
Commentary: Keynes in the wide middle: in conversation with Pătruți (2023)

Tiago Camarinha Lopes*

FACE,
UFG,
Universidade Federal de Goiás,
Campus Samambaia,
Goiânia, Goiás, Brazil
Email: tiagocamarinhalopes@ufg.br
*Corresponding author

Rafael Galvão de Almeida

FACE,
UFMG,
Universidade Federal de Minas Gerais,
Campus Pampulha,
Belo Horizonte, Minas Gerais, Brazil
Email: rga1605@gmail.com

Abstract: The paper engages with Pătruți's (2023) comments on our *IJPEE* article 'What would have been Keynes' position in the socialist economic calculation debate and why it matters' (2019). We structure our conversation around three points, indicating that although we may disagree on some fundamental issues we recognise and respect each other's interpretation and appropriation of Keynes.

Keywords: socialist economic calculation; Keynes; pluralism; socialisation of investment; schools of thought; communication; von Mises.

Reference to this paper should be made as follows: Lopes, T.C. and de Almeida, R.G. (2023) 'Commentary: Keynes in the wide middle: in conversation with Pătruți (2023)', *Int. J. Pluralism and Economics Education*, Vol. 14, No. 2, pp.173–179.

Biographical notes: Tiago Camarinha Lopes teaches Political Economy at the Universidade Federal de Goiás in Goiânia, Brazil. His recent publications on the socialist economic calculation debate include 'Technical or political? The socialist economic calculation debate' (*Cambridge Journal of Economics*, 2021) and 'Humans, technology, and control: an essay based on the metalanguage of economic calculation' (*Journal of Economic Behavior & Organization*, 2022).

Rafael Galvão de Almeida is a Substitute Professor of Economics at the UFMG. He received his PhD in Economics from UFMG. His main interests are history of economic thought, economic methodology, and economics of narrative and literature.

1 Introduction

The socialist economic calculation debate has always been a polarised controversy. Being a fundamental issue of economic science, especially during the existence of the Soviet Bloc between the 1920s and the 1980s, it has gained renewed attention in the 21st century given the current global economic crisis, the ascension of new technologies, and the empowerment of China. At the beginning stages of our research, we raised a question that was impossible not to ask: given that Keynes was a prominent figure in the economic policy-making universe of the 20th century (which juxtaposed planning versus markets as the main two competing alternatives) why did not he participate explicitly in that controversy? And if he had participated, what would have been his position?

Pătruți (2022) has engaged constructively with this research agenda by providing a thought-provoking response to our article (Lopes and Almeida, 2019). Above all, his contribution should be celebrated because it promotes a pluralistic and encouraging tone that we believe is essential to elevate economic literacy among beginners and experts alike.

In general, Pătruți (2022) expressed enthusiasm for our approach. He agrees with us on the importance of the socialist economic calculation debate and the necessary promotion of communication between schools of thought.¹ This is precisely what we aim to achieve by putting Keynes in the spotlight, thus postponing the inevitable discord regarding the political antagonist sides in that debate and expanding the space in which the technicalities of the issue can be discussed in a reciprocal educational environment. Instead of directly invoking the two main figures behind the conflict, Marx and von Mises, both sides are encouraged to interact constructively and help each other better understand a third, intermediary position.

Pătruți's (2022) main concern is that we have made Keynes appear much more sympathetic towards the socialist side than he actually was. As we have understood it, according to Pătruți, Keynes is not in the middle ground between the Austrians and the socialists *from a technical point of view*. This is mainly because of an important point of disagreement, namely the transfer of the calculation problem from the individual to the state.

Let us proceed by following the three-fold answer we structured in the closing section of our article in order to unfold this critical point with caution.

2 Three points to answer 'what would have been Keynes' position in the socialist economic calculation debate?'

2.1 *The debate was conducted in the abstract mathematical language of neoclassical mainstream economics*

The first answer points out that the socialist calculation debate took place within a specific framework: the mathematical modelling of mainstream neoclassical Walrasian economics. This transformed the debate into a highly abstract battle, where the language employed was strongly repelled by Keynes. Although not explicitly stated, our position here incorporates Keynes' criticism of the equilibrium paradigm, which is a cornerstone of the mathematical strand of the Marginalist Revolution. In other words, the language

used by the participants in the classical phase of the debate was one that Keynes did not bother to employ, because it was too abstract and distant from concrete policymaking.

Pătruți (2022) is correct in explicitly drawing attention to Keynes' contempt regarding economic equilibrium and mathematics and how this would position him against the standard neoclassical model supported by socialists. However, the main point we wanted to highlight here is not directly related to whether Keynes was closer to a Walrasian (quantitative-closed equilibrated system) or a Mengerian (qualitative-open unequilibrated system) framework. Instead, it is that Keynes was developing his own framework strongly oriented towards concrete policymaking, which did not suit the epistemological parameters under which the socialist economic calculation debate emerged.

