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Was Keynes a Keynesian or a Lernerian?

By David Colander
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THE TERM "KEYNESIAN" has a variety of interpretations. In a recent article, Allan Meltzer (1981) added to those interpretations, arguing that what are normally called "Keynesian" policies are not the policies that John Maynard Keynes favored. As a minor point in support of his interpretation, he quoted Keynes as saying, "I am not a Keynesian," citing Terence Hutchison (1977, p. 23) as his source. In a response to Meltzer's article, Don Patinkin (1983) argued to the contrary that Keynes did support "Keynesian" monetary and fiscal policy as a method of achieving full employment. In the course of his argument, Patinkin contended that the "I am not a Keynesian" quote was of dubious origin (although he emphasized that whether Keynes did or did not say it was irrelevant to the main issue between himself and Meltzer). To demonstrate its dubious origin, Patinkin traced the Hutchison reference to a story about Abba Lerner in Colin Clark (1970, p. 53). The trail ended there, however; in a cable to Patinkin, Clark reported that the story came "from [an] indirect source now regrettably forgotten" (Patinkin 1983, p. 50).

Although both Meltzer and Patinkin agree that whether or not Keynes said, "I am not a Keynesian" is not fundamental to their positions, the question is an interesting one, and considering it provides insight into Keynes's views on policy and the Meltzer-Patinkin debate. The most probable source of the statement, if Keynes actually made it, is a lecture Keynes gave at the Federal Reserve in 1943. As recounted in Lerner (1978, p. 67), at this seminar Keynes objected (in no uncertain terms) to what many believed to be Keynesian policies. Lerner writes:

Another contribution to Keynes' current low Neilson rating is a quality that it is rather rash of me to pronounce. I refer to Keynes' timidity. He did not carry his conclusions all the way. I first was hit by this quality—to my great astonishment—when, at a lecture to the Federal Reserve in Washington in 1944, he showed concern that there might be 'too much saving' after the war. When I pointed out that the government could always induce enough spending by incurring deficits to increase incomes, he at first objected that this would only cause 'even more saving' and then denounced as 'humbug' my suggestion that the deficits required to induce enough total spending could always be financed by increasing the national debt. (I

must add here that Evsey Domar, at my side, whispered: 'He ought to read the *General Theory*' and that a month later Keynes withdrew his denunciation) [p. 67].¹

According to Evsey Domar (1983), Lerner's account underplayed Keynes's violent reaction to Lerner's statement. Not only did Keynes call Lerner's statement "humbug," he also paraphrased Lincoln's "You cannot fool all of the people all of the time."

Keynes's objections to Lerner's proposals reflected the relationship between Keynes and Lerner. What eventually became known as textbook Keynesian policies were in many ways Lerner's interpretations of Keynes's policies, especially those expounded in the *Economics of Control* (1944) and later in *The Economics of Employment* (1951).² Lerner called those policies "functional finance" and in his first published references to it (1941, 1943), he used the famous "economic steering wheel" metaphor, arguing that it was the government's duty to steer the economy with monetary and fiscal policy. (It was this metaphor that Milton Friedman attacked as epitomizing Keynesian policies in *Capitalism and Freedom*: 1962, p. 75.)

W. S. Woytinsky's review (1952) of Lerner's *The Economics of Employment* neatly captures the relationship between Lerner and Keynes. He writes:

The theoretical part of this volume is pure and undiluted Lord Keynes. Its practical part is pure and undiluted Lerner. Lord Keynes ap-

pears as Allah and Lerner as his militant prophet. This comparison is suggested by Lerner's efforts to explain why Functional Finance is not likely to become the center of a religious movement. Indeed, there is something of a religious fervor in Lerner's treatment of the Keynesian theory as the key to universal prosperity and happiness [p. 110].

Lerner was the perfect prophet of Keynes. Lerner had a simplicity of exposition and a wonderfully simplistic view of policy. For him, if it made sense in theory, it made sense in practice. Keynes was far more of a realist. His views on theory and practice were connected through his deep understanding of the political process, a burden under which Lerner did not labor. Textbook expositions of Keynesian policy naturally gravitated to the black and white "Lernerian" policy of Functional Finance rather than the grayer Keynesian policies. Thus, the vision that monetary and fiscal policy should be used as a balance wheel, which forms a key element in the textbook policy revolution, deserves to be called Lernerian rather than Keynesian. Keynes's initial objections to "Keynesian" policies were actually objections to "Lernerian" policies which carried the policy implications of the model to their logical conclusions.

As to the question of whether Keynes was a Lernerian, I suspect that depended on his mood, his reading of the political forces of the day, and the time he had to reflect upon the issues.³ Some insight into Keynes's view of "Lernerian" policies can be gained from an April 25, 1943 letter from Keynes to James Meade. Keynes wrote:

I recently read an interesting article by Lerner [1943] on deficit budgeting, in which he shows that, in fact, this does not mean an infinite increase in the national debt, since in

¹ Lerner (1952, p. 118) also mentions this episode.

