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Keynes's state planning: from Bolshevism to the *General Theory*¹

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The central controls necessary to ensure full employment will, of course, involve a large extension of traditional functions of government. (Keynes 1973, 379)

1 Introduction

On 14 March 1932, Keynes stated: “There is a new conception in the air today - a new conception of the possible functions of government...” (Keynes 2013f, 84). Keynes was referring to state planning. His enthusiasm was due to his belief that the state could use planning as an instrument to reach extraordinary goals, such as full employment and income distribution, to provide the economy with purchasing power to maintain itself in the quasi-boom state.² The forces behind his notion of state planning were mostly drawn from Bolshevist Russia: “The Russian Five-Year Plan has assaulted and captured the imagination of the world” (Keynes 2013f, 84-85).³ According to Nove (1992, 127), Soviet planning theorists and practitioners were the pioneers.

² This term *quasi-boom* was used by Keynes: “The right remedy for the trade cycle is not to be found 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” (Keynes 1973, 322). Aside from that, Keynes stated that “the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes” (Keynes 1973, 372).

³ Keynes acknowledged that “... a second force of example—Italian Fascism which — attacking the same problem with an opposite mentality — seems to have saved Italy from chaos and to have established a modest level of material prosperity within a poor and over-populated country” (Keynes 2013f, 85). Nonetheless, one cannot find in his writings long and detailed references to the Italian state planning experience, as he did to the Russian case. Keynes’ intellectual relationship with Bolshevist Russia is richer than his relationship with Fascist Italy – and no analysis of this country’s planning experience is to be found in his writings. In a classical book, *The Universal Aspects of Fascism*, James Strachey Barnes suggested that Keynes’ ideas and fascist economics might converge: “...Fascism entirely agrees with Mr. Maynard Keynes despite the latter’s prominent position as a Liberal. In fact, Mr. Keynes’ excellent little book, *The End of Laissez-faire* (...) might, so far as it goes, serve as a useful introduction to fascist economics” (Barnes 1928, 113-114). One must mention that during the 1920s and 1930s, a fertile debate on planning took place in some continental European countries. For instance, Emil Lederer and Carl Landauer were prominent economists debating this theme in Germany. Some of their most important works about planning were written in German and published at the beginning of the 1930s. However, they did not seem to have had any influence on Keynes, as he never cited these authors in his works on planning. On the other hand,

Keynes visited Russia three times between 1925 and 1936, and his wife was Russian. He knew Russia, the country's economy, and its political regime very well. He admired and praised that Russia had managed to implement a planned economy. However, he disapproved of Russia having a totalitarian regime. Keynes believed that state planning was necessary, and therefore it should be applied in a country where political liberties are upheld. He believed capitalism "... suffer[s] a chronic failure to live up to the opportunities of our technical capacity to produce material goods" (Keynes 2013f, 87). In other words, entrepreneurs are capable of producing goods, but there must be consumers capable of buying these goods; otherwise, economies will suffer chronic failures.

Entrepreneurs produce goods, while planning is what ensures that those goods are sold. Individual intelligence and effort are necessary to produce goods, but collective intelligence for planning is necessary to guarantee that the goods are sold. In Keynes's words:

To remedy this failure is the problem of planning. The problem of planning is to do those things which, from the nature of the case, it is impossible for the individual to attempt. To bring in the collective intelligence, to find a place in the economic scheme of things for central deliberation, is not to disparage the achievements of the individual mind or the initiative of the private person. Indeed it is the achievements of this initiative which have set the problem. (Keynes 2013f, 87)

The purpose of this article is to describe Keynes's conception of planning. For that, it unveils the influences that shaped his ideas, his criticisms of the Soviet regime, and at the same time, his admiration for the Russian idea of centrally controlling the economy. At the beginning of the 1930s, Keynes found/recognized in the New Deal many aspects of his conception of planning. The United States was a democratic country, and the New

Lederer is known to have read and cited Keynes's macroeconomic works during the 1920s (see Allgoewer 2003, 328). Both Landauer and Lederer faced extreme persecution under the Nazi regime and immigrated to America in 1933, where they started to write in English. Landauer released his book *Theory of National Economic Planning* in 1944, where he commented on Keynes' macroeconomic model.

Deal contained economic policies that targeted recovery from the Depression and structural reforms to stabilise the country's economy with full employment.

The article concludes that Keynes derived his conception of state planning from the Russian and US American experiments. From the former, he imported the idea of central control — and that state planning was the adequate manner to control the economy. The American experiment proved to him that one could have state planning with individual liberties preserved. This combination was the heart and soul of his conception, as is shown in this article. In Keynes's view, individual liberties create a favourable environment for entrepreneurial creativity to flourish.

Entrepreneurial creativity is the only way to face the effects arising from a particular type of uncertainty related to product innovation, changes in consumers' preferences, and others. But there is another type of uncertainty, namely general uncertainty, that results from the potential lack of demand and that could impede the produced goods from being sold. This problem cannot be solved by even the best, most skilled, creative, and intelligent entrepreneur. For Keynes, the lack of demand can only be solved by collective intelligence or state planning - which allows for the management of the level of demand. The article discusses these two types of uncertainty. Therefore, one concludes that state planning should concentrate more on the problems of the demand side. Keynes revealed this special attention to the demand side when he perceived that the New Deal was trying to balance supply and demand by using instruments to control the supplied quantities as well as the prices of goods — as is shown in this article.

To rebuild Keynes's conception of state planning, this article also recovers Rexford Tugwell's ideas and compares them with Keynes'. Tugwell was the only economist in the small group of advisors to Roosevelt working with him in the elaboration of the New Deal.

2 Influences from the Bolshevik regime

By 1929, Joseph Stalin had launched the famous Five-Year economic plans to develop agriculture and industry and increase the production and distribution of electricity in Russia (see Nove 1992, chapter 8). Russia was an extremely poor country, but after implementing such economic plans, it managed to reach a modest level of material prosperity. Even though Keynes praised those experiments as magnificent, he hoped for much more. Keynes found the Russian initiatives useful as they offered a solution to supplant the capitalist disorder of the twentieth century.

At the beginning of the 1930s, Keynes revealed his admiration for the Russian Five-Year Plans. By 1932, in the preparatory drafts of *The General Theory of Employment, Interest and Money*, Keynes remarked that the Five-Year Plans could provide an example of organization which is "... capable of raising output to its optimum point without bringing forces into operation which tend to reduce output before this optimum point has been reached" (Keynes 2013h, 389).

In the same period, Keynes made a sympathetic reference to communism, which similarly appeared in drafts of his *General Theory*. In his attempt to show that only in very rare situations would full employment occur, Keynes stated that such situations could only take place, for instance, in communist society "... [where] employers were equally responsible for the maintenance of their men as they are for the maintenance of their machines, whether they are employing them or not" (Keynes 2013a, 52).

