: he does not think it is useful, or that the poor deserve to be miserable and in want.

33. *What does Adam Smith think is happening to poverty?* He thinks it is going down, as the extent of the market, the division of labor, and the accumulation of capital proceed.

34. *What does Adam Smith think of the "mercantilist" belief that a rich country with lots of precious metals and a low wage rate is best, as then the government and the rich can buy the most to accomplish their purposes?* He thinks this belief is idiotic: "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable..." for "servants, labourers, and workmen... make up the far greater part... [and] what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole..."

35. *Why shouldn't the rich who run politics follow "mercantilist" policies?* Smith makes an appeal to human solidarity based on reciprocal obligation—that we all owe each other good things, and to return good for good and not ill for good. "It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged..." "It is but equity..."

36. *Does Smith think inequality is the market's fault?* No, Smith thinks inequality is primarily generated by government, and is less in a market economy than in an ancient slave or a feudal system.

37. *Does Smith think there has always been a market economy?* No. Smith thinks the market economy is a recent development. Before, Europe had a *feudal* economy—an unnatural state in which human love of domineering and an absence of civilization led to constant small-scale warfare and poverty. The SNL is the “natural course”, and “all governments which thwart this natural course, which force things into another channel, or which endeavor to arrest the progress of society at a particular point, are unnatural, and, to support themselves, are obliged to be oppressive and tyrannical...”\

38. *Does Smith think wealth inequality is bad?* By and large not: it may be a poke in the eye with a sharp stick, but it is less damaging and dangerous than other forms of inequality in power that wealth inequality is, historically, a substitute for.

39. *Why don't the Scottish lairds of Smith's day have the retainers that their ancestors used to defy the government and extort blackrent from their neighbors?* Because as the cities grew and as the luxuries that could be bought in the cities gradually increased, “it was impossible that the number of their retainers should not as gradually diminish, till they were at last dismissed altogether...”, and so peace came to the countryside.

40. *Does Adam Smith think the rich make good use of their wealth?* No, Adam Smith snarks: the rich are neither strong nor beautiful. The strong and beautiful are the poor Irish immigrants to London, who are unhappy only to the extent that the rich oppress them.

41. *What does Adam Smith think the best staple food is?* The potato, as shown by the strength and beauty of the Irish immigrants to London.

42. *Does Adam Smith think it is worthwhile to join the ratrace and seek to be upwardly mobile?* No: “power and riches... are, enormous and

operose machines contrived to produce a few trifling conveniencies... consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention...”

43. *Does Adam Smith join the ratrace and seek to be upwardly mobile?*

Yes.

44. *Who does Adam Smith say benefits from all the industry and toil of the upwardly-mobile?* The poor: “The proud and unfeeling landlord[’s]... stomach bears no proportion to the immensity of his desires, and will receive no more than that of the meanest peasant. The rest he is obliged to distribute among those, who prepare, in the nicest manner, that little which he himself makes use of...”

45. *Does Adam Smith believe that the rich are made happy by their wealth, energy, and industry?* Not really.

46. *Does Adam Smith believe that we could get rid of inequality?* No—we are made to be submissive to our “betters”: “a stranger to human nature... would be apt to imagine, that pain must be more agonizing, and the convulsions of death more terrible to persons of higher rank... Upon this disposition... is founded the... order of society [and] our obsequiousness to our superiors...”

47. *What did Adam Smith think Britain should do with its North American colonies that sought independence in 1776? How large an army and navy did he think should be sent?* None. Adam Smith thought Britain should let its colonies go: “By thus parting good friends, the natural affection of the colonies to the mother country... would quickly revive... dispose them... to favour us in war as well as in trade, and, instead of turbulent and factious subjects, to become our most faithful, affectionate, and generous allies; and the same sort of parental affection on the one side, and filial respect on the other, might revive between

Great Britain and her colonies, which used to subsist between those of ancient Greece and the mother city from which they descended...”

48. *Did Adam Smith think the British government in 1776 would acquiesce to American independence?* No: “No nation ever voluntarily gave up the dominion of any province, how troublesome soever it might be... and how small soever the revenue which it afforded... Such sacrifices... are always contrary to the private interest of the governing part... The most visionary enthusiast would scarce be capable of proposing such a measure with any serious hopes at least of its ever being adopted...”

49. *What does Smith think is the “stationary state” of society?* He looks at China, where commerce is well developed but where Malthusian population growth has produced a society that is peaceful, orderly, but poor because of small farm sizes.

50. *Does Adam Smith have any idea what the industrial revolution is going to bring in the 2.5 centuries between his day and ours?* No. He has no clue.

### **3. Cement Your Knowledge: Karl Marx**

1. *What was Marx’s underlying view of the market economy?* He was wildly enthusiastic: only the *bourgeoisie’s* rule can create the waves of innovation and capital accumulation that are the only thing that can humanity to the threshold of utopia, and that will get humanity to the threshold of utopia.
2. *Why was Marx so much more optimistic and enthusiastic about long-run economic development than was Adam Smith?* In part, because Marx lived 75 years later, in a time of much more rapid economic

growth, and at a higher level and faster rate of technological progress. Thus Marx saw, much more clearly, technology as the magic force that it was going to be.

