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The end of (economic) history

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The end of (economic) history¹

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Abstract:

Some papers, for reasons which remain at least partially obscure, leave a persistent trace in intellectual history. Such is the case with Keynes' paper "Economic Possibilities for our Grandchildren", although it never attracted much attention within the economic profession, besides reference here and there to the power of simple economic calculations: A possible explanation is that Keynes, in freeing himself from economic rigor, is attempting to unveil his moral philosophy. Because a great economist is not necessarily a great philosopher we should not *ab initio* expect the result to be at the level we are accustomed to in reading Keynes. What matters is not so much the way Keynes answers the questions he poses but the nature of the questions themselves. Could the very functioning of the capitalist system lead to the solution of the economic problem and hence to the end of capitalism itself?

This paper sustains that the answers given by Keynes to these questions are grounded on three elements: arithmetic, the neurosis of capitalism and the communism of the elites. On the first element, Keynes is right; one may even argue that his reasoning anticipates Solow's growth model. The second element is rooted in the context in which Keynes was writing and grounded on a false interpretation of Freud's work which led him to a simplistic analysis of human needs. The third element unveils his aristocratic view of society. What is remarkable in "the economic possibilities" is the powerful intuition of Keynes and even more remarkable the nature of the questions he poses. Each and every economist should try to answer the question of the ends of the economic system and of its possible end. What is deceptive is the naivety with which Keynes deals with human needs and even more deceptive his arrogance and the questionable moral which goes with it.

Keywords: secular growth; human needs; capitalism; economic systems; inequalities

JEL codes: A13; D11; D63; E12; E21 ; O47 ; P17

¹ The quotations are from "The Economic Possibilities for our Grandchildren" unless otherwise specified. I am very much indebted to Vela Velupillai for Helpful comments on earlier versions of this paper.

Some papers, for reasons which remain at least partially obscure, leave a persistent trace in intellectual history. Such is the case with Keynes' paper "Economic Possibilities for our Grandchildren", although it never attracted much attention within the economic profession, besides reference here and there to the power of simple economic calculations: "The greatest economists of my lifetime have been extraordinarily wise in guessing by rule of thumb what the more elaborate models of the cliometricians will derive after tedious calculation" (Samuelson, 1983). A possible explanation is that Keynes, in freeing himself from economic rigor, is attempting to unveil his moral philosophy. There is nothing wrong in such an attempt as it is utterly normal that a thinker of the calibre of Keynes undertakes to look beyond his own field. Because a great economist is not necessarily a great philosopher we should not *ab initio* expect the result to be at the level we are accustomed to in reading Keynes. But we should nonetheless expect it to be worthwhile, as what matters is not so much the way Keynes answers the questions he poses but the nature of the questions themselves. Could the very functioning of the capitalist system lead to the solution of the economic problem and hence to the end of capitalism itself? Would an era of abundance entail a radical change in the system of values on which capitalism presently relies? What can the life of the people in the new era reasonably expected to resemble?

The answers by Keynes to these questions are grounded on three elements: arithmetic, the neurosis of capitalism and the communism of the elites.

Arithmetic

At the beginning of Keynes' reflection is the calculus of compound interest and its well known spectacular outcome when applied to long periods of time. At a rate of growth of 2% any figure will be multiplied by 7.5 in a century. So would be the GDP per capita of human beings living in the civilised world thanks to capital accumulation and

technical progress². Keynes is prudent enough to give a multiplier lying in between 4 and 8. With insight backed by powerful intuition, back of the envelope calculation may deliver more truth than the most sophisticated model. That is the most robust element of the paper. One may quarrel with the mercantilist view of capital accumulation developed in the paper or with its explicit focus on developed “progressive” countries – Europe and the United States. But even if he would have taken into account the developing countries, Keynes’ prediction would not have been that wrong thanks to China, India, and Brazil etc., before 2029 which is the time horizon of the reasoning.

So what? Would the economic problem of mankind be resolved by an eight fold increase of all economic dimensions, but the population? The answer by Keynes is a straightforward yes, because such an increase will allow the satiation of what he calls “the absolute needs”.