Keynes's sympathy for the Soviet experiment preceded Stalin's Five-Year Plans. A few days after the revolution of 1917, Keynes said to his mother that he was "immensely cheered and excited" about the events in Russia (Skidelsky 1983, 337). On 24 December 1917, he wrote to his mother revealing his preliminary feelings about capitalism and Russia:

My Christmas thoughts are that a further prolongation of the war, with the turn things have now taken, probably means the disappearance of the social order we have known hitherto. With some regrets I think I am on the whole not sorry. The abolition of the rich

will be rather a comfort and serve them right anyhow. What frightens me more is the prospect of general impoverishment. (...)

Well, the only course open to me is to be buoyantly Bolshevik; and as I lie in bed in the morning I reflect with a good deal of satisfaction that, because our rulers are as incompetent as they are mad and wicked, one particular era of a particular kind of civilisation is very nearly over. (Keynes 2013e, 265-266 - emphasis added)

After World War I, the international Genoa Conference was held in 1922, the purpose of which was to re-establish confidence among nations. Germany, and for the first time Russia, was invited to a conference of this kind. Keynes attended the Genoa Conference because he had been hired as a correspondent to write a series of articles for the *Manchester Guardian* about the summit (see Johnson in Keynes 2013g, 354).

Keynes wrote a number of articles about Russia, two of which deserve to be highlighted: *Rubbish about Billiards* (April 18) and *The Financial System of the Bolsheviks* (April 26). In the first, Keynes pointed out that “The revolution (...) has also released them from many things, and amongst others from the huge obligations incurred to the foreigner by the old regime for its own purposes” (Keynes 2013g, 389). In the second one, Keynes expressed surprise in and satisfaction with the direction of the ongoing economic organization in Russia. He talked to the Russian delegation present in Genoa and concluded that a rapid and full recovery could be underway from “the original chaos and primeval slime” (Keynes 2013g, 408). His words reveal his curiosity and some hope:

An extraordinary experiment in socialism is in course of development. I think that there may be solid foundations on which to build a bridge. Revolutions are not kid-glove affairs, particularly in Russia. But a mere disgust and moral indignation, which has not even the curiosity to discover the facts, is never by itself the right reaction to a great historical event. (Keynes 2013g, 408)

Keynes visited Russia for the first time in 1925, shortly after his marriage to the Russian ballerina Lydia Lopokova. Keynes wrote three articles about Russia in October of that year, which were first published in the *Nation and Athenaeum* and were later merged into

a single chapter entitled *A Short View of Russia*, published as a part of his book *Essays in Persuasion* (released in 1931). His impressions about the economic potentialities of the new regime were optimistic. Keynes remarked:

Some of the grandiose schemes of the new regime are beginning to take actual shape. Leningrad will soon be supplied with power and light from one of the largest and most modern generating stations in the world. The plant-breeding establishments, which are to supply the peasant with better seeds on the latest Mendelian lines, are extensive and well-equipped. (Keynes 2013b, 266)

Although Keynes was enthusiastic about Stalin's Five-Year Plans, the central economic control implemented by the state was what truly inspired him about the Russian regime and sparked his admiration for the economic initiatives led by the Russian leaders. Stalin's plans were merely the practical organization of the idea of central control. After all, Keynes was convinced that the central control of key variables was required to stabilize the economy (with full employment) and build a better society. In his words, written in 1932:

I am convinced that those things which are urgently called for on practical grounds, such as *the central control of investment and the distribution of income* in such a way as to provide purchasing power for the enormous potential output of modern productive technique, will also tend to produce a better kind of society on ideal grounds. (Keynes 2013f, 36-37 – emphasis added)

In addition, Keynes was convinced that central control and planning were also necessary for an economy with severe problems to recover. For example, in 1931, he gave a lecture in New York (to the New School for Social Research), where he referred to an ongoing problem and to something similar to Stalin's Five-Year Plan as a solution to the imbroglio. In his words:

The impediment comes, we are plausibly told, not from any shortage of credit or of loanable funds but from a lack of sound borrowers. We are in a vicious circle. So long as business profits are low, it is worth no-one's while to borrow;

and so long as it is worth no-one's while to borrow, business profits will be low. How are we to break the vicious circle?

It might be that there would be no way to break it within a reasonable space of time except direct Government intervention, a sort of Five Years' Plan—or Five Months' Plan, perhaps. (Keynes 1981, 550)

From the middle of the 1930s onwards, Keynes became more enthusiastic about Russia's planning and its results. He praised that the Russian planning experiment was starting to welcome its first impressive achievements. The "Russian innovators," as Keynes called them, would have supplanted revolutionary and doctrinaire phases. They were involved in the gigantic administrative task of building a new country. In his very expressive words on the BBC on 1 June 1936:

Until recently events in Russia were moving too fast and the gap between paper professions and actual achievements was too wide for a proper account to be possible. But the new system is now sufficiently crystallised to be reviewed. The result is impressive. The Russian innovators have passed, not only from the revolutionary stage, but also from the doctrinaire stage.

There is little or nothing left which bears any special relation to Marx and Marxism as distinguished from other systems of socialism. They are engaged in the vast administrative task of making a completely new set of social and economic institutions work smoothly and successfully over a territory so extensive that it covers one-sixth of the land surface of the world. (Keynes 2013c, 233-334)

In 1945, Keynes acknowledged that Russia had succeeded in overcoming starvation and rebuilding itself in a short time, emerging in good health half a generation later (Keynes 2013j, 275-276). Although Soviet planning and its results influenced Keynes, he repeatedly rejected what he called *state socialism*, that is, the state taking control of the ownership of the instruments of production, such as the nationalisation of the railways in an alleged reorganisation of the economic life of Great Britain (see Keynes 2013b, 290-

291 and 309-310). Private ownership of the instruments of production was considered essential in Keynes' view of state planning, as is shown in section 4.

3 Political liberalism and state planning

For Keynes, the planning of an economy should take place within an environment of full individual and political liberties. This was a matter of principle, but it was also a requirement for achieving economic efficiency (as will be seen later). However, all liberties were sacrificed in the Soviet regime, throughout the Leninist phase to the Stalinist one. Keynes believed that for the Bolsheviks, the end of political liberalism initially seemed to be only a method, but it became an end in itself. In a letter to the editor of the *New Statesman and Nation*, in 1934, Keynes stated that “Marxists are ready to sacrifice the political liberties of individuals in order to change the existing economic order. So are Fascists and Nazis. (...) My own aim is economic reform by the methods of political liberalism” (Keynes 2013c, 28-29).

Keynes considered the Russian political regime “... a creed which does not care how much it destroys the liberty and security of daily life, which uses deliberately the weapons of persecution...” (Keynes 2013b, 258). Besides, he pointed out that “Like other new religions, it [regime of Russia] seems to take the colour and gaiety and freedom out of everyday life and to offer a drab substitute in the square wooden faces of its devotees” (Keynes 2013b, 256-257). Indeed, the Soviet Union headed by Stalin was following, in Keynes's view, a path to the extinction of any trace of political liberalism. This existing state of affairs horrified Keynes, who wrote a letter to Kingsley Martin, saying:

... Stalin is engaged in a systematic destruction of the old Communist Party. (...) Lydia's Russian paper calculates that out of the 2,800,000 members of the Communist Party, something like 25 per cent have been executed, arrested, exiled or dismissed from their offices in the last few months. (...) Stalin's position will soon be indistinguishable from that of the other dictators... . (Keynes 2013c, 72)

According to Keynes, “Stalin has eliminated every independent, critical mind, even when it is sympathetic in general outlook. He has produced an environment in which the processes of mind are atrophied” (Keynes 2013f, 246). Keynes concluded that two ideologies stand, totalitarian states or liberal states: “The latter put peace and personal liberty first, the others put them nowhere” (Keynes 2013c, 73).