We understand and sympathise with the argument that Keynes would be closer to Menger than to Walras in this specific aspect. Even more if we allow the current perspective that these two strands are strongly separated (mainstream neoclassical and Mengerian/Austrian) to apply retroactively to the 1920s and 1930s, and if we forget that Keynes also considered the Austrian theory too abstract and distant from policymaking vis-à-vis the much more empirically-grounded, realistic approach of the German Historical School. However, we do not think this is enough to affect Keynes' belief in the capabilities of social economic planning. It only shows that Keynes did not think of social economic planning in terms of Walrasian equations.

2.2 The debate required the combatants to take a firm position either for or against socialism and Keynes was a flexible political agent

Here, we strongly agree. The fundamentals of the socialist economic calculation debate compelled each participant to take a firm position either for or against socialism, and Keynes was a flexible political agent. So, this 'all or nothing' extremism was totally alien to how he approached the relationship between markets and planning. Having revised the issue now, we believe that this point is so fundamental that it should be promoted to the most important explanation as to why it is so difficult to insert Keynes into the socialist economic calculation debate. Any attempt to bring Keynes closer to one side (socialist) or the other (anti-socialist) can be easily countered by the other.²

2.3 Transferring the calculation problem from the individual to the state

This point is the most complex with a tension worth exploring. We argued in our paper that the relevant process of investment decision-making in the Keynesian system is not simply guided by market data but by a process where the governmental authority plays a decisive role. This could indeed be interpreted as if the calculation problem or the responsibility for economic planning were *completely* transferred from the individual to the state. Of course this is not accurate because it would mean Keynes' system is tantamount to the extreme case of state complete control of the means of production. In fact, some critics of Keynes have selected specific parts of Keynes' work to make that pledge, specifically from the Preface to the first German edition of *The General Theory*³, where Keynes noticed that,

“(...) the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of laissez-faire.” [Keynes, (2013), p.19]

It is not difficult to find other quotes from which one could try to argue that Keynes’ economics is compatible with the extreme case of full collectivisation. Similarly, Keynes’ extensive work provides plentiful textual evidence that he was a strong defender of the liberal order. From Subsection 2.2, progress cannot be made by trying to identify Keynes’ exact position. He is in the wide middle, with his complexities, ambiguities, and methodological approach. This means that from a technical point of view, he must be located in the large, diffuse and realistic space between the socialist and anti-socialist sides.

By arguing that “the calculation problem in Keynes does not belong to the individual, but to the state” [Lopes and Almeida, (2019), p.233] we mean that the burden of deciding what to do does not fall entirely on the lonely shoulders of the private agent (as in a pure laissez-faire model). In Keynes’ world, private and public investors share the responsibility for allocating resources and so they must establish an adequate relationship, one in which the public sector leads and the private sector follows, at least during the exceptional period of adjustment to resuscitate the economy from depression. It does not mean that the private sector can remain passive, but that it is expected to actively seek emerging opportunities to invest productively.

We concede that we should have been more careful before writing that “the calculation problem would necessarily disappear for the individual producer” (p.233). The problem does not disappear *entirely*, as we seemed to have incorrectly suggested. We maintain, however, that a good part of it ceases to exist for the individual investor because of the socialisation of many investments as both the initiator to reactivate the whole economy (during the adjustment period) and the continuous systemic regulator (after the economy has been taken out of depression). In sum: the calculation problem is not *completely* transferred from the individual to the state, but only *partially*.

Let us develop this point more fully because while we agree with Pătruți’s (2022) assertion that Keynes wanted the state to control only total output but not its composition, we think that Keynes was aware that it is technically impossible just to determine the volume of output without also dictating at least some part of its composition during the critical moments when the principle of ‘private interests, public benefits’ collapses.

After the 1929 Great Crash, the main challenge was to recover employment. *The General Theory of Employment, Interest and Money*, presented the theoretical foundations for an economic policy that would guarantee the full use of idle economic resources. This means that the primary concern was to control the magnitude of production. Therefore, the task was to produce in order to reactivate effective demand. The question is: to produce what? As Pătruți (2022) correctly asserts, the problem of composition, and of calculation in von Mises’s sense “continues to exist even in the Keynesian scenario.”⁴ In other words, it is not enough to address the issue of aggregate/monetary output because output consists of heterogeneous/real products and these need to be determined, either entirely by private agents (the extreme case of *laissez-faire*), entirely by the state (the extreme case of statism) or by both private agents and the state (all intermediate points between the two extremes).