True, Keynes is well aware that relative needs – keeping up with the Joneses’ – will never be satiated, but he thought that to the extent that the needs of the first type would be satisfied, those of the second type would become of a second order of importance. Implicitly, he thinks that the rush to fulfil the desire for superiority will appear so remote from the search for the good life that it will soon be recognised as a mental disease rather than a sign of strength. Indeed, Keynes is referring to the nervous breakdown “which is already common enough in England and the United States amongst the wives of the well-to-do classes, unfortunate women, many of them who have been deprived by their wealth of their traditional tasks and occupation...”. Of course Keynes was not predicting that in one century from now we should expect a general “nervous breakdown” because “mankind will be deprived of its traditional purpose”. We would progressively learn how “to devote our further energies to non-economic purpose”.

² Ever since, the power of compound interest has always amazed economists. As Lucas wrote: “in Korea, over the same period [1960-1988], per capita income grew at 6,2 percent per year, a rate consistent with the doubling of living standards every 11 years.” And Lucas concluded: “If we understand the process of economic growth... we ought to be capable of demonstrating this knowledge by creating it in these pen and paper (and computer-equipped) laboratories of ours. If we know what an economic miracle is, we ought to be able to *make* one.”(Lucas, 1993). Utopias are alive and well!

But here sheer arithmetic should have rung a bell in Keynes' ears: nowhere in the paper is Keynes concerned with income distribution, nor is he expressing the idea that inequalities will progressively, if not disappear, at least significantly shrink. Now an eightfold increase of all percentiles of the income distribution leads to an eightfold increase in the absolute differences between the percentiles. Relativities stay unchanged but the range of the distribution is becoming so huge that it will make people of the same society live in entirely different planets. In the twenties, inequalities were considerable, perhaps as considerable as at the *belle époque*. Keynes was well aware of that state of affairs in other texts, like *The General Theory*, he considered income and wealth inequalities as one of the two flaws of our system, the other being unemployment. But in "The Economic Possibilities" he disregards completely the question as the following quotation of the paper shows: "Let us, for the sake of argument, suppose that a hundred years hence we are all of us, on the average, eight times better off in the economic sense than we are to-day". Now even if the utility function of every household is of a lexicographic type – the absolute needs being satisfied before the others – we are not sure that an eightfold increase in his income will allow him to satisfy his absolute needs if his income is very low to begin with.

Here ends arithmetic and begins the complexity of human nature. How can we define "absolute needs"? Like Marx, by the value of the goods necessary for the reproduction of the workforce of a wage earner? Or by what Ricardo calls the subsistence level of wage? Are absolute needs independent of time and place? Were they the same at the beginning of the twentieth century and are they now? Answers to these questions are crucial to Keynes' thesis. A straightforward yes would mean that he is right, a no that we are in trouble. And I think we are in trouble: a human being *is* a social being, and this has far reaching consequences. One of them is on the definition of "absolute needs". If we depart from the fiction that economic agents are Robinson Crusoe's, we have to define absolute needs as those whose satisfaction allow social inclusion, and not as Keynes does, those "that we feel whatever the situation of our fellows human beings may be". But that means that absolute needs are relative after all! They are relative even if we do not take account of social interaction: life expectancy has increased with time thanks to the progress of medicine and hygiene and to the increased

quality and diversity of the basket of goods aimed at satisfying the “absolute needs”. They are relative because there is no such a thing as a one-to-one mapping of specific goods to each “absolute need”. They are relative because at a certain date and place, goods are more or less satisfying the needs to which they apply, think of glasses, water, bathroom, eating system, medicine, proteases, beds and the like. The demand for a better match between goods and needs seems to be boundless and constitutes one of the more powerful engines for scientific research and innovation, in short, progress. The taxonomy of needs between absolute and relative is too crude to serve as a hierarchy for human wants. Even if we limit ourselves to the fulfilment of subsistence needs, we have to admit that the degree with which goods may satisfy those needs may vary widely with the quality of the goods (think, for example, of the complementarity between goods’ quality and health). Hence the positional concern of consumers is not the only motto of non-satiation of needs, the search for a better life suffices.