Keynes also voiced his critiques about the government methods of the Leninist period. In a courageous lecture in Moscow during his first visit to Russia, Keynes said:

The extremes of this epoch in the realm of government are Fascism on the one side and Leninism on the other. For my part, I accept neither. (...) Therefore I direct all my mind and attention to the development of new methods and new ideas for effecting the transition from the economic anarchy of the individualistic capitalism which rules today in Western Europe towards a regime which will deliberately aim at controlling and directing economic forces in the interests of social justice and social stability. (Keynes 2013i, 438-439)

Keynes knew the Bolshevik regime very well. In addition to his professional interests, his wife's family lived in Leningrad (now St. Petersburg). Keynes visited Russia in 1925, 1928 and in 1936 (see Moggridge 1993, 72). Lydia frequently visited her family without Keynes's company but always reported to him what she saw there. In the 1930s, Lydia was advised to be prudent in both her public and private comments about Russia for fear of reprisals against her family (Skidelsky 1994, 489).

Keynes pointed out that state planning was not necessarily a part of the economics of bolshevism (Keynes 2013f, 85). Keynes believed that carrying out state planning did not require giving up political liberalism. He wanted the best of bolshevism, that is state planning, and the best of democracy, which is individual and political liberties. In Keynes's words:

May it not be a necessary price to pay for the benefits of state planning, that we also suffer those other affronts to the individual which seem to be inseparable from a Bolshevik or a Fascist state? For myself, I do not see why this need be so. At least I should like to try whether it be not possible to enjoy the advantages of both worlds. (Keynes 2013f, 91)

Even though Keynes developed his ideas about planning under the influence of Bolshevik Russia, he refused to limit individual creativity or eliminate political liberalism to reach

his goal.⁴ Keynes was in favour of state planning but “...without impairing the constructive energy of the individual mind, without hampering the liberty and the independence of the private person” (Keynes 2013f, 88). *Ergo*, Keynes’s conception of planning had no intention of reducing or eliminating competition between economic agents or abolishing the private motivation of profit.

⁴ It is a well-known fact that Bernard Shaw, a friend of Keynes who was a Fabian socialist, was sympathetic to Benito Mussolini, Stalin, and their political regimes. Keynes disagreed with him for supporting tyrants and accepting supposedly easier ways. Keynes said: “I suspect that Bernard Shaw's preference for tyrants is mainly due to his being impressed with the difficulties of persuasion. It is easier to persuade a tyrant to adopt one's policy than to persuade the democracy” (Keynes 2013c, 36).

4 Planning, economic liberties, and uncertainties

In Keynes's view of planning, “It is not the ownership of the instruments of production which it is important for the State to assume” (Keynes 1973, 378) like it was in Russia. Planning should be implemented to do what individuals do not and/or are unable to do: “... it is of the essence of state planning to do those things which in the nature of the case lie outside the scope of the individual” (Keynes 2013f, 88). Therefore, planning is not meant to interfere with and attempt to solve particular problems faced to by entrepreneurs (microeconomic problems). Conversely, planning should attempt to organize the system and to mitigate those problems affecting all entrepreneurs (macroeconomic problems). In Keynes’s words:

Its object is to take hold of the central controls and to govern them with deliberate foresight and thus modify and condition the [macroeconomic] environment within which the individual freely operates with and against other individuals [facing their microeconomic problems]. (Keynes 2013f, 88)

Microeconomic problems create a specific type of uncertainty, while macroeconomic problems cause another. Keynes conceived his first ideas about the need for central control of an economy and the problem of state planning at the beginning of the 1930s — when Great-Britain and the United States were plunged into the Great Depression, a macroeconomic problem. However, their governments were inept in the face of this grave situation, sparking outrage from Keynes: “It is at times of slump that the paradox of starving in the midst of potential plenty is most striking and outrageous” (Keynes 2013f, 87).

Although Keynes thought about central control and state planning during the Great Depression, he remarked that capitalism had a chronic problem: although the system offers opportunities to create wealth and employment for all, these are frequently wasted. Hence, a severe slump — such as the one they were living through — with high unemployment could go on for a long time or even repeat itself. Keynes did not consider it to be a passing event (or a short-term and self-terminating one). Capitalism, as it was, seemed to fail chronically, creating severe and long slumps together with high unemployment. The solution was state planning.

Keynes presented the question of planning very innovatively. In his view, there are two types of economic problems to be addressed: microeconomic and macroeconomic ones. On the one hand, some economic problems can be and should be approached at the level of entrepreneurs individually, because entrepreneurs are the ones who face them and can succeed in addressing them. These are microeconomic problems. On the other hand, there are macroeconomic problems that even competent and intelligent entrepreneurs are unable to solve. Referring to this latter situation, Keynes said:

The individual is helpless (...). There is virtually nothing that he can do, however ardent his desire and however pressing his personal interest. He is swept along, together with all his fellows, on a [macroeconomic] flood which he cannot control or direct. (Keynes 2013f, 89-90).

Indeed, these two types of problems create uncertainties, and each type of economic problem creates its own type of uncertainty for entrepreneurs to face.⁵ The first is circumscribed to specific entrepreneurial problems such as the ones related to production techniques, cost-minimizing, the quality of goods, and the training of specialised workers. The essence of entrepreneurial activity is addressing this type of uncertainty (or microeconomic problem) and attempting to overcome it to make profits. Many entrepreneurs can perform these tasks. However, there is also another type of uncertainty (or problem), namely general uncertainty, which presents itself on another level. It is very different from that type of particular uncertainty that entrepreneurs face and address individually. This general uncertainty involves all entrepreneurs: it comes from the possibility of the economy suffering an overall contraction of demand, which would provoke industrial slumps. Keynes used a metaphor to explain this type of macroeconomic problem. An entrepreneur can be "...crushed between the ice-bergs of a frozen world which no individual man could thaw and restore to the warmth of normal life" (Keynes 2013f, 90).

⁵ Cardim de Carvalho (2019, 22n) pointed out to the existence of these uncertainties noted in Keynes's writings.

A businessman could, for instance, discover an innovative production technique and produce high-quality goods at lower prices, but he/she cannot “thaw an iceberg” and restore the warmth of normal demand. Keynes reinforced this idea by saying, “... it is impossible to carry on the sort of organisation, to which we have been accustomed, in an atmosphere of complete uncertainty as to the future when we feel that a knife may at any moment cut every activity” (Keynes 2013f, 492). Here it becomes clear the importance of state planning as Keynes elaborated it; its set of initiatives to help avoid or mitigate abrupt falls in demand and, therefore, eliminate or reduce general uncertainty.