3. *Why is Marx so confident that the logic of history will rapidly lead the world to utopia?* The only answer I can come up with is that Marx was, in a very strange way, a Christian—albeit a massively heretical one: a firm believer in the redemption and total transformation not of an individual soul but of humanity at the hands of a benevolent power. As American literary critic Edmund Wilson was to write in 1940: a lot of Marx's and Marxist writing makes no sense unless you replace phrases like "progress of history" and "dialectic of history" with "Providence" and "God".
4. *Where is Marx most optimistic about capitalism and the bourgeoisie?* In his (and Friedrich Engels's) early *Communist Manifesto*, written at the end of 1847. Its praise of capitalism as a force for positive historical change in the years up to 1848 greatly outstrips pretty much everything ever written by capitalism's friends.
5. *Why does Marx believe that that same bourgeoisie has become the chief, indeed the only, obstacle keeping humanity in chains and away from utopia?* It is "like the sorcerer who is no longer able to control the powers of the nether world whom he has called up..." Even though it had created enough wealth to easily eliminate poverty, it operated so poorly that it could not do anything but multiply poverty.
6. *Why did Marx believe that capitalism operated so poorly that it could not do anything but multiply poverty?* To a large degree, Marx was simply generalizing from what he saw around him. It was not him but British liberal icon John Stuart Mill who wrote, not in 1848 but as late as 1873, that: "It is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have

enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes. They have increased the comforts of the middle classes...” Marx then tried to build a theory of the economy to explain why increasing productivity did not trickle down at all to the working class, and his theory led him to conclude that increasing productivity would never trickle down.

7. *What kind of intellectual did Marx start out as?* He started as a German Hegel-style philosopher, convinced that correct thought along the lines of Hegel was the most important thing to do to transform the world. At some deep level, he never gave up Hegelian thought patterns. Arguments that seem to (most of) us to make no sense at all would make sense—if you were a trained and believing Hegelian philosopher. However, there are few such.
8. *What was the middle stage of Marx's intellectual evolution?* Marx became a French-style political activist, seeking to repeat and spread the lessons and message of the great French Revolution—liberty, equality, fraternity, democracy—with one difference: Marx thought that people needed not just equal civil and political rights but equal economic rights, powers, and privileges as well.
9. *What did Marx think his career would be?* Marx thought he would shake the world. Consider that in 1847, as one of the fifteen members of the Communist Correspondence Committee of Brussels, which then decided to merge with the League of the Just, wrote, in the opening of the *Communist Manifesto*: “A spectre is haunting Europe—the spectre of communism. All the powers of old Europe have entered into a holy alliance to exorcise this spectre: Pope and Tsar, Metternich and Guizot, French Radicals and German police-spies. Where is the party in opposition that has not been decried as communistic by its opponents in power? Where is the opposition that has not hurled back the branding

reproach of communism, against the more advanced opposition parties, as well as against its reactionary adversaries? Two things result from this fact: I. Communism is already acknowledged by all European powers to be itself a power. II. It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the Spectre of Communism with a manifesto of the party itself..." Grandiose, much? Yes. But as best as we can tell, Marx (and Engels) meant every word.

10. *What kind of intellectual did Marx end up as?* Just as Marx had decided earlier that German-style philosophy was going down the wrong track, so he decided that French-style political activism for liberal democracy was going down the wrong track. The right track required figuring out how to fix the economy, and that required becoming a British-style political economist. So that was what Marx spent the rest of his life doing. In Professor DeLong's estimation (and in Paul Samuelson's), but not in Professor Bhandari's, Marx was not very good at it—was a much better historian, journalist, and activist than he was a builder of economic models.

11. *What was Marx's first published essay?* It was *On the Jewish Question*. You can see all three layers of Marx's intellectual development in it. It is an argument that Jews should not be discriminated against—that they should have the same civil and political rights as other citizens have in a liberal democracy. Moreover, it argues that civil and political rights are not sufficient: people need and deserve economic rights, privileges, and powers as well.

12. *Is Marx's argument in On the Jewish Question in any way unfortunate?* Yes. The argument becomes unfortunate when Marx says that the way that the economy oppresses people is by leading them to behave in the stereotypical way that he says Jews behave. Later on he would replace "Jew", "Jew-like", "Jewish", "Jewishness" with terms

borrowed from the French—“bourgeois” and “bourgeoisie”—and “capitalist”. But a layer of anti-semitism did remain, even though his father had been born Jewish: “thus we find every tyrant backed by a Jew, as is every pope by a Jesuit... the cravings of oppressors would be hopeless, and... war out of the question, if there were not an army of Jesuits to smother thought and a handful of Jews to ransack pockets...” he wrote in the late 1850s.