Why does a brilliant’s mind like Keynes rely so heavily on such a simplistic characterisation of human needs? One possible answer is that he uses it as a rhetoric devise to belabour his point “that the economic problem is not – if we look into the future – the permanent problem of the human race”. For all of us who believe in economic and social progress, this statement may be exaggerated, but not entirely wrong. There is little doubt, if we learn how to avoid the potential catastrophes emerging from our time and mode of development – e.g. climatic change, wars – that economic and social progress will in a remote future lead to the resolution of the most pressing economic problems at a global scale. At least we could hope that a time will come when the economic problem will no more be as it is today, a question of life and death. I am writing these lines from France, a very rich country where each week brings its news of the death of some homeless. But the social protest against such a situation is very strong and all political parties have accepted to sign a charter to put an end to such a state of affairs. There also exists in France “the restaurants of the heart”, privately founded, which are serving millions of lunches and dinners to the needy and this number is increasing year after year since the beginning of the eighties. So it is a matter of utopia, a feasible one, to believe that essential needs would be satisfied in not so remote a future. To become reality this utopia needs at least two conditions, the

increase of the standard of living through compound interest, and social cohesion, that is the refusal by members of the society to endanger the life of the poorest through a lack of redistribution. But that would not mean that the economic problem will be solved but that its nature will change. There is no such a thing as a stationary state, where all the needs being satiated, mankind will cease to hope for a better future, at least on earth.

Another complementary interpretation is that Keynes is trying to oppose a “modern” view to the grand (but melancholy long-run) dynamics of the classics. Keynes seems to be speaking to Ricardo, Malthus and Mill³. They were the ones who set the stage for Carlyle to call economics “the dismal science” with the spectre of stagnation as the inevitable long run fate of economic prophecy – mainly due to diminishing returns. Here Keynes is extolling the virtues of increasing returns; hence his affinity with Solow, Lucas and compound interest. After all with increasing returns and compounds interests trees so to speak can grow up to the sky – the end of scarcity – and the avarice of Nature emphasized by the classics is no more a limitative factor.

But the emphatic tone Keynes is using throughout the paper aims at a more definitive conclusion: that of the solution of the economic problem. He has to believe in his own taxonomy of needs to reach such a conclusion. How could it be? A possible explanation lies with his understanding of Freud’s contribution. According to Skidelsky, “Keynes was fascinated by Freud’s reflection on the pathology of money, particularly its association with the anal sadistic character, and by the Freudian mechanism of sublimation. Freud enabled him to build on his insight into the sacrificial nature of capitalism, first expressed in *The Economic Consequences of the Peace*. Here the price of economic progress is seen as the cultural deformation of the ‘rentier bourgeoisie’ who have sacrificed the ‘art of enjoyment’ to ‘compound interest’”. The ‘love of money’ which Keynes seems to associate with the satisfaction of relative needs⁴ is thus of a neurotic type and in a world where all the material needs would be satisfied, the

³ This interpretation has been suggested to me by Vela Velupillai.

⁴ Keynes is pretty clear on this: “Needs of the second class, those which satisfy the desire for superiority, may indeed be insatiable....but this is not so true of the absolute needs – a point may soon be reached, much sooner perhaps than we are aware all of us aware, when these needs are satisfied in the sense that we prefer to devote our further energies to non-economic purpose.”

course towards differentiation would appear all the more immature that it would be remote from the good life. The insistence by Keynes on “unsatisfied purposiveness”, and the passage of the paper on *Sylvie and Bruno* are all going in this direction. Keynes is drawing from pathological cases general consequences. What psychoanalysis is teaching is that human’s desire can’t be satisfied because it is characterised by a permanent lack, impossible to fill, which leads to a boundless research for satisfaction. Now desire and needs are not quite the same thing, but one may easily imagine how the boundlessness of the first translates into the boundlessness of the second.