According to Keynes, a crisis is a situation where private agents freeze and as a result, the burden of investment decisions dangerously shifts towards that extreme case of statism. To avoid full collectivisation, Keynes proposed that the state act wisely: firstly, by inducing private agents to invest productively rather than just financially, and secondly by dictating with caution what to produce and strategically mobilising the real assets of the public sector. It is important to note that, while Keynes aimed for a gentle control over the economy through indirect intervention (mainly through monetary policy), there would be situations in which the direct decision over production would have to be carried out by the state (putting public enterprises to work as that part of fiscal policy directly related to project execution). When developing the theoretical difference between short-term and long-term expectations at the end of Chapter 12 of *The General Theory*, Keynes is defending the mechanisms of soft control and suddenly notices that “only experience, however, can show how far management of the rate of interest is capable of continuously stimulating the appropriate volume of investment” [Keynes, (2013), p.164]. This means that dictating the volume of production alone may prove insufficient.

“For my own part I am now somewhat sceptical of the success of a merely monetary policy directed towards influencing the rate of interest. I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for directly organising investment; since it seems likely that the fluctuations in the market estimation of the marginal efficiency of different types of capital, calculated on the principles I have described above, will be too great to be offset by any practicable changes in the rate of interest.” [Keynes, (2013), p.164]

Keynes' hope is that these 'dangerous' measures, if wisely adopted, would activate parts of the economy in such a way that private agents would quickly regain the courage necessary to put their own means of production to work. So, at least during the exceptional period of adjustment, although Keynes does not want the state to decide what to produce, there is no other option. He knows that in this specific critical moment, businesspeople are not capable of making the correct decisions and the only way out of the impasse lies with the state. Why? Because the necessary goods that have to be produced are both too big and complex for the lone investor or seem to be unprofitable from their point of view. The necessary public infrastructure and public services are generated only through the socialisation of investments.⁵ However, as soon as the income generated by the construction of these items begins to flow into the economy, especially to those weak spots where goods could not be sold, the private sector can again find opportunities for lucrative projects and this dangerous flirt with statism can be left behind.

From the quote selected by Pătruți (2022), where Keynes elaborates on the necessity of 'a somewhat comprehensive socialisation of investment', we see that Keynes is trying to explain that his proposal is not to be confused with state control of the means of production. However, it is evident that the tension between private and public command over the decision-making process is there. This is a permanent characteristic of his work. It is only when the exceptional adjustment period is over and businesses are running as usual that the role of the state becomes more restricted to influencing the volume of production only, but not direction.

3 Let us not fight: there is enough Keynes for everyone

In sum, while we agree with Pătruți (2022) that Keynes' wish is not to move towards the socialist side, our research points to the fact that he was aware of the objective necessity of socialisation measures that may strengthen that side. This generates a permanent tension in his system, as it struggles to hold the contradiction between antagonistic economic systems. Therefore, we think that, not only philosophically, politically, and methodologically, but also from a purely theoretical, technical point of view, Keynes is in the wide middle. This means that both sides will naturally continue trying to appropriate Keynes' work for their own cause. As long as we frame this dispute humanly in the sense of enlarging each participant's knowledge, as our interlocutor has exemplarily demonstrated with his intervention, we will be promoting not only a reciprocal pedagogical approach to the socialist economic calculation debate in particular, but also a pluralist development of economics in general aimed at solving the real economic problems of the world.

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Notes

- 1 For a systematic proposition of a communication platform between the three main schools of economic thought (mainstream neoclassical, Austrian, and Marxist) directly involved in the socialist economic calculation debate, see Lopes (2022).
- 2 In addition, there is not only one single Keynes. Writers from the Global South might emphasize aspects that highlight his writings on planning, creating a 'red Keynes effect'. In two recent articles, Sicsú (2023, 2020) presented a Keynes sympathetic to the Soviet Union, who in 1922 called it an 'extraordinary experience' [it is worth noticing that Keynes' (1933) remarks after his USSR trip were rather negative, especially regarding its underlying Marxist-Leninist ideology]. Crotty's (2019, p.2) thesis that "Keynes wanted to replace then-current capitalism in Britain with what he referred to as 'Liberal Socialism'." also portrays Keynes as an incisive left-winger. On the other hand, Keynes could be interpreted as a conservative, a claim made by Bartlett (1984) at the height of Reaganomics in the USA, who placed him as a member of the supply-side economics tradition. Others, such as Palley (2023), see Keynes' framework insufficient to understand capitalist stagnation because of his liberal tendencies. It should be noted that attempts to place Keynes in a certain tradition must consider that Keynes was also a rhetorician intending to influence public policy; he was able to change his discourse to fit with the current government.
- 3 For a discussion about the polemics around Keynes preface to the first German edition of *The General Theory*, see Hagemann (2015) and Pernecky and Richter (2011).
- 4 Keynes is so aware of the problem of composition of output that he even argues that if we cannot generate useful goods, then employing resources to produce wasteful outcomes will also do the job. This is where the paradox of 'digging holes in the ground' or of 'the broken window' originates. It does not matter what we produce (or destroy!), as long as we put people to work: "Pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of the classical economics stands in the way of anything better" [Keynes, (2013), p.129].
- 5 For a systematic presentation of Keynes' concept of socialisation of investments, see Davis (1992).