

Listen to Keynes: Reform Can Only Follow Recovery

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Obama should heed Keynes's warning to FDR: You can't get reform until you have recovery, which means, in a word, JOBS.

After the “[shellacking](#)” the Democrats and Obama took in November's election, it is clear that the old time religion of classical economics will come back into fashion. The result is likely to be further economic disaster.

I am not surprised by the Obama administration's failure to win over the American people to a progressive economic program. On pages 13 to 18 of my book “[The Keynes Solution: The Path to Global Economic Prosperity](#),” I compared what I expected of Obama vis-à-vis what Roosevelt did in the first few years of his administration. I cited a letter written by Keynes and published in December 1933 in the *New York Times* in which Keynes warned the president that there were two goals — recovery and overdue social reforms. But Keynes warned that if one goes for the social reforms before full economic recovery was achieved, then they “will upset the confidence of business... And it will confuse thought.” Instead, Keynes recommended concentrating on policies for recovery. Once the president succeeds at achieving that goal, reforms will come much more easily. I suggested that if Obama followed the “jump start” advice of his economic advisors for a small stimulus program just to get the private economy turned around, then the nation would not get the full recovery we needed. All reform, as well as full recovery, would be jeopardized.

Given the current politics of austerity, we face maybe a decade more of economic disaster. Progressive economists must get out in front with [Keynes-style economic thinking](#) — for Keynes' analytical framework is the only complete one that is not just a variant of classical theory. Keynes' theory of liquidity can deal with achieving full employment, correcting international trade imbalances, preventing inflation and deflation, and understanding of the role of financial markets in a money using entrepreneurial economy (in other words, an economy where entrepreneurs organize production and exchange transactions via monetary contracts for performance and payment in the future).

It is necessary to immediately put forth a consistent plan for not only the domestic economy, but also internationally in order to end huge trade imbalances. Mr. Geithner's call for devaluing the dollar relative to the Chinese yuan will not do it. Nor will relying on Old or New Keynesian variants of classical economics, such as Stiglitz's asymmetric information or some other MIT or Harvard New Keynesianism. All of these mislabeled “Keynesian” models assume that the economic system is classical except for some presumed ad hoc restraint on the flexibility of prices or on obtaining complete information about the future as determined by today's market fundamentals. In the long run, all these mainstream “Keynesian” models will create full employment when price and wage fixities are removed and full information about the future is provided. These theories state that it is only the ad hoc constraints that prevent short-run optimal results. Therefore, the implication is to get government out of the way and the market, in the

long run, will prove to be optimal. Keynes's [response](#) to these classical theory's long run conclusions was, "In the long run we are all dead."