The unlovable but unavoidable capitalism

Phases of maladjustments apart, “all this means in the long run *that mankind is solving its economic problem*”⁵. Of course the road to prosperity will be full of pitfalls, but if we are intelligent enough we could discern under the surface “the trend of things”. The time will come when *economic history will end*. This is the message Keynes wanted to convey to his readers in prophesising the withering away of the problem of economic scarcity. The illusion of the *End of History* re-emerged recently with Fukuyama’s thesis. For Keynes it is the end of the struggle for subsistence which leads to the end of (economic) history. For Fukuyama, it is the end of the struggle between ideologies and the triumph of liberal democracy which leads to the end of history *tout court*. It’s interesting to notice that both conclusions are the consequences of a dichotomy – between absolute and relative needs in Keynes paper, between Soviet socialism and liberal democracy in Fukuyama’s book⁶.

Furthermore, there was a period when the feelings of Keynes about Soviet Socialism were ambiguous. In the three papers he published back from Russia in October 25 in

⁵ In The Tract on Monetary Reform, Keynes told us that we were all dead in the long run! He should have added that fortunately for mankind our grandchildren will be alive!

⁶ The prophecy of the end of history seems hence to be the outcome of a narrow, partial vision of the world. But here the similarities end. In Fukuyama’s thesis it is the satisfaction of the need for recognition by liberal democracy which provides the end point for history. However the need for recognition would rather be classified by Keynes within the relative needs. Hence at this point their conclusions are incompatible. After the end of history, in Keynes’ world people will care only about enjoying themselves; in Fukuyama’s one, they will still continue to devote energy to satisfy their need for recognition relative to the others.

the Nation (“Soviet Russia”), this ambiguity was asserted: “It is here [Russia] that we feel from time to time, despite poverty, stupidity and oppression, that lies the true laboratory of life”. Indeed, most of the arguments of “the economic possibilities” were already contained in these papers.

What Keynes dislikes most is Capitalism as an end in itself, and what he finds most detestable, is Soviet Socialism as both a political and economic method. Hence if you take capitalism as an efficient means – however disgusting it may be – and the advent of pure communism as the only moral end of any economic system, compound interest will lead to that end. In other words, there are at least two roads towards abundance, Soviet Socialism and Capitalism, because each economic system should aim at its own end. The former is explicitly doing so – in promising after the transition the advent of pure communism in a world of abundance – which gives it a moral superiority, but it is such an infringement of freedom that Keynes is not ready to accept it: “Comfort and habits let us ready to forgo, but I am not ready for a creed which does not care how much it destroys the liberty and security of daily life, which uses deliberately the weapons of persecution, destruction and international strife” (“Soviet Russia”). The latter, Capitalism is thus the surer way, and although it has not much to recommend to it, its efficiency as a method to increase the standard of living has already been proved in the past centuries. It is morally inferior as it relies on the less attractive characteristics of human behaviour and confuses vices with virtues. But once the new era will begin, “we shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. The love of money as a possession will be recognized for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease.”

One can't but agree with Keynes' philosophy, according to which economic progress should serve moral objectives, and nonetheless disagree with the caricatured picture he gives of Capitalism. If avarice, the exaction of usury, the love of money were the main characteristics of Capitalism, certainly the system would not be efficient and able to

deliver, even in several centuries ahead, the fruits of abundance. If purposiveness has always to be considered as a vice, investment, education, entrepreneurship would have to be considered as sins. Whatever the world in which we live, it would be hard to understand why *Carpe Diem* as a principle is always morally superior in the action we undertake to the consideration of tomorrow and even after tomorrow. May be that, on the contrary, one of the moral strength of Capitalism is its consequentialism as it may lead say to intergenerational altruism. As Edmund Phelps forcefully argues in his Nobel Lecture, a good economy – entrepreneurship’s Capitalism – may even deliver a good life.

Elite’s Communism

If we consider that any articulated proposition is a metaphor combining the idiosyncratic circumstances in which we live, the fashionable ideas of our time, our moral judgements on the social framework, the vision of the world we dream will prevail – dream, not hope as sometimes we would not like our dreams to come true – we have to recognize that Keynes’ paper contains all these elements.

This is why his thinking, depending on the angle from which one looks at the paper, may appear sophisticated or, on the contrary, simplistic, almost right or exactly wrong.

