The fate of Keynesian faith in Joseph's countercyclical moral

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Into the fifth year of the Great Recession the scarcity of jobs in Europe and the US continues to condemn tens of millions of us to suffer a hard life of involuntary unemployment, underemployment, and insufficient wages. One would hope that any future political agreements made to mend the fiscal health of the nations would not worsen this scarcity, but lead directly to solving it. A crucial way to accomplish this would be for our leaders to reassert their faith and confidence in the primary efficacy of economics' countercyclical principle in fashioning these agreements. After all, thousands of years of evidence prove the overwhelming effectiveness of the countercyclical moral, that jobs, fiscal health, and prosperity are best grown and sustained by spending in times of scarcity, and saving in times of plenty.

According to the biblical legend,[1] the countercyclical moral was suggested to Pharaoh by a Hebrew named Joseph after Pharaoh was disturbed by two dreams. The first dream concerned seven fat and seven scrawny cows, and the second about seven full and seven withered ears of corn. In both the lean ate up the fat. That there were two dreams made the moral all the more insistent, and the consequences all the more potentially catastrophic if not heeded.

Pharaoh called upon Joseph, a celebrated diviner of dreams. After listening to the dreams Joseph told Egypt's supreme ruler that his people were about to experience seven years of plenty, followed by seven years of famine. Without a pause Joseph went on to suggest that Pharaoh set aside a fifth of the produce of the land during the years of plenty so that the people could survive the famine. Enlightened by Joseph's rare familiarity with dreams, as well as his sound economic advice, Pharaoh promptly realized there was no man more evidently discerning and wise before him than Joseph, so he installed Joseph as his second in command, the Chancellor of the realm, especially to carry out the stated policy. As the legend is told, then, Pharaoh's faith in Joseph's countercyclical moral saved the Egyptian nation and Israel's ancestors, thus the future of our Jewish, Christian, and Islamic Abrahamic heritages.

Today we face an economic problem which is a bit more sophisticated than agricultural husbandry as it was four thousand years ago or so. Happily, Joseph's countercyclical moral is ubiquitously curative because old-fashioned fear and greed rule the outcome of any economy's central question: How can we save ourselves through continuous times of plenty and scarcity?

It is not difficult to imagine that without Joseph's wisdom it is likely that our usual herd behavior would have prevailed in ancient Egypt by following a political script as old as the economic surplus. Compelled by their greed, Pharaoh and his rich and powerful retinue most likely would have kept the plenty to themselves no matter what the economic conditions, or costs, by skillfully manipulating the fear of the many, and above all by clinging to the power to control all resources. The father of modern economics, Adam Smith, thought this herd

[1] Genesis, chapter 41

dynamic so commonplace that he took it for granted: "Civil government," he said, "so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all." No doubt the rich, and their "little nobility," [2] as he put it, would have justified their behavior as necessary for the nation's survival because the wealth of the "jobs creators" obviously over time trickles-down to the many, thus creating and insuring their and their children's very livelihoods.

But Smith would have none of this tiresome rationalization for the oppression of the many by the few. Instead, witnessing on the pages of The Wealth of Nations to the unparalleled wealth accumulating in places like England and colonial America, he was convinced that it truly emerged from the bottom, up: "The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers it operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security."[3] All we need to rise, then, from bare necessity or less is a level playing field, like a colonial America that was hungry for workers, or a new New Deal, perhaps. Otherwise we get the default effects of the old herd.

Today we call this sort of benighted, undemocratic, and unmitigated herd behavior Social Darwinism. To say the least, it is spurious, and self-defeating. In the end the unmitigated greed of the few eats up so many stores of wealth that, Midas-like, it finally runs out of objects upon which to feed, and so the livelihoods of the people wither and slump, eventually to die. No wonder the moral of many biblical stories rail against greed, and biblical prophets like Isaiah declare that "the wealth of nations"[4] depends ultimately upon their continuous provisions for the nurturance of their poor. Indeed, only a nation's exceptional regard for the welfare of its poor merits its exceptional wealth, and designation.