13. *How well did Marx work and play with others?* Very badly—he retained only one friend among his peers, Friedrich Engels.
14. *Why are we only reading volume 1 of Capital?* Volume 1 is long enough. And we do not have Marx’s pure vision of the rest, for he never managed to finish them to his satisfaction, and they were published only after being heavily edited by Friedrich Engels. And they are strikingly incomplete. For example, classes are of key importance to Marx. Yet his chapter “Classes” breaks off after only 20 lines.
15. *How should you be reading Marx, or any other important, flawed, but worthwhile author?* We recommend a six-stage process: (1) Read through the book, taking notes. (2) “Steelman” the argument, reworking it so that you find it as convincing and clear as you can possibly make it. (3) Find someone else—usually a roommate—and bore them to death by making them listen to you set out your “steelmanned” version of the argument. (4) Figure out what the weak points of this strongest-possible argument might be. (5) Decide what you think of the whole. (6) Then comes the task of cementing your interpretation, your *reading*, into your mind so that it becomes part of your intellectual panoply for the future.
16. *Why are we reading Capital?* We are not reading *Capital* because Marx was a sole unique genius and *Capital* the key to the riddle of history. This isn’t a Holy Writ. This isn’t a Sacred Text. We are reading *Capital* because its arguments have resonated with a great many people over the

years, have been judged as true or likely to be true by millions, and so gather together in one place a powerful current of ideas and claims that (a) might be true, (b) have been believed, and so (c) have been very influential. This is a floating marker buoy thrown into a broad social-intellectual current, and understanding where the marker buoy goes is the best way to gain an understanding of the current.

*17. I had difficulty understanding Part I of Capital. What is it saying?* Part I is, at bottom, a Hegelian German-philosophical argument for the truth of something called the labor theory of value: that the value of a commodity is the human labor that it took, directly and indirectly, to produce it. If you were a Hegelian German philosopher you might well find that argument somewhat convincing. But you are not. Moreover, Professor DeLong thinks that the labor theory of value is wrong, or at least profoundly unhelpful for Marx. (Professor Bhandari, by contrast, believes that it is useful and insightful.)

*18. Why does Professor DeLong believe the labor theory of value was unhelpful for Marx?* Because it required him to spend years of his life trying to resolve all kinds of problems—the reduction problem, the transformation problem, how to characterize the capital-intensity of the economy—that were at best time-wasting sinks of energy and at worst led to what were in retrospect obvious analytical errors.

*19. What does Marx mean by “capital”?* “Capital”, as Marx uses it, is not best thought of as stuff: machines, buildings, inventories, and so on. “Capital” is better thought of as a particular form of social power: wealth directing human activity by being itself directed toward acquiring more wealth. “Capital” is money that is in the business of making more money by being used to buy and thus be transformed into commodities, and then back into more money.

20. *What, in Marx's view, are the most important steps in the transformation and circulation of capital?* The use of money to purchase labor-power, and then the use of labor-power to produce commodities. There, in Marx's view, is the key to understanding the system that is capitalism.
21. *In a market economy, everyone is free and equal—able to enter into contracts and buy and sell, just like everybody else, right?* Marx would say “ha”! Marx would say you need to peel back the mask that conventional liberal ideology places over the face of the capitalist market economy. The formally-equal form of social organization that is the market economy nevertheless produces and reproduces massive and mammoth inequality.
22. *How is it that the value of labor-power is less than the value of the commodities that that labor-power the capitalist purchases then creates? Why doesn't the worker just work for themselves and so reap the full value of the commodities they produce as the wage for their labor power?* Those without money have little social power. It is a fact that those who are desperate to buy or sell get a bad bargain. And it is a fact that workers are desperate to sell their labor, and then desperate to buy commodities: they and their families have to eat.
23. *Why can't workers be independent contractors, owning their own capital and working for themselves?* Marx says that they can—if they have enough of a stake to tied themselves over. But as time passes and as production becomes more and more capital-intensive and value chains become longer and longer, the size of the stake needed to remain independent grows. Some succeed in maintaining the needed stake, and even enlarging it: they maintain a precarious independence or become capitalists themselves, respectively. Most, from bad luck, imprudence, or a failure to keep pace with increasing scale, fall into the proletariat,

and so have to strike bad bargains with employers in which they capture little of the surplus created in the process of production.

24. *How well would Marx's prediction that capitalism would keep workers poor fare in the years after he wrote Capital?* Very badly. Marx wrote at the end of the long era of wage stagnation.

25. *But Marx said that workers would become relatively poorer, not absolutely poorer, right?* Actually, wrong. And since 1800 workers have not become relatively poorer—it bounces up and down. What Marx did write was: “the forest of outstretched arms, begging for work, grows thicker and thicker, while the arms themselves grow thinner and thinner...” That sounds like absolute immiserization to me.

26. *How does Marx explain that capitalists earn the same rate of profit even though some employ much more labor—and so extract much more surplus value—per dollar of capital than others?* He doesn't explain this. He abuses people who raise this problem, and says he will provide a satisfactory answer in the later volumes of *Capital*. Only fanatics think he ever provided a satisfactory answer.

27. *What does Marx see as the increasing downsides of life as a worker under capitalism?* Marx sees increasing downward pressure on wages, and he also sees “alienation”. To quote Adam Smith: “The man whose whole life is spent in performing a few simple operations ... has no occasion to exert his understanding ... He generally becomes as stupid and ignorant as it is possible for a human creature to become.... The uniformity of his stationary life naturally corrupts the courage of his mind... corrupts even the activity of his body and renders him incapable of exerting his strength with vigour and perseverance in any other employments than that to which he has been bred... This is the state into which the labouring poor, that is, the great body of the people, must necessarily fall...”