In particular, Keynes’ calculation is almost right, his rejection of Capitalism – because the greediness it supposes from economic agents and their egoistic behaviour – is not so badly founded. But there are many moral principles, and the one Keynes seems to prefer is not so superior indeed! It is rare to find in a paper so great a contempt for so many categories of people: the purposeful, the Jews, the wealthy classes, the wives of the well-to-do classes etc. “Yet it will be only for those who have to do with the singing that life will be tolerable and how few of us can sing! ... But it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes.” This kind of arrogance is all but sympathetic; it is so idiosyncratic of Keynes’ milieu, so remote from the virtues he seems to praise that it is no wonder that it did not pass the proof of time.

“Educated bourgeoisie”, those who have frequented Eton and the Bloomsbury circle, are those who are elected to the new heaven after the end of economic history. They had the chance of benefiting from the then luxury goods, higher education, the understanding and appreciation of the arts and music and so on, because they had the means to pay for them and the leisure to enjoy them. The others, “the ordinary persons with no special talents”, will have to elevate themselves in order to benefit from the new freedom they are entitled to. The first, rather to be the last in this paradise, will on the contrary be the first. Keynes here, rather naïvely, is attempting to apply the Freudian mechanism of sublimation. Only those who will be able to sublimate their lack (the non-satisfied relative needs) into a higher ideal would find their way in the new paradise. “We shall honour those who can teach us how to pluck the hour and the day virtuously and well, the delightful people who are capable of taking direct enjoyment in things, the lilies of the field who toil not, neither do they spin.”

Elite’s Communism seems to be a contradictory statement but the wording of Keynes does not allow for any other interpretation. Of course with time and in a world of abundance one may hope that the class of elites will become ever larger. But this enlargement may very well lead to Schumpeter’s prediction as interpreted by Samuelson: “That rationality of Capitalism which makes for productivity will serve to corrode the irrational sentiments of social cohesiveness. The spoiled children of affluence will reject their parents and heritage. Their self-hate will lead to boredom and anomie”. I prefer without hesitation the conclusion of Keynes that the increase in the standard of living will help us cure our neurosis rather than the one of Schumpeter according to which it will aggravate it. It is not pure chance if Capitalism with inbuilt Keynesian mechanisms – a system that Schumpeter calls Capitalism under “oxygen tent” has been a success story since the end of WW2, as even Lucas (2003) recognises.

But I do not understand Keynes’ position when he asserts that we should value ends above means. First it appears as somewhat in contradiction with Keynes’ own rejection of socialism: what he finds detestable is the Soviet regime *as a means*, but not its end which seemed to him to contain the germ of a new ideal (“Soviet Russia”). Second and

more importantly such a principle is morally highly questionable. The caricatured Machiavellian principle according to which the ends justify the means has led in the past to the most abominable, atrocious actions of mankind and it helps today to justify terrorism and torture. It is why, since already a long time, it has been consensually agreed at least in the democratic countries of the world to obey the Gandhian principle that on the contrary the ends do not justify the means. One can attempt at a generous interpretation of Keynes' assertion, according to which he wanted to alert the reader on a possible confusion between ends and means. After all such confusion is very common nowadays, so common that it is frequently leading to an inversion in the hierarchy of socio-economic objectives (e.g. a lower level of public debt rather than a higher level of employment; a balanced trade account rather than a higher level of growth etc.). But it is difficult to believe that a thinker of Keynes' calibre does not pay attention to the words he uses, especially in the final version of a paper which he had already presented several times.

I end this reflection with mixed feelings. What is remarkable in "the economic possibilities" is the powerful intuition of Keynes and even more remarkable the nature of the questions he poses. Each and every economist should try to answer the question of the ends of the economic system and of its possible end. May be this would lead them to consider their discipline differently. What is deceptive is the naivety with which Keynes deals with human needs and even more deceptive his arrogance and the questionable moral which goes with it. Of course I know that Keynes condemned Nazism as early as 1933, but I know also that for reasons which pertained to an exactly inverse perspective than that of "the economic possibilities" – the short-medium run rather than the long term – his preface to the German edition of *The General Theory* was ambiguous *vis à vis* the German regime.

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