The distribution of the tax burden and the appropriate management of the domestic currency in relation to other currencies are examples of areas where state planning can be implemented (see Keynes 2013f, 88-89). Besides, a suitable administration of credit and monetary policy on interest rates and an organised programme for countercyclical fiscal policy are other examples.⁶ In other words, Keynes understood state planning as a set of economic initiatives that involved economic policies and structural elements. Everything should be done to avoid severe industrial recession or to mitigate general uncertainty: “...the most outstanding opportunity for state planning throughout the world is to be found in the avoidance, or in the mitigation of industrial slumps during which there is so vast a loss of the world's potentialities for the creation of wealth” (Keynes 2013f, 89).

The monetary and financial system, the value of the domestic currency in relation to other currencies, socio-economic inequality, market structures, and others, are all sources of collective problems that can turn into the two most important macroeconomic problems in Keynes’s view: slump and unemployment. For example, it is noticeably clear that a financial crisis can cause investment to collapse and unemployment to increase. That is why the scope of Keynes’ planning is much broader. Therefore, one should not mistake Keynes’ planning for a countercyclical expenditure programme exclusively. Keynes had a broader understanding of state planning, which comprised a set of economic policies

⁶ Herbert Stein, a famous scholar of fiscal policy in the US, argued that, after Keynes, fiscal policy should no longer be used only as an emergency measure (as is commonly accepted) but rather as a policy to be used permanently: “Without Keynes, and especially without the interpretation of Keynes by his followers, expansionist fiscal policy might have remained an occasional emergency measure and not become a way of life (Stein 1988, 39).

and structural elements, including (but was not restricted to) a countercyclical expenditure programme. In his view, state planning cannot be reduced to a question of demand-management. Instead, it should envisage, for example, creating regulations to maintain financial stability and managing taxation to reduce socio-economic inequality (see Keynes 1973, chapter 24).⁷ It should comprise structural elements in an attempt to avoid crises. In parallel, policies of demand-management could be applied to avoid crises and also to combat them. Consequently, planning involves a wide range of governmental functions.

The art of Keynes's state planning is in eliminating or mitigating general uncertainty while maintaining an environment with particular uncertainties, which eventually are the motive for entrepreneurial creativity and competition and the search for profit. About this, Keynes said, "I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use. There are, of course, errors of foresight; but these would not be avoided by centralising decisions" (Keynes 1973, 379). Using creativity, an entrepreneur can address particular uncertainties, but is powerless to defeat the effects of general uncertainty. That was why Keynes said:

... state planning, directed to the maintenance of the general average of industrial production and activity at the optimum level and to the abolition of unemployment, is at the same time the most important and the most difficult of the tasks before us. (Keynes 2013f, 90)

Within this context of particular and general problems, Keynes also draw a distinction between the entrepreneurial activities that could be performed by a technical manager and those that state planning should address:

Let us mean by planning, or national economy, the problem of the general organization of resources as distinct from the particular problems of production

⁷ An implication of Keynes' planning is that income and wealth redistribution should be pursued because it is efficient (not necessarily because it is socially fair). Keynes combined income distribution, propensity to consume, and his multiplier, to make full employment policies more efficient. This is part of Keynes' *General Theory* model.

and distribution which are the province of the individual business technician and engineer. (Keynes 2013f, 87)

As previously mentioned, Keynes believed that state planning should create and maintain a favourable ambient environment for entrepreneurial creativity, competition, and innovation. However, economic freedom can only exist where all liberties are guaranteed. In other words, state planning should not mitigate political liberalism but only general uncertainty. In Keynes's words:

We have to show that a free system can be made to work. To favour what is known as planning and management does not mean a falling away from the moral principles of liberty which could formerly be embodied in a simpler system. On the contrary, *we have learnt that freedom of economic life is more bound up than we previously knew with the deeper freedoms—freedom of person, of thought, and of faith.* (Keynes 1983, 239 - emphasis added)

The objective of planning as elaborated by Keynes is to control the necessary instruments, the management of which can make economic future more predictable — meaning there can be a world where general uncertainty is not a concern. The aftermath is likely to be an organised economic environment where freedom is guaranteed to pursue profits and prosperity. Keynes's words are illustrative of this point: “In contemporary conditions we need, if we are to enjoy prosperity and profits, so much more central planning than we have at present...” (Keynes 2013f, 492).

5 Keynes' conception of state planning and the New Deal

Keynes' challenge was to design state planning in a format that worked well in a democratic society. His first inspiration came mostly from Russia in the 1920s and 1930s — but Keynes only desired the Russian conception of central control, not its totalitarian ways of governance. Keynes found state planning and democracy, all at once, in 1933 when President Franklin Delano Roosevelt launched the New Deal in the United States. In the New Deal, Keynes recognized genuine planning that covered all the necessary areas to stabilize an economy with full employment.

Roosevelt was not elected in a political and economic vacuum. His planning was crafted in the face of the Great Depression. However, for Roosevelt and his closest advisors, a market economy (whether it is facing a crisis or not) should be planned to avoid different unbalances. These disruptions could lead an economy to face grave problems, including depression. Consequently, one can speculate that Roosevelt would have launched a plan to reorganize the American economy even in a calm economic setting. Coincidentally, Keynes was also concerned with the system as a whole and its stability.

Roosevelt was elected governor of New York in 1928 and served from January 1929 until his election as president of the United States in 1932. As a governor, he had already demonstrated that he was a planner. He had elaborated a plan that involved natural resources and infrastructure. Roosevelt had "... a long-term regional plan for a land-use survey along with the development of water power resources, reforestation, road construction, electrification, and dispersal of industries in rural areas" (Faulkner 1956, 150). These ideas were carried over in many ways into his presidency. It seems obvious that Roosevelt's state planning ideas would be channelled to his conduct of central government, especially in the face of a major crisis. Faulkner's words are illustrative:

He [the President] believed in the "positive state"; his planning inevitably included government direction; (...). Some efforts were obviously necessary reforms, some were immediate and temporary to improve a desperate situation. (Faulkner 1956, 151)

In the view of Roosevelt and his closest advisors, the Great Depression was not a problem of mere deficient aggregate demand. This was only the most visible face of the crisis. In their view, the great cause behind depression was structural in nature,⁸ which was why large-scale planning with structural reforms and economic policies was necessary — in other words, it was not only a countercyclical fiscal policy that was needed.