28. *Why does Marx see this “alienation” as bad?* It is, Marx says, a situation in which instead of our machines working for us, we work for our machines. That is not “freedom”. That is not even human—“In the factory we have a lifeless mechanism... independent of the workers... incorporated into it as its living appendages...”
29. *What is Karl Marx's big-picture theory of history and political economy?* His view is that: “Each particular mode of production, and the relations of production corresponding to it at each given moment, in short ‘the economic structure of society’, is ‘the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness’ [mental conceptions, if you like], and that ‘the mode of production of material life conditions the general process of social, political, and intellectual life...”
30. *What is Karl Marx's big-picture theory of the business cycle?* It is this: “The factory system’s tremendous capacity for expanding with sudden immense leaps, and its dependence on the world market, necessarily give rise to the following cycle: feverish production, a consequent glut on the market, then a contraction of the market, which causes production to be crippled. The life of industry becomes a series of periods of moderate activity, prosperity, over-production, crisis and stagnation. The uncertainty and instability to which machinery subjects the employment, and consequently the living conditions, of the workers becomes a normal state of affairs...”
31. *How does Marx believe politics—even democratic politics—works?* Marx believes, most of the time, that politics is a sham. The ruling class is called “the ruling class” for a reason. And the rich are the ruling class: “the executive of the modern state is a committee for managing the affairs of the business class...”. Wealth speaks loudly, and

influences the government to arrange things for the convenience of wealth—to keep wages low, and workers available.

32. *But at least capitalists are free and powerful in Marx's theory, right?*

Wrong! It is not that the capitalists steal the freedom for themselves. The capitalists do not have any freedom either. They have to act like capitalists: push wages down, speed up the assembly line, and reinvest their profits; and if they do not, then they fall behind, become uncompetitive, go bankrupt, and vanish as they become proletarians as well.

33. *How does capitalism evolve over time?* In Marx's view, it gets worse:

accumulation of capital leads to innovation and the invention of new kinds of more productive machines. The capital intensity of production rises. And as the capital intensity of production rises, downward pressure on workers' wages and alienation rise as well.

34. *Is Marx right in his argument that capitalism must worsen over time in its effects?*

It seems not: things are vastly better today than they were in 1867, when *Capital* was first published, even though capitalism is much more developed and intensive.

35. *What does Marx think the chances are for a permanent significant rise in real wages if capitalism continues?* Zero.

36. *What is going to bring an end to this mad process?*

The mad process will end with the destruction of capitalism at the hands of the organized, conscious, public-spirited, revolutionary working class that will overthrow the reign of private property by expropriating the expropriators.

37. *How was capitalism born?*

In Marx's view, capitalism was born via theft: the stealing of property rights from workers and craftsmen.

38. *How important was this process of the legal and legalized-after-the-fact theft of feudal and other forms of property from classes other than the rising bourgeoisie?* Very important to Marx. In Marx's view, "force is the midwife of every old society which is pregnant with a new one. It is itself an economic power..."

39. *What happens to the number of capitalists as capitalism develops?* The capitalist class shrinks, because advancing technology requires larger scale, and thus "one capitalist always strikes down many others..."

40. *How difficult will it be to accomplish the ultimate revolution?* It should be very easy. There will, after all, be only a few capitalists to be expropriated, and they will already run their enormous businesses in organized, socialized, consciously controlled ways. Simply transfer ownership of shares from the bosses to the government, and it will be done. The capitalists may—probably will—attempt to hire mercenaries and guards and stage a military coup. But the army will be on the side of the workers by then.

41. *Will the revolution be peaceful?* Most of the time, Marx believes that the only thing keeping the revolution from being peaceful will be violent resistance by capitalists and the mercenaries they have hired.

42. *How well has Marx's grand theory of history held up?* Professor DeLong thinks that it has not held up very well. For example, Perry Anderson's *Passages from Antiquity to Feudalism* and *Lineages of the Absolutist State* are great and fascinating books that Anderson tried to write in the Marxist analytical tradition, but they turn into studies not of "modes of production" but rather "modes of domination". And if Perry Anderson cannot make the theory work usefully, odds are it cannot be made to work usefully.

43. *How did Marx (and Engels) and Marx's followers react when their historical predictions began to go wrong?* First they blamed the stupidity of the British working class. Then they said that the capitalists in the global north were smart enough to share the benefits of imperialism with the working class, and so assuage discontent for a while. They they changed the subject.

44. *What happened after Marx and Engels's writings became sacred texts for the world religion called Communism?* Things passed beyond the absurd into tragedy and beyond tragedy into horror: the belief that the logic of development of the economy was the most important thing about society became entangled in the belief that Joe Stalin or Mao Zedong or Pol Pot or Kim Il Sung or Fidel Castro was our benevolent master and ever-wise guide.

45. *Why were so many versions of Marxism such poisonous political movements in the twentieth century?* Robert Heilbroner in *The Worldly Philosophers* places substantial blame on Marx's personality. It was not so much that his ideas were tyrannical and despotic (although to call the first immediate stage of the transformation of society he envisioned the "dictatorship of the proletariat" turned out to be most unfortunate). It was "the peculiar tone which Marx injected into working class affairs. This was the most quarrelsome and intolerant of men, and from the beginning he was unable to believe that any one who did not follow his line of reasoning could possibly be right. As an economist his language was precise, as a philosopher historian it was eloquent, as a revolutionary it was scurrilous..."