Not long ago a modern economist named John Maynard Keynes rediscovered the countercyclical wisdom of preparing for the worst during the good times, and using that plenty to spend during the hard times. We have been debating his legacy with renewed vigor for the past 30 odd years, ever since we (if I may focus now on the US, representatively) allowed the interminably powerful few to decouple the getting of their wealth from the wealth of the many by skimming off more and more of the nation's productivity gains.[5] The resulting spikes of inequalities in wealth, income, and opportunity remains a national shame. Just after President Richard Nixon declared, "We're all Keynesians now," we slowly but surely allowed the powerful few and their "little nobility" to again redirect their "Dominators' hoards," as Keynes put it, to threaten the poor with a "system [that] could be in equilibrium with less than full employment."[6]

For the past 30 plus years, then, pre-New Deal, inhumane, trickle-down policies have been re-imposed upon the US with Orwellian ingenuity: for example, any mounting total debt or

[2] Smith, Adam. 1776, 1994. *An Inquiry into the Nature and Causes of The Wealth of Nations.* New York, The Modern Library. pp. 770-771
[3] Ibid., p. 581
[4] Isaiah, chapter 66, verse 12
[5] Baker, Dean. 2009. *Plunder and Blunder.* PoliPointPress, Sausality, CA. pp. 13-14.
[6] Keynes, John Maynard.1936, 1964. *The General Theory of Employment, Interest, and Money.* San Diego, New York, London, A Harvest Book, Harcourt Brace & Co., p. 243.

annual deficit is inherently “bad” for the future livelihoods of our children (not mentioned that spending on capital improvements and education during a slump leaves our children more assets[7]); non-living-wages are considered “good” (rationalized in comparison with having no wages at all); and “involuntary unemployment” once again does not exist, using Keynes' words, simply because “classical theory does not admit [it].”[8]

Meanwhile, the country's fiscal well-being is continuously strangled and held hostage over the principle that increased taxes on the rich would be counterproductive to economic growth, all the while the record of less and less taxes on them has proven that principle wrong.[9] Indeed, this mantra has been touted by the rich and powerful for so long that they have succeeded in convincing nearly half the population that a plutocracy of, by, and for the few is nothing less than a public service. To be fair, it must be noted that acquiescence to fabrications of this sort has long been reinforced by the fears driven by the complementary strategy of divide and conquer: for example, there are those who deserve to be America's “little nobility,” and there are those whose birth certificates must be questioned; there are those who are lucky to have jobs, and there are those whose jobs may disappear if complaints are heard.

Like Joseph, Keynes was known to have a heart full of prescient understanding. Keynes argued against the Treaty of Versailles after WWI, that its austere economic consequences would lead not only to gratuitous, punishing hardship for Germany, but disaster for Europe. Unlike old Pharaoh, not many leaders heeded the warning, and the imposed austerity mightily contributed to all the disasters during WWII. Nevertheless, Keynes' General Theory did leave us the basic theoretical structure for our modern economic world, one which meshed with and guided the New Deal. Much of this work is a complicated mathematical stew of the usual economic subjects of business cycles, employment, wages, savings, interest rates, deficits, and the like, but its two basic principles are Josephian.

The first is the primacy of “effective demand,” that is, like in Joseph's moral, everyone's employment and access to the economic pie is necessary for the national economy as a whole not only to function well, but to survive in the long run at all. In this, Keynes is Smithian: the economy works primarily from the bottom up, not the top, down. As the sometimes enlightened jobs creator, Henry Ford, once divined (like Keynes), workers and consumers are not separate populations, but one and the same. So Ford paid his workers the then unheard of wage of $5 a day. He just wanted them to be able to buy his cars. Unfortunately, his competitors would not match his free-thinking ways, and so the economic “equilibrium” persisted at default, “with less than full employment”.

One would think that such a glaring and fundamental lacuna in the definition and dynamics of the economic market would have been mended in economic thought and business practice by now, but it has not. Instead, it continues to lead both to the worship of a person's consumer needs, and to the exploitation of that same person's dependency upon work. In psychotherapy we call this dysfunction. Narcissistically-driven double messages like this

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[7] For an example of how “bad” debt is for our children, see Michael Boskin, September 23, 2009, “The Government Debt Bomb,” Project Syndicate. www.project-syndicate.org/print/the-government-debt-bomb. For a rejoinder see, Robert Skidelsky, January 20, 2012 “Does Debt Matter?”, Project Syndicate. www.project-syndicate.org/print/does-debt-matter.

[8] Keynes, 1936, p. 15. For examples of conservative talk on wages and on whether “involuntary unemployment” exists or not, see Casey B. Mulligan's blogs, August 17, 2011, “Exceptions to Keynesian Theory,” and, November 14, 2012, “What Job Openings Tell Us,” The New York Times.

[9] Thomas L. Hungerford, September 14, 2012, “Taxes and the Economy: An Economic Analysis of the Top Tax Rates Since 1945,” Congressional Research Service

infect intrapsychic and family systems with hurt, anger, and chronic instabilities, including mental disorders, rebellion, mutiny, revolt, insubordination, coup, and anarchy.