² Lerner's interpretation differed somewhat from Keynes's other interpreters, especially Alvin Hansen. Whereas Hansen emphasized secular stagnation, Lerner emphasized control and likened Keynesian policies to a balance wheel. Thus, in Lerner's interpretation, the problem was one of fluctuations around a stable equilibrium; in Hansen's interpretation, the long-run equilibrium was itself a problem. Hutchison, it may be added, used the alleged quotation, "I am not a Keynesian," in reference to another interpretation of "Keynesian"—that of the "English" Keynesians such as Joan Robinson.

³ During his trips to the U.S., Keynes was often exhausted. Despite this, he maintained a hectic pace out of a sense of duty. His exhaustion may have contributed to his initial reaction to Lerner's proposals in the Federal Reserve Seminar described above.

course of time the interest on the previous debt takes the place of the new debt which would otherwise be required. (He, of course, is thinking of a chronic deficiency of purchasing power rather than an intermittent one.) His argument is impeccable. But heaven help anyone who tries to put it across (to) the plain man at this stage of the evolution of our ideas [1943, p. 320].⁴

I am not suggesting that Keynes was unable to carry his reasoning to its logical conclusions. I am merely suggesting that he was not especially interested in doing so if he thought the policy implications impractical. However, when Lerner did so, Keynes could respect and admire the results.

As Lerner said in the passage quoted earlier, Keynes retracted his characterization of Lerner's ideas as "humbug." According to Lerner, "in reading it [*The Economics of Control*] later, at leisure, he [Keynes] found the logic less escapable and the resistances more obvious" (1952, p. 118). Keynes admitted to being at least a closet Lernerian in a letter to Lerner (September 1944) congratulating him on *The Economics of Control*. Keynes wrote:

I have marked with particular satisfaction and profit three pairs of chapters—chap. 20 and 21, chap. 24 and 25, chap. 28 and 29. Here is the kernel of yourself. It is very original and grand stuff. I shall have to try when I get back to hold a seminar for the heads of the Treasury on Functional Finance. It will be very hard going—probably impossible. I shall have to temper its austerity where I can. I think I shall ask them to let me hold a seminar of their sons instead, agreeing beforehand that, if I can convince the boys, they will take it from me that it is so!⁵

It was not only in this letter that Keynes retracted his initial remarks about Functional Finance. In 1945, when Keynes again visited the United States, he repeated his praise of Lerner at another

Federal Reserve Seminar. In this meeting Keynes spoke in glowing terms of Lerner's contribution and "without any provocation, he held forth a panegyric on Functional Finance" (Domar 1983). Later that evening, at a dinner Alvin Hansen had arranged for Keynes, Lerner and Keynes had another exchange which is also worth noting.⁶ Lerner approached Keynes and asked: "Mr. Keynes, why don't we forget all this business of fiscal policy, public debt and all those things, and have some printing presses." Keynes, after looking around the room to see that no newspaper reporters could hear, replied: "It's the art of statesmanship to tell lies but they must be plausible lies."⁷

While conclusions are difficult to draw, I think we can say the following: Lerner was an expositor of rare talent and we owe to him much of our understanding of the elemental logic of Keynes's theory. But the elemental logic of a theory does not always translate easily into sensible policy. Lerner translated theory directly into policy and in doing so added insight into both theory and policy and also often arrived at policy proposals that, at the time, seemed politically outrageous. Keynes fitted his policy to the political tenor of the time, developing only those theoretical issues relevant to the question at hand. When faced with Lerner's direct policy inferences, he could recoil, and feel, if not say, "I am not a Keynesian."

As a final comment, I think it appropriate to rely on one of Lerner's favorite parables to help us understand, if not fully

⁶ This exchange is from an unpublished transcript, in my possession, of a recording of a Boston University Seminar (April 24, 1972) in which Alvin Hansen and Abba Lerner were discussing their roles in the Keynesian revolution. Lerner did not remember this exchange but Hansen did.

⁷ Lerner's question and Keynes's response must be treated with care. Both were brilliant conversationalists, quite willing to make statements for their effect on others. In retelling the incident, Hansen specifically noted that Keynes's statement was a successful attempt at one-upmanship over Lerner.

⁴ Lorie Tarshis brought this letter to my attention.

⁵ Chapters 24 and 25 were the ones in which Lerner developed the concept of Functional Finance.

resolve the Patinkin/Meltzer debate. It nicely captures the relevance of the "I am not a Keynesian" quote to that debate. Lerner writes:

'But look,' the Rabbi's wife remonstrated, 'when one party to the dispute presented their case to you, you said "you are quite right" and then when the other party presented their case you again said "you are quite right," surely they cannot both be right?' To which the Rabbi answered, 'My dear, you are quite right!' [1951, p. 139].

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