The New Deal was a plan that involved countless areas,⁹ but one can divide it into three major parts: recovery measures, business reforms, and labour and social reforms, as listed below:

- i. Among the recovery measures were the following: The Civilian Conservation Corps (CCC) put unemployed young men to work in the nation's forests and parks; the Federal Emergency Relief Administration (FERA) provided work and cash relief; the Public Works Administration (PWA) supported infrastructure projects; the Public Buildings Branch (PBB) built and repaired federal buildings, e.g., post offices, courthouses,

⁸ Cardim de Carvalho presented an excellent summary of the president's diagnosis: "Franklin Roosevelt held definite ideas about the causes of the economic contraction initiated in the United States in the late 1920s. In his view, the violence and depth of the crisis was due to the unchecked accumulation of sectoral imbalances, especially between agriculture and manufacturing. In the 1920s, rural activities had suffered a strong negative shock. In the immediate aftermath of World War I, agricultural output had increased dramatically in response to the expansion of domestic and international demand. However, in the early 1920s, this impulse was exhausted, and prices for agricultural goods and livestock stagnated or fell, and rural incomes sagged for the rest of the decade. Meanwhile, manufacturing was booming until the end of the decade. Rising output and prices of industrial goods allowed the manufacturing sector to increase its share of national income at the expense of rural producers. As a result, demand from agriculture for industrial goods fell below the necessary level to maintain full capacity utilization in the manufacturing sector. For a while these pressures were masked by alternative demands of a speculative nature, fuelled by easy credit policies. Once the credit 'bubble' exploded in 1929, however, there was nothing to stop the meltdown of the manufacturing sector" (Cardim de Carvalho 2019, 4). Balisciano presented Tugwell's diagnosis, which was very similar to the president's: "Tugwell (...) surveyed the debris of the depression and concluded that America's economic problem was an undirected and uncoordinated economic system focused on the profit motive rather than production based on social need. Pursuit of profit for profit's sake had resulted in structural imbalance between sectors ..." (Balisciano 1998, 159).

⁹ There is a website with detailed information about all the programs of the New Deal; see <https://livingnewdeal.org/>.

and hospitals; and the Civil Works Administration (CWA) built new roads, installed new water mains, built or renovated schools, and so on.

- ii. Among the entrepreneurial reforms were the following: The Agricultural Adjustment Act (AAA) reduced surpluses of farm goods and livestock; the Banking Act of 1933 (“Glass-Steagall”) separated commercial banking from investment banking and created the Federal Deposit Insurance Corporation (FDIC) to insure bank deposits, curb bank runs, and reduce the number of bank failures; and the National Industrial Recovery Act (NIRA) and the National Recovery Administration (NRA) were created to regulate certain business activities.
- iii. Some of the labour and social reforms were as follows: The National Labor Relations Act was signed to enhance the ability of workers to unionize and make labour-management relations less violent; the Social Security Act created an old-age pension system and other social safety net programmes.

Keynes wrote an open letter to Roosevelt that was published in *The New York Times* on 31 December 1933, where he revealed his concerns about the need for American economic recovery and the accomplishment of structural reforms. He said to the president:

You are engaged on a double task, recovery and reform — recovery from the slump, and the passage of those business and social reforms which are long overdue. For the first, speed and quick results are essential. The second may be urgent, too; but haste will be injurious, and wisdom of long-range purpose is more necessary than immediate achievement. It will be through raising high the prestige of your Administration by success in short-range recovery that you will have the driving force to accomplish long-range reform. (Keynes 2013f, 290)

In his letter, Keynes also pointed out that “... public authority must be called in aid to create additional current incomes through the expenditure of borrowed or printed money”

(Keynes 2013f, 300). For Keynes, “the object is to start the ball rolling” (Keynes 2013f, 296).

5.1 Fiscal expenditure programme incorporated in Keynes’ planning

The New Deal and the Great Depression might have had a great influence on Keynes’ thoughts about how and when fiscal policy should be applied. Since the 1920s and after the Depression had begun, “... public works as a cure for unemployment became a hot issue in the United States” (Stein 1990, 144).¹⁰ For example, at the beginning of 1932, Foster challenged the fiscal orthodoxy, saying “This is no time to balance the budget - not, in any event, the budget of new capital expenditures. This is no time to increase taxes. The time to increase taxes is when taxpayers are prosperous” (Foster 1932, 55-56). But Frank Dickinson, professor at the University of Illinois, went further. He described (before Keynes) what was later labelled a Keynesian countercyclical fiscal policy:

Timed public works seem to offer the best additional means of stabilizing the general course of industry and trade; the idea rests upon the assumption that the *only* remedy for unemployment is employment. By concentrating the major volume of public construction in the years that would have been lean otherwise, the ‘Valley of Depression’; can be filled; and, what is far more important, the ‘Peak’; can be cut off the ‘Mountain of Frenzied Prosperity’; by performing very little public construction during periods of prosperity. (Dickinson 1932, 144 – emphasis in original)¹¹

¹⁰ To confirm Stein’s words, see Buttenheim (1932), Sawyer (1932), Loucks (1932), and Foster (1932). These articles are in the annals of the thirty-sixth annual meeting of the American Academy of Political and Social Science, which had *planning* as the main topic for discussion.

¹¹ According to Keyserling, “The proposal that the government spend more to employ people when unemployment is very high, and thus run a deficit, came well before Keynes was in vogue, and cannot be attributed to anyone man or school” (Keyserling 1972, 134). Keyserling said that this idea was, for example, in Senator Wagner’s Economic Stabilization Act of 1929, which proposed increased public works spending, as private indexes of economic activity were decreasing.

Stein argued that during this period, Keynes was making his transition from *Treatise on Money* (published in 1930) to the *General Theory* (published in 1936) (see Stein 1990, 144-147). In his *Treatise*, Keynes "... was still talking about deficit expending as recourse to supplement credit policy..." (Stein 1990, 144); subsequently, when he was still elaborating his *General Theory*, Keynes started to assert that depressions "... would so shake business confidence and reduce profit expectations ..." (Stein 1990, 145), and that the government would have to call for public works expenditure programmes.

In May 1931, Keynes gave a lecture at the University of Chicago, where he emphasized the need to lower interest rates as a solution for the American slump. During discussions with other economists attending the conference, the others gave much more weight to increasing public works expenditures than Keynes did (see Stein 1990, 145-146). Hitherto, Keynes had considered public works expenditure only as a complementary measure. These were some of Keynes' words on the matter during his lecture at the university:

I think the argument for public works in this country is much weaker than it is in Great Britain. In Great Britain I have for a long time past agitated very strongly for a public works program, and my argument has been that we are such a center of an international system that we cannot operate on the rate of interest, because if we tried to force the rate of interest down, there is too much lending, and we lose our gold...

In this country you haven't a problem of that kind. Here you can function as though you were a closed system, and I think all your argument hitherto has been rather based on the closed system assumption. For such a system I would use as my first method operating on the long-term rate of interest...

I think in this country deliberate public works should be considered much more as a tonic to change of business condition, but the means of getting back to a

state of equilibrium should be concentrated on the rate of interest. (Keynes in Stein 1990, 146)¹²

Keynes' theoretical transition occurred in parallel to the emergence of the Great Depression and the elaboration of the New Deal. Therefore, Keynes is likely to have learned some lessons from the American experiment with fiscal policy, which he knew so well. In addition, one can see that the expansive fiscal policy was not an original idea by Keynes. However, this specific idea about fiscal policy management only gained strength after Keynes concluded his theoretical revolution.