A more mature capitalistic system might start and end with an appreciation of the whole person, as in perhaps treating everyone primarily as a capitalist by instituting a living wage, actual full employment economy. This would allow, on the one hand, for the creative destruction of horse and buggy businesses and jobs. Yet on the other, sustained entrepreneurship could be nurtured on a permanent, level playing field for workers, consumers, and employers alike, with everyone made better off by guaranteeing as full a market as possible at any given time.

Keynes' second principle is based on the first, and demonstrates how to imagine an actual full employment economy might perpetuate itself via the countercyclical principle: that the "The right remedy for the trade cycle is not to be fund in abolishing booms and thus keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom."[10] In other words, like in ancient Egypt, to save the fear and greed of the few from stifling the effective demand of the many, government must step in and save during the boom, in order to spend during the slump, until the capital of cows and corn and whatever starts to fatten up again, ending the slump.

But that takes a lot of faith in Joseph's original dream interpretation, and the economic policy prescriptions that followed, does it not? What happens when the stores of capital seem to dwindle to too little to feed the many? Can one really trust that the famine would last just seven years? Who is this Joseph (or Keynes), anyway? Better to listen to and follow our traditional and immediate "jobs creators"?

Or, in a modern economy, what happens when the accumulation of total debt and annual deficit makes money-holders doubt the value of their investments? That too takes a lot of Josephian faith to continue to drive stimulus, does it not? Wouldn't the slump be accelerated by the debt and deficit caused by the lack of confidence of those well off seeking to consolidate their holdings into more liquid assets? Before that happens, shouldn't we pull back on public spending lest we "crowd out" private investments?[11]

Unfortunately, such a self-fulfilling prophecy is the present standard for public, fiscal confidence. It arbitrarily sets the tipping point of an imposed austerity for the many by the fear and greed of the few in order to protect their assets. As the then President of the European Central Bank, Jean Claude-Trichet, put it on July 22, 2010 in a deciding moment for Europe, and America: "In extraordinary times, the economy may be close to non-linear phenomena such as a rapid deterioration of confidence among broad constituencies of households, enterprises, savers and investors. My understanding is that an overwhelming majority of industrial countries are now in those uncharted waters, where confidence is potentially at stake. Consolidation is a must in such circumstances."[12]

Since this sort of pivot inexorably leads to increased involuntary unemployment, underemployment, and insufficient wages for millions of people around the world, Mr. Trichet's definition of the "broad constituencies" whose "confidence is potentially at stake" is

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[10] Ibid., p. 322
[11] Boskin, 2009
[12] Trichet, Jean-Claude. "Stimulate no more—it is now time for all to tighten," *Financial Times,* July 22, 2010. (Via Paul Krugman's blog, "Jean-Claude and the Invisibles," *The New York Times,* July 23, 2010.)

somewhat discriminatory. Indeed, it is merely a rationalization for a loss of Keynesian faith in countercyclical spending; thereby an excuse for a rather significant sacrifice of millions of livelihoods. It is like suddenly becoming afraid of the flow of the river while crossing it in midstream after being warned (in a dream?) not to lose the momentum of movement to the far bank. Josephian faith is a tall order; nonetheless, it is crucial for life.

This, then, is our plight as created by the few: we are perennially scared into taking our eyes off the other side of the river, the goal of sustained full employment for the many. This is done simply in order to secure dominators' immediate, greed-based confidence in their debt and burgeoning hoards. And the fundamental method used manipulate the herd into doing its bidding is this: unenlightened Pharaohs fear-monger using racism, xenophobia, employment fears and whatever else may work to scare the workers and consumers we call citizens away from realizing their Josephian role as the originators of the economic order itself.

To this, Joseph's countercyclical moral asks, what worth is the dominators' ultimate confidence in the safety of their assets if the many can't survive, if the center of the whole cannot hold? In this light, is not faith in the countercyclical moral just commonsense? As Keynes re-demonstrated, then, not austerity but only continuously nurtured faith in effective demand sustains the widespread confidence of job makers and citizens alike who combine to make prosperity's virtuous circle.