46. *What good things in economic analysis do we trace to Marx?* Professor DeLong sees three: (1) Marx was among the very first to recognize that the fever-fits of financial crisis and depression that afflict modern market economies were not a passing phase or something that could be easily cured, but rather a deep disability of the system . (20) Marx was

among the very first to understand what the industrial revolution meant for human possibilities and human destiny. (3) Marx got a lot about the economic history of the development of modern capitalism in England right—not everything, but he is still very much worth grappling with.

47. *What bad things in economic analysis do we trace to Marx?* Again, Professor DeLong sees three: (1) Marx believed that technological progress and capital accumulation that raise average labor productivity must lower the working-class wage. (2) Marx believed that market economies could never be tolerable, and needed to be eliminated. (3) Marx believed that the capitalist market economy was incapable of delivering an acceptable distribution of income.

48. *What about Marx the political activist?* Professor DeLong sees little upside. Certainly Marx's idea of the "dictatorship of the proletariat" was clearly not the brightest light on humanity's tree of ideas.

49. *Why did Marx go wrong, where he went wrong?* Professor DeLong blames (1) his Hegelian intellectual roots, (2) his inheritance of the labor theory of value from David Ricardo and his stubborn unwillingness to abandon it, (3) the fact that he wrote in the era that was worst for the industrial working class, (4) the fact that his friend Friedrich Engels owned textile factories in the place—Manchester—where the condition of the working class was worst, and (5) the fact that when the world surprised him he used his brain to try to convince himself that he had been right all along.

50. *Why did Marx go right, where he went right?* He was a hard working and insightful genius.

## 4. Cement Your Knowledge: John Maynard Keynes

1. *What was Keynes's attitude toward the pre-WWI globalized world economy?* That it had been a uniquely blessed and remarkable age in human history: unprecedentedly rapid economic growth, previously unseen rates of increase in real wages, astonishing technological progress, and—while incomes and wealth were greatly unequal—the rich did not, by and large, waste their wealth in conspicuous consumption but rather reinvest them in expanding productive enterprises.
2. *What was Keynes's attitude toward the gold standard?* That it was a barbarous relic. He believed attachment to the idea that currencies should be buyable and sellable for fixed amounts of gold would gradually ebb. But he thought that in the meantime attachment to that idea would do a great deal of harm, as it would prevent policies to boost the money stock and so remove the excess demand for cash that was so often the source of high and needless unemployment.
3. *Why does Keynes believe that the gold standard is a poisonous weed in the conditions of his (and our) day?* Because unemployment develops when what people demand—trusted cash—is something that the private sector cannot produce. The gold standard then keeps the public sector from producing it. Keynes then uses a complex metaphor. He says that in the absence of the gold standard, governments can try to persuade people that want what is unattainable—the moon—that green cheese is almost as good, and then “have a green cheese factory (*i.e.* a central bank) under public control”. This metaphor makes absolutely no sense to anybody who has not heard the fable of the simpleton who looked at the moon reflected in the water and thought it was a wheel of young (“green”) cheese.

4. *What was Keynes's attitude toward economists who confined themselves to analyzing only long-run equilibrium?* That they fail to do their job. A nautical weather forecaster should say more than: "the ocean will be flat after the storm has passed". Same for an economist: they should forecast what happens during the short-run storm, rather than confining themselves to long-run predictions, for "in the long run, we are all dead".
5. *Why wasn't Keynes satisfied with just critiquing and correcting what he called "classical" economics?* Because he had done so for fifteen years, and found it a laboriously uphill struggle. In classical economics the market is always innocent until proven guilty beyond a reasonable doubt, and so it is very difficult to demonstrate that the market has failed and needs substantial correction in a timely fashion. Keynes thought that if he could change the baseline from which economists began their thinking away from the presumption that the market was in equilibrium and that that equilibrium was a good place, economists would think more usefully and productively about the policy issues of the day.
6. *What do you think is the biggest difference between Keynes's mode of analyzing the economy and the mode shared by Smith and Marx?* Ah—this is an open-ended question. I am interested in what you have to say...
7. *What audience does Keynes address in his General Theory?* As he says the very beginning: "This book is chiefly addressed to my fellow economists..." Economics has gone wrong in its basic and tacit fundamental assumptions. Convincing economists to change how they think requires both abstract arguments and attacks on conventional ways of thinking that cannot do anything but cause much controversy—for which he begs to apologize, and reminds readers that he is attacking not so much them as his earlier self who "held with conviction for many years the theories... now attack[ed]" and that he is not ignorant of those classical theories' strong points.