The economic part of the New Deal was influenced by others—never by Keynes. Rexford Tugwell and Marriner Eccles (a banker) were the most important personalities who treated on the subject of the economy with Roosevelt. The former was a specialist in planning and was favourable to "... a spending program, but only as a stopgap measure" (Stein 1990, 148), but the latter was an advocate of permanent compensatory spending programmes. Tugwell described Eccles as an "unconscious Keynesian" (Stein 1990, 148).¹³

¹² Mimeographed document that belongs to University of Chicago partially reproduced by Stein (1990).

¹³ "... Eccles had not then, in the early 1930s, read anything by Keynes and never in his life read very much by him. Moreover, Eccles was not aware of deriving his views on fiscal policy from anything he ever read or heard" (Stein 1990, 148). In a conversation with Stein, Eccles gave a reason for arriving at his unorthodox position: "he had never been to college and therefore did not have any orthodoxy economics to unlearn" (Stein 1990, 485). Alan Sweezy presented a different assessment: "Eccles has attributed the advanced character of his thinking to the fact that (a) he was a country banker, and (b) he had never gone to college. That explanation, attractive though it is, would not stand up under the most elementary statistical test. There must have been hundreds of country bankers who enjoyed the advantage of never having gone to college but who contributed nothing whatever to thinking about fiscal and monetary policy. The explanation rather is that Eccles combined unusual ability to cut through to the essentials of an economic argument with the intellectual independence and courage to say publicly exactly what he thought" (Sweezy 1972, 117).

5.2 Democracy was maintained by the New Deal

Although in his letter to Roosevelt Keynes emphasised that the president should implement fiscal recovery measures as a matter of urgency, he also recognized that Roosevelt should adopt the necessary reforms to guarantee a stable system. In January 1934, on a radio programme, Keynes said, “He [the president] has not been solely concerned with lifting the United States out of its disastrous slump. He is just as much interested, perhaps even more, in many liberal reforms, some of them long overdue” (Keynes 2013f, 307). It is especially important to stress that, in Keynes’s view, pursuing all these measures and reforms represented a great change in the prevailing governance model. However, at the same time, he believed that such changes did not damage American democratic principles. In his letter to the president, Keynes wrote:

You remain for me the ruler whose general outlook and attitude to the tasks of government are the most sympathetic in the world. You are the only one who sees the necessity of a profound change of methods and is attempting it without intolerance, tyranny or destruction. (Keynes 2013f, 295)

Keynes embraced the New Deal because of its two pillars: planning (containing structural reforms and emergency economic measures) and liberal democracy (therefore, planning without intolerance and tyranny). The famous political scientist and historian Ira Katznelson argued that democracy must prevail even in the face of great social and economic risks and where an efficient government is required. Using professor Berlin’s words, he said:

Looking backward, Oxford’s Isaiah Berlin remarked in 1955 how Mr. Roosevelt’s example strengthened democracy everywhere — that is to say, the view that the promotion of social justice and individual liberty does not necessarily mean the end of all efficient government (Katznelson 2013, introduction)

Moreover, Katznelson concluded, “Of the New Deal’s many achievements, none was more important than the demonstration that liberal democracy, a political system with a legislature at its heart, could govern effectively in the face of great danger” (Katznelson

2013, introduction). It is undeniable that the New Deal reinforced Keynes' hopes and beliefs: it preserved democracy and allowed for the implementation of state planning.

5.3 The New Deal was influenced by Soviet planning

At the beginning of 1932, one year before the New Deal was launched, the annual meeting of the American Academy of Political and Social Science chose *planning* as the main topic for discussion. This meeting suggested that Soviet planning was an important reference. In the foreword of the annals, Ernest Patterson wrote:

Our modern social machine is now too intricate for automatic operation. The Russian five-year plan has dramatized the situation and stimulated our thought on a problem that would in any case have soon demanded our attention. (Pettersen 1932, foreword)

At the same meeting, Foster said:

Our slums are a disgrace to the wealthiest country in the world. This much, in fairness, we must say for the Russian plan. If anywhere in Russia they had as many available trained carpenters and masons and bricklayers and engineers and architects and all the rest, and as much available steel and lumber and brick and all the other building materials as we have here, they would not sit around and stupidly hand out charity to the unemployed. They would use the surplus men and the surplus materials, and they would clean out these festering sores and make decent dwelling places for the people. Incidentally, there would be no unemployed. (Foster 1932, 55)

An in-depth and careful study by Feuer (1962) demonstrated that the New Deal was influenced by several hundred American who had travelled to the Soviet Union between 1917 and 1932. Among the travellers were trade unionists, social scientists, intellectuals, educators, social workers, philosophers, engineers, politicians, and economists (for example, Rexford Tugwell). This immense group of travellers published countless reports and opinion articles in the US. Thus, Feuer asserted that through those who travelled "...

to behold the new sociological scheme of things, there was constructed in the American intellectual consciousness (or shall we say the American intellectual unconscious), a status for the Soviet Union as the conscience-model of social experiment” (Feuer 1962, 146). Then, “When America was beset by the depression, its emotional unconscious and inventory of ideas for confronting the crisis were imprinted with the suggestions of the Soviet model” (Feuer 1962, 121).

The only economist in the group of Roosevelt’s closest advisers, Rexford Tugwell was a scholar of planning.¹⁴ His ideas had a major influence on the foundations of the New Deal. Tugwell, like Keynes, had been influenced by Russia's state planning. In 1927, Tugwell visited Russia, accompanying an American trade union delegation. In his report about the country, he was, to some extent, optimistic:

The least, and at the same time the best thing one can say for the Russia of today is that there is a new life beginning there. What it will be in its maturity, no one knows. (...) The spirit now is reconstructive; and its results seem as certain as those of most human enterprises of so vast a sort. (Tugwell 1928b, 102)

In another article about this subject, also published soon after his journey to Russia, Tugwell pointed out that “The national plan involves all economic activity”¹⁵ (Tugwell, 1928a, 165) and “... the place of control is in Moscow” (Tugwell 1928a, 165) by means

¹⁴ The five original members of Roosevelt’s small group of closest advisers were labelled the “Brains Trust”; this group, which had a major influence on the elaboration of the New Deal, included Rexford Tugwell (an economist), Raymond Moley (an expert on criminal justice), Adolph A. Berle, Jr. (a lawyer), Basil O’Connor (a lawyer), and Samuel Rosenman (a lawyer) (source: <https://livingnewdeal.org/>).