So, where does this presently leave us, when not only are all of us not being saved by our economic policies, but from our political leaders on down we've seemed to have lost the collective faith in how this is done? It's as if we've gotten amnesia, as if the New Deal and the post-WWII productive surge in the developed world that ensued from its Keynesian principles were a blissful mirage when the median wage doubled—as never before or since—from 1947 to 1973.[13] Yet, in truth it is not a mirage that the US's present wealth—measured by its total stock of natural, human and physical capital[14]—is presently humongous. Moreover, its productive capacity is vastly underutilized, and the fulfillment of that capacity only awaits the creation of the jobs and wages that stimulate the effective demand and virtuous circle that keeps us in a "quasi-boom". Back during the Great Depression, as FDR regularly preached, total capital, growth, and accumulating prosperity can easily pay down any prudent debt we incur during the slump, and thereby restore fiscal balance.

That did happen. Even though the ratio of our gross domestic product to debt was the highest ever in US nation's history just after WWII, we went on to increase the debt with the G.I. Bill for ourselves and the Marshall Plan for our European sisters and brothers. The productive capacity that that massive stimulus unleashed, combined with our collective savings, capital improvements, and high taxes on the wealthy, slowly but surely paid off the debt, and brought it down to untroubled levels in the years ahead until it reached its nadir in 1974. And no one's child was hurt by the debt, for it functioned simply like a payment we made on insuring a sensible future via the monthly rent, or mortgage. And during these years even those habitually given little of the economic pie via racial segregation and sexism instead secured more and more, alongside the facts we welcomed immigrants galore, and wages blossomed. Again in history, Joseph's countercyclical moral worked well enough to save a few nations, and their peoples' heritages.

[13] Paul Krugman, "The Twinkie Manifesto," The New York Times, November 19, 2012, p. A21.
[14] International Human Dimensions Programme on Global Environmental Change, "Inclusive Wealth Report, 2012"

Most remarkably, Keynes' "analysis," as he put it, "supplies us with an explanation of the paradox of poverty in the midst of plenty".[15] As if heeding the biblical injunction, "There shall be no poor among you,"[16] Keynes' General Theory completely upends our commonplace experience of this ageless human paradox—and sin—by providing us with the macroeconomic tools to steer clear of systemic poverty by means of the permanent "quasi-boom." In short, Keynes gave us the tools to solve the economic problem itself:

> "[T]he *economic problem* may be solved, or be at least within sight of solution, within a hundred years. This means that the economic problem is not—if we look into the future—*the permanent problem of the human race.*
>
> Why, you may ask, is this so startling? It is startling because—if, instead of looking into the future, we look into the past—we find that the economic problem, the struggle for subsistence, always has been hitherto the primary, most pressing problem of the human race—not only of the human race, but of the whole of the biological kingdom from the beginnings of life in its most primitive forms"[17] (emphasis original).

Yes, Joseph's countercyclical moral is potentially that miraculous. It is as if we have at our fingertips the fate of a new birth of liberty every bit as momentous as that from chattel slavery: freedom as much as is humanly possible from the economic problem itself.

So, since we're still caught in the paradox of having both a scarcity of living-wage jobs and the wherewithal as nations to stimulate job creation—even government as employer-of-last-resort jobs!—then it is our Josephian responsibility to do so in order to save livelihoods now, as well as the full productive capacity of our nations for our future generations. Otherwise, they may wither and slowly die as we persist in being deluded by unenlightened Pharaohs who preach that the primacy of greed for the "jobs creators", and the imposition of austerity for the rest of us, must come before effective demand is satiated enough to sustain a "quasi-boom".

In fact, the imposition of austerity during a slump is arrogance of Biblical proportions, the true, exploitative beginning of all "class warfare," and, hence, revolution, warfare, and national disaster as we saw from WWI through the end of WWII. Just witness the racism, xenophobia, and organized groveling to the "jobs makers" now alive in the US, and in Europe, fed continuously by Pharaoh wannabes and their "little nobilities," fueling policies recklessly demolishing peoples' livelihoods on an Orwellian altar of "The Government Debt Bomb" to use one economist's fear-mongering, pitiless phrase.[18]

Instead, let us reassert our collective faith in Joseph's countercyclical moral and its virtuous heritage, and continue to reapply it now with jobs' stimuli and increased taxes on the wealthy, and then sit back, and watch our children be saved, and rise, hopefully in full sometime before Keynes' goal of 2028.

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[15] Keynes, 1936, p. 30
[16] Deuteronomy 15:4
[17] Keynes, John Manyard. 1928, 1930, 1972a. "Economic Possibilities for our Grandchildren." *The Collected Writings of John Maynard Keynes, Volume IX, Essays in Persuasion,* London, Macmillan, St. Martin's Press, pp. 326-7
[18] Michael Boskin, September 23, 2009, "The Government Debt Bomb," Project Syndicate. www.project-syndicate.org/print/the-government-debt-bomb.

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