8. *Why does Keynes believe that it is important to analyze not just a barter but a monetary economy?* Because in a monetary economy changing views about what the future is likely to hold can cause grave disturbances in the level of production and employment in the present. People's desires to not buy currently-produced goods-and-services but rather to hold onto their money as insurance, in order to carry purchasing power forward in the future, or avoid losses on depreciating financial assets are the key to understanding how aggregate demand can fall short of the economy's productive potential.
9. *What, in Keynes's system, is "Say's Law"?* The idea that there cannot be a situation of general excess supply and no demand for unemployed workers—that excess supply for one commodity and one kind of labor must be balanced by excess demand for another. Thus if unemployment persists at a high level, it is only because the government or the union or the guild or the indolence or stupidity of workers are keeping them from moving from working in industries of excess supply to those where there is excess demand.
10. *Did Jean-Baptiste Say believe in "Say's Law"?* It depends on when. Say in 1803 certainly believed in it. But by 1829 Say did not: the British financial crisis of 1825 and depression of 1826 had changed his mind.
11. *What is the logical hole in the "Say's Law" claim that since nobody produces and sells without attempting to buy, there must by metaphysical necessity be as much demand in the economy as there is supply?* The hole is that people have a demand not just for currently-produced goods-and-services but for cash as well. If there is an excess demand for cash, there will be excess supply of pretty much all currently-produced goods and services and of labor too. And because trusted cash is not something that any private-sector entity can make in a panic in which trust in the solvency of counterparties is absent, there is no way short of general deflation and universal bankruptcy for the unaided market economy to remove such an excess demand for cash.

12. *Was Keynes successful in changing economics and thus economic management?* For about sixty years, yes. After 1990, however, his influence waned. Thus when the 2007-9 Great Financial Crisis caused the Great Recession, global north governments (especially Germany, Britain, and the United States) were unwilling to take the Keynesian expansionary fiscal policy steps that would have rapidly restored full employment. (China, by contrast, showed no hesitation in prioritizing the maintenance of full employment through stable growth of aggregate demand; go figure.
13. *Does Keynes speak to more than how to get out of Great Depressions?* Yes. His framework is as useful for figuring out how to manage an economy during wartime, or some other time of excess aggregate demand when inflation threatens. Robert Heilbroner notes that it was the usefulness of Keynes's *How to Pay for the War* in helping people think how to manage the economic side of World War II that brought the non-activist center of the economics profession over to the side of thinking that Keynes's *General Theory* was a very useful framework. And, as Keynes argued in the *General Theory*'s chapter 24, his theory has implications for political economy in terms of the role and limits of government, and how to moderate the bad effects of income and wealth inequality.
14. *How long did it take U.S. prime-age employment to recover to its pre-2008 level after the 2008-9 financial crisis?* Eleven years. And the dominant opinion among Barack Obama's staff at the end of 2009 was that it would take three more.
15. *What winner of the Nobel Prize for Literature was a close friend of Keynes's?* Virginia Woolf, author of *To the Lighthouse*, *Orlando*, *Mrs. Dalloway*, and "A Room of One's Own".
16. *What was the name and profession of John Maynard Keynes's wife "Loppy"?* Lydia Lopokova was a ballerina for Diaghilev's *Ballets Russes*. She was most famous as the Firebird, and created the roles of

Mariuccia in “The Good-Humored Ladies” and the Can-Can Dancer in “La Boutique Fantasque”.

17. *How did Keynes’s nephew Milo illustrate his claim that “dignity is not one of [Lydia Lopokova’s] vices”? With the claim that “once in a heat-wave in New York she was found sitting naked inside the refrigerator in the hotel suite...”*
18. *What does Keynes regard as proof that the level of employment is not well-modeled by thinking that there is a real wage, a labor supply curve, and that unemployment is not “involuntary” because given that real wage workers choose to work that amount that puts the economy on the labor demand curve? Keynes notes that while workers will strike or quit in response to an attempt to cut their nominal wages, workers will not in general strike or quit when prices rise while their nominal wages stay constant. Moreover, depressions — periods of high unemployment — do not start with employers asking and workers refusing to accept a reduction in their nominal wages. Thus it is not adequate to model the labor market and the level of employment as in competitive equilibrium with the real wage as the equilibrating price.*
19. *What, in Keynes’s view, determines the level of employment if not the balance of supply and demand in the labor market at an equilibrium price that is the real wage? The principle of effective demand determines employment. This will be familiar to you from AP Econ or Econ 1: Add up consumption spending, investment spending, government purchases, and net exports to obtain aggregate or effective demand. Enough workers will be hired to produce that amount of commodities.*
20. *What are the three big factors that determine aggregate or effective demand, and thus the level of employment? Consumers' propensity to consume is one. The marginal efficiency of capital as it is perceived by businesses thinking of investment and adding to their stocks of capital is the second. And liquidity preference that determines the level of interest rates is the third.*

21. *Who does Keynes think that economists trying to apply a labor-market supply-and-demand model to account for involuntary unemployment are like?* Like “Euclidean geometers in a non-Euclidean world who, discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight as the only remedy for the unfortunate collisions which are occurring”. Yet the only way to make progress is to move over to non-Euclidean geometry. Keynes sees himself as playing an analogous role in economics.

22. *What does Keynes think is A.C. Pigou’s big mistake in his Theory of Unemployment?* His underlying belief that if people “do not spend their money in one way they will spend them in another”. Thus money makes no difference, “except frictionally”. As a result, Pigou works out his analysis of production and unemployment in terms of real variables: the real wage, the marginal product of labor, the opportunity cost of working. And he only adds in money “perfunctorily” at the end. This is, Keynes believes, fundamentally misguided.