¹⁵ “... industry is conceived in strictly national terms, as, in fact, a rounded and self-sufficient system. And this involves agriculture and the other extractive employments as well as home-industry, the factory system, and external trade” (Tugwell, 1928a, 165). “It is astonishing to recollect that this experimentalism is at work in a national effort which involves nearly 150,000,000 people and one-sixth of the area of the globe, with the whole of its industry and all its social institutions. Education, social insurance, and the publishing of books come as prominently within its purview as does the operation of the steel works in the Donetz basin” (Tugwell 1928a, 167).

of the organism called the Gosplan.¹⁶ Like Keynes, he was convinced that planning should not be a subject of debate in "...the issue of capitalism vs. communism" and Tugwell asserted, "It [planning] seems to be realistic and experimental, just that and nothing more" (Tugwell 1928a, 172). For both Keynes and Tugwell, planning was an ideologically neutral method, and the latter concluded, "Perhaps the time is not far off when we shall, in spite of doctrinaire differences, begin to ask ourselves whether there are not some lessons that even we dominant Americans can learn there [in Russia]" (Tugwell 1928a, 183). Tugwell believed that Russians could learn from Americans' manufacturing techniques, and Americans could learn from Russians' planning techniques. He said:

... the only conclusion which seems to have been reached is that the Russians and ourselves have much to learn from one another, in order for both to achieve a set of very nearly common objectives. I regret profoundly that the present confusion of doctrine with realities should be allowed to keep us apart. (Tugwell 1928a, 187)

Tugwell was more explicit about Americans' interest in Soviet state planning in an article presented at the Forty-Fourth Annual Meeting of the American Economic Association in March 1932. He voiced that:

... the interest of the liberals among us in the institutions of the new Russia of the Soviets, spreading gradually among puzzled business men, has created wide popular interest in 'planning' as a possible refuge from persistent insecurity; (...) where all sorts of compromises may be had and where peace and prosperity may be insured. (Tugwell 1932, 75)

There is a point in this passage that deserves to be highlighted: planning as a possible refuge to reduce or eliminate insecurity. This idea is close to Keynes's idea that planning

¹⁶ "The planning takes place as a result of the varied activities of the Council of Labor and Defense, having as its right arm Gosplan, the National Planning Commission. It is done in budgeting fashion" (Tugwell 1928a, 170). "The most unique instrument for their purpose to achieve a multiplied productivity was discovered when Gosplan was invented. Its business is to look ahead toward what is possible in view of the past and the present. Its members are regarding at present a point fifteen years away" (Tugwell 1928a, 174).

could be a means to mitigate general uncertainty. Tugwell also observed that planning might “eliminate uncertainties; uncertainties make prediction impossible”, and he asserted in conclusive terms that “planning is a process of predicting and making it come true” (Tugwell 1932, 82). One can say that these similitudes between Keynes and Tugwell’s ideas existed thanks to their similar views on the usefulness of Soviet planning for controlling the future—and, therefore, one important motivation behind Keynes’ endorsement of the New Deal was also due to its Soviet influence.

5.4 Keynes’s disagreements with Tugwell and the New Deal

Keynes had motives for disagreeing with Tugwell at some points. The latter asserted that planning was by definition “... not to private money-making ventures...” (Tugwell 1932, 89). Tugwell developed this topic as follows:

The next series of changes will have to do with industry itself. It has already been suggested that business will logically be required to disappear. This is not an overstatement for the sake of emphasis; it is literally meant. The essence of business is its free venture for profits in an unregulated economy. Planning implies guidance of capital uses; this would limit entrance into or expansion of operations. Planning also implies adjustment of production to consumption; and there is no way of accomplishing this except through a control of prices and of profit margins. It would never be sufficient to plan production for an estimated demand if that demand were likely to fail for lack of purchasing power. The insurance of adequate buying capacity would be a first and most essential task of any plan which was expected to work. To take away from business its freedom of venture and of expansion, and to limit the profit it may acquire, is to destroy it as business and to make of it something else. That something else has no name; we can only wonder what it may be like and whether all the fearsome predictions concerning it will come true. The traditional incentives, hope of money-making, and fear of money-loss, will be weakened; and a kind of civil-service loyalty and fervor will need to grow gradually into acceptance. New industries will not just happen as the

automobile industry did; they will have to be foreseen, to be argued for, to seem probably desirable features of the whole economy before they can be entered upon. (Tugwell 1932, 89-90)

Keynes might disagree that planning should guide capital uses (in each economic sector), control prices and profit margins, weaken the hope of making money, and eliminate the fear of monetary loss. However, he would heavily agree with Tugwell that planning should provide the economy with a purchasing capacity that could not fail. Keynes discussed these topics in the last chapter of his *General Theory*.

Keynes was certainly concerned with the aggregate amount of the means of production — the larger this amount is, the more people will be employed. He also believed that a planned economy is supposed to have devices to augment the yield rate of means of production to stimulate entrepreneurs to invest. When Keynes thought about profit margin levels, he was thinking about a necessary minimum level. In his words, “If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments [of production] and the basic rate of reward to those who own them, it will have accomplished all that is necessary” (Keynes 1973, 378).

Keynes trusted private self-interest to promote the better allocation of resources in each economic sector. In a well-known passage of his *General Theory*, he stated that:

When 9,000,000 men are employed out of 10,000,000 willing and able to work, there is no evidence that the labour of these 9,000,000 men is misdirected. The complaint against the present system is not that these 9,000,000 men ought to be employed on different tasks, but that tasks should be available for the remaining 1,000,000 men. It is in determining the volume, not the direction, of actual employment that the existing system has broken down. (Keynes 1973, 379)

Regarding the weakening of the hope of making money and the fear of money loss, both of which were mentioned by Tugwell, Keynes held that state planning should keep this hope up, as this was the basic motive for investing. Keynes also believed that planning should mitigate the fear of a general weakening of the economy. This fear of money loss

would only be healthy for the economy if entrepreneurs pondered about only particular uncertainties.

The distance between Keynes's and Tugwell's ideas seems to be clear. Tugwell had a conception of planning that involved supply-side and demand-side policies. His recommendations of supply-side policies became clear, for instance, when he said that it would be necessary to foresee new industries and discuss/make decisions about them before they entered into operation. His recommendation for demand-side policies appeared when he said that an adequate buying capacity would be the first and most essential task of any plan that is expected to work.

Keynes seemed to be less enthusiastic about supply-side policies, but he strongly recommended demand-side policies.¹⁷ Russia's state planning ideas seem to have influenced Tugwell more strongly than Keynes — since, as it is well-known, Russia's planning attempted to balance supply and demand by controlling both simultaneously.¹⁸

¹⁷ It should be noted that Keynes supported the supply-side policies of the New Deal during the deepest period of the crisis, for example, its policies to reduce stocks: “When President Roosevelt’s substantial loan expenditure began, stocks of all kinds — and particularly of agricultural products — still stood at a very high level. The ‘New Deal’ partly consisted in a strenuous attempt to reduce these stocks — by curtailment of current output and in all sorts of ways. The reduction of stocks to a normal level was a necessary process — a phase which had to be endured. But so long as it lasted, namely, about two years, it constituted a substantial offset to the loan expenditure which was being incurred in other directions. Only when it had been completed was the way prepared for substantial recovery” (Keynes 1973, 331-332).

¹⁸ The distance between Keynes's and Tugwell's conceptions of planning was not that the former pursued less control or planning than the latter; rather, they differed from one another over whether demand and supply should be controlled or the focus should be only on demand. In a letter to Hayek, dated 28 June 1944, Keynes wrote: “I should say that what we want is not no planning or even less planning, indeed I should say that we almost certainly want more” (Keynes 2013, 387), and in a second open letter to Roosevelt, published in the *New York Times* on 10 June 1934, Keynes suggested to the president that an office be established to rigorously control government spending so that the expected results could be met: “A small office should be set up, attached presumably to the Executive Committee, to collate the spending programmes, both realised and prospective, of the various emergency organisations, to compare estimates with results, and to report to the President weekly. If the volume or pace of prospective estimates appears to be deficient, the emergency organisation should be instructed to report urgently on further available projects. Housing and the railroads appear to offer the outstanding opportunities” (Keynes 2013f, 327).