23. *What does Keynes say to “classical” economists who say that they do not believe in Say’s Law?* He tells them that they do believe in it, or at least reason as though they believe in it, even though at some level they understand that it is a silly thing to believe. They recognize facts “obviously inconsistent”. But they still have not revised their fundamental theory — if they had, they would have written the *General Theory* first.

24. *What does Keynes think of his own teacher Alfred Marshall’s analysis of unemployment?* Keynes quotes J.A. Hobson from Hobson’s *Physiology of Industry*, where Hobson quotes Alfred and Mary Marshall’s *Economics of Industry*: “But though men have the power to purchase, they may not choose to use it...” Hobson then remarks: “He fails to grasp the critical importance of this fact, and appears to limit its action to periods of ‘crisis’”. Keynes regards this as a fair judgment.

25. *What does Keynes think happens to an economy if planned savings (given what individuals expect their incomes to be) exceeds planned investment by businesses?* Keynes believes that incomes and production rapidly fall, and as incomes decline planned savings decline as well, so the economy comes to rest at a short-run equilibrium where actual savings, planned investment, and actual investment are all equal to each other.
26. *What is the principal point of Book I of Keynes's General Theory?* That the determinants of employment and unemployment are found in the determinants of aggregate demand, and not in the supply-and-demand balance in the labor market. Moreover, a labor-market disequilibrium does not lead to price and other changes that rapidly, or even substantially, guide employment towards its full-employment value.
27. *What does Keynes see as the basic psychological law governing consumption?* That if households' incomes increase, they will increase their consumption spending by some but not all of the increase in income. The same will be true on the downside, if households' incomes decrease.
28. *Does Keynes think that shifts in the propensity to consume are a major cause of the business cycle?* No. Keynes sees the propensity to consume as a fairly stable function. Business cycles arise, in Keynes's view, from fluctuations in liquidity preference that change interest rates and thus investment spending, and from fluctuations in expectations of the marginal efficiency of capital that change investment spending even if interest rates are unchanged. It is the instability of liquidity preference and of the marginal efficiency of capital that generate the business cycle, in Keynes's view. He probably overstated the stability of consumption spending.
29. *What does Keynes mean by the multiplier?* That because of the propensity to consume, a jump in planned investment (or in government purchases, or net exports) will have a *multiplied* effect on the level of aggregate demand.

30. *What is the relationship between the marginal propensity to consume and the multiplier?* In the absence of marginal imports or other leakages, the relationship between the multiplier coefficient  $\mu$  and the marginal propensity to consume  $c$  is:  $\mu = 1/(1-c)$
31. *What is the marginal efficiency of capital?* The *marginal efficiency of capital* is that discount rate that makes the expected risk adjustment yield from some capital asset just equal to the price of acquiring it now. If the interest rate at which a business can borrow is less than the *marginal efficiency of capital* for some capital asset, it is profitable to acquire and install that capital asset. Note that the MEC is forward-looking: it is an expectational variable.
32. *What determines the rate of investment?* The rate of investment will settle at the value where the general marginal efficiency of capital is equal to the appropriate risk-adjusted interest rate. Thus it can jump around a lot—as shocks to liquidity preference cause interest rates to jump, and as fluctuations in the expectations that govern the marginal efficiency of capital cause the schedule of investment demand as a function of interest rates to jump.
33. *Book I of the General Theory was about how the economy did not have any strong forces in it pushing it rapidly toward a full employment equilibrium. Why do “Chapter 12er” Keynesians think that this was a secondary issue?* Because expectations produce so many shocks to asset prices, interest rates, and investment spending that equilibrium-restoring forces have no time to work before the next large shock hits.
34. *“Chapter 12er” Keynesians think that expectations produce so many shocks to asset prices, interest rates, and investment spending that equilibrium-restoring forces have no time to work before the next large shock hits, hence the “Book I” argument in the General Theory that the economy has no functioning equilibrium-restoring forces is a secondary issue. Why do “Book Ier” Keynesians still continue to focus on Book I*

*of the General Theory?* Because they are much less attached to financial market “irrationality” than are their brethren.

35. *Why does Keynes believe that expectations—the state of confidence—are very volatile, and can and do thus produce large fluctuations in planned investment?* Because our basis for estimating true fundamental values is extremely shaky. Moreover, even those who try to do so are likely to be a minority so that their behavior does not govern what asset markets do.

36. *What do most investors in asset markets try to predict?* They do not try to predict what fundamental values will be. Rather, they try to forecast the forecast of others—predict what average opinion will expect average opinion to be. The regulation of investment spending thus becomes the sideshow of the operation of a casino. And when “When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of *laissez-faire* capitalism...”

37. *Does Keynes believe that active monetary management by central banks can ensure full employment?* No. He says that he is skeptical of those who say that central banks managing interest rates can do the job of stabilizing aggregate demand. He believes that market fluctuations will be too large to be neutralized by “practicable changes in the rate of interest”, and hence that the government “in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, [will find itself] taking an ever greater responsibility for directly organising investment...” Thus Keynes explicitly rejects Milton Friedman’s hopes that apolitical and technocratic monetary policy led by independent central bankers can do the job.

38. *What does Keynes think that the rate of interest is not?* He does not think that it is the price in financial markets that equilibrates savings and investment, in the sense of matching planned savings to profitable investments. This classical theory of the rate of interest is as wrong as is the classical theory of employment. Rather, investment demand does its own thing, and incomes and production then adjust to make actual savings equal to investment at the interest rate determined by liquidity preference.

39. *What is liquidity preference?* Liquidity preference is the desire to hold cash—to be ready to buy when the opportunity appears, to provide insurance against bankruptcy on the part of shaky counterparties, as a safe haven to avoid loss in the event of asset price declines, and for other motives. Liquidity preference is volatile. And the interest rates are determined by the interaction of the stock of money with liquidity preference.

40. *What does Keynes think are the outstanding faults of the economic society in which we live?* He sees two: First, the economy fails to maintain full employment. Second, the economy has an arbitrary and inequitable distribution of wealth. While his general theory and the *General Theory* are focused primarily on the first, he also believes that they have important relevance for the second.

41. *Why does Keynes believe that taxes on the savings of the rich—for example, estate taxes—as more likely to accelerate than to slow economic growth?* Keynes believes that the principal impediment to investment is the fear that the economy will be in depression when the firm that invested is trying to earn profits to amortize the costs incurred. Higher taxes on the savings of the rich are likely to reduce the savings of the rich and so reduce national savings and increase national consumption. Since higher national consumption makes depressions less likely, taxes on the savings of the rich are therefore more likely to

raise rather than lower the inducement to invest, and so speed economic growth.

42. *Is Keynes an egalitarian?* No. He believes that there are many valuable human activities that are materially and significantly aided by the motive of money-making in an environment of private wealth-ownership. And he believes that if people do not focus on self-aggrandisement through making money, they will focus on self-aggrandisement through acquiring power over others—and that has much worse consequences for society than does mere greed.

43. *Why does Keynes hope that maintaining full employment will require a very low rate of interest?* Because if the rate of interest is low, than plutocrats' interest and profits will not be proportional to their wealth. The only way for them to use their wealth to obtain social power will be for them to spend down the principal—and so cease being plutocrats. Thus there will come the “euthanasia of the rentier”, and the end of the oppressive power of the capitalist to exploit the scarcity-value of capital to oppress the working class and the rest of society.

44. *Does Keynes believe that the political conclusions suggested by his theory are radical, liberal, conservative, or reactionary?* “Moderately conservative” is the phrase that Keynes uses. In order for all the things the classical economists said about how great the market economy is to be true, Keynes maintains, the government has to manage interest rates and the level of investment in order to maintain aggregate demand at a level consistent with full employment. But that can be done by technical technocratic policy interventions: “it is not the ownership of the instruments of production which it is important for the State to assume” but rather the state needs to “determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them” in order to guide the economy to stable full employment.

45. *Does Keynes think that his theory trashes and destroys classical economics and its “Manchester System”?* No. Rather, he agrees with his somewhat predecessor and monetary crank Silvio Gesell that his general theory reveals what the tacit assumptions of classical economics were: that Say’s Law held. And it reveals that all that the government really needs to do is to make technical adjustments to the economy through economic policy so that Say’s Law holds in practice, even though it is false in theory,

46. *What does Keynes see as the advantages of private property, freely adjusting market prices, and individuals’ freedom to use their skills and their property as they see fit?* He sees, first, the advantages of efficiency—of harnessing material self-interest to the public purpose, and enabling the decentralizing of decision-making to the periphery of society where the information is. More important, it has the advantages of encouraging individual choice, which is the only way to obtain the variety of lifestyles, the loss of which is the greatest of all defects of the “homogeneous or totalitarian state”. Individual freedom and the consequent variety of lifestyles: “preserves...traditions which embody the most secure and successful choices of former generations... colours the present with the diversification of its fancy; and, being the handmaid of experiment as well as of tradition and of fancy... is the most powerful instrument to better the future...”

47. *How does Keynes see a “nineteenth-century publicist or... a contemporary American financier” regarding his General Theory?* As a terrible and terrifying encroachment on individualism and restriction of individual freedom. And, Keynes believes, this regard is wrong: the *General Theory* is actually the key to the maintenance of individualism and individual freedom. If the policy recommendations of the *General Theory* are not adopted, Keynes thinks, the failure of the economy to

produce a just and prosperous outcome will lead to a regimented unfree socialism or a cruel brutal barbarism—or both.

48. *What does Keynes think about the consequences of electing left-wing parties?* That such are dangerous: prosperity is likely to depend on confidence, and confidence may be sensitive: “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”. Unless the government is prepared to stand up whenever private investment spending sits down, the government must pay very close attention to “the nerves and hysteria and even the digestions and reactions to the weather” of the business class, and be willing to coddle them.

49. *What does Keynes believe is ultimate decisive, interests or ideas?* Ideas, definitely ideas. “Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.” Thus he has good reason to hope that his *General Theory* would change the world. And—for at least two generations—he was right.

50. *What distinction does Keynes draw between the natural and the neutral rate of interest?* The neutral rate of interest is the rate of interest at which investment demand is strong enough to generate full employment. The natural rate of interest, by contrast, is the rate of interest at which investors’ expectations are fulfilled, so that there is neither pressure to raise or lower investment spending, and so investment spending and aggregate demand are constant. There is a continuum of “natural rates of interest” in this sense—one for each level of aggregate demand. There is only one *neutral* rate.