Hence, one could say that the Russian planning model influenced the New Deal broadly and powerfully.¹⁹

As in Soviet planning, the New Deal offered a crystalline example of supply-side intervention.²⁰ There were schemas for controlling surpluses of farm goods (crop controls) and livestock. The goal was to establish and maintain minimum agricultural prices. These prices were supposedly meant to stimulate production with acceptable farm profits — everything was made in the name of centrally planned farm production and pricing. The New Deal also established minimum prices and production volume for manufactured products through the National Recovery Administration (NRA). According to Leon Keyserling,²¹ the NIRA, which created the NRA, were conceived based on Tugwell's planning ideas (see Keyserling 1972, 134).²² The objective was to avoid price

¹⁹ Regarding this point, Feuer was emphatic: "... American liberals must understand rather than repress the chapter of the Soviet influence from their history of the past" (Feuer 1962, 148).

²⁰ One can say that ideally, Soviet planning attempted to follow a large input-output matrix: each sector needed to produce enough output to cover final demands for its goods and also to cover the intermediate demand of the other producing sectors (see Bernard 1966, 67-77). In Bernard's words: "Soviet planning is essentially an enormous administrative machine, the working of which depends on the cooperation of a very large number of individuals and organizations" (Bernard 1966, 68). The planning goal was capital accumulation to bring about rapid economic growth. One can perceive that this type of planning is quite different from Keynes's. The latter is mostly concerned with organising and influencing macro-aggregates (by means of economic policies and structural elements). The Soviet input-output matrix as a planning instrument does not fit in Keynes' conception. But this does not mean that Keynes had not suggested specific and detailed initiatives, for example: "Why not pull down the whole of South London from Westminster to Greenwich, and make a good job of it— housing on that convenient area near to their work a much greater population than at present, in far better buildings with all the conveniences of modern life, yet at the same time providing hundreds of acres of squares and avenues, parks and public spaces, having, when it was finished, something magnificent to the eye, yet useful and convenient to human life as a monument to our age" (Keynes 2013b, 139).

²¹ Keyserling was Tugwell's student, an important New Dealer, a consulting economist for the Senate, and a member of the Council of Economic Advisers.

²² The NIRA/NRA lasted for two years before they were struck down by the Supreme Court as unconstitutional. They "effectively fixed prices and wages, established production quotas, and imposed restrictions on entry of other companies into the alliances" (*Our Documents*, from the secondary source: <https://livingnewdeal.org/glossary/national-industrial-recovery-act-1933/>). The Supreme Court decided that the NIRA/NRA had given the central administration too much power to control the economy. It is also important to present how Myron E. Sharp described entrepreneurs' sentiments about several programs of the New Deal: "... the government was invading their turf. It was telling business what to do. It was

wars and guarantee acceptable profits for entrepreneurs. The expected results were an increase in prices and, subsequently, in production. Keynes was a critic of this arrangement, which attempted to control prices to stimulate production. His focus was on the demand side. In Keynes' words:

I do not mean to impugn the social justice and social expediency of the redistribution of incomes aimed at by N.I.R.A. and by the various schemes for agricultural restriction. The latter, in particular, I should strongly support in principle. But too much emphasis on the remedial value of a higher price-level as an object in itself may lead to serious misapprehension as to the part which prices can play in the technique of recovery. *The stimulation of output by increasing aggregate purchasing power is the right way to get prices up; and not the other way round.* (Keynes 2013f, 292-293 - emphasis added)

In short, the New Deal showed Keynes that planning and democracy could work together, and therefore, planning was not a communist method but a useful method for any type of government instead. According to Tugwell, Roosevelt, and Keynes, capitalism should be permanently organized by efficacious planning. For them, capitalism governed by laissez-faire policies only would face severe disruptions; consequently, it required large-scale planning with structural reforms and economic policies. Planning was a method to link policies and structural rules that worked well and powerfully when implemented together. Moreover, Keynes learned that central control was required to follow up on the day-by-day running of the economy to improve its results. For Keynes, the dominant variable in a market economy is general uncertainty, and planning offers a vaccine against its effects — if this type of uncertainty fades, entrepreneurs feel safer to invest, and full employment can emerge. However, state planning should create an environment that is favourable for competition, the pursuit of profit, innovation, and creativity together with all their

violating the sacred right of the businessman and the worker to make a contract without outside interference. And the government was going into business for itself, competing with legitimate private interests. What, then, was the business program? Go away. Leave us alone” (Sharpe 1995, 62).

particular uncertainties. Keynes's words in the last chapter of his *General Theory* are very explanatory:

The central controls necessary to ensure full employment will, of course, involve a large extension of the traditional functions of government. (...) But there will still remain a wide field for the exercise of private initiative and responsibility. Within this field the traditional advantages of individualism will still hold good. (Keynes 1973, 379)

Conclusions

The Bolshevist regime inspired Keynes with the idea that centrally controlling an economy could be done. That is, the state can control key variables by organising and establishing successive economic plans. These successive economic plans were named state planning. In this effort, Keynes considered the volume of investment and income distribution the most important macro variables to be controlled by the state. Keynes framed a format of state planning with a set of economic policies and structural elements to avoid crises and combat them. Therefore, state planning plays a key role to ensure full employment and, as said in the epigraph, it “...involve[s] a large extension of traditional functions of government”. This type of planning is different from the Soviet model because Keynes was interested in controlling and influencing macro-aggregates while the Soviet planning targeted economic growth by directly controlling all the demand and supply flows.

In Keynes’s view, state planning should control the volume of investment and income distribution with the view of achieving full employment. Hence, state planning should keep an economy in a quasi-boom state and, therefore, avoid slumps. To do so, state planning should eliminate or mitigate general uncertainty related to the potential lack of demand, with the purpose of favouring investment decisions. However, state planning should also create an ambient environment that fosters creativity, innovation, and competition together with all the uncertainties that surround them.

Preserving individual liberties was a matter of principle for Keynes. Moreover, he believed such liberties were also important to guarantee economic efficiency. They are essential for creating an adequate environment for entrepreneurial creativity, innovation, and competition. Keynes had a puzzle to explore: The Bolshevist regime had eliminated all individual liberties; however, economic efficiency and economic freedom depended, in turn, on freedoms — those of thought, faith, and so on.

Keynes found the answer to his puzzle in the New Deal. Roosevelt’s experiment offered some possibilities and lessons to Keynes. Like Keynes, Tugwell — the most important economic advisor to the president — was an enthusiastic admirer of Russia’s state planning, but there, the planning experiment was undertaken by a totalitarian regime.

Nevertheless, Tugwell and Roosevelt's New Deal brought about the possibility of comprehensive state planning working in harmony with a strong democracy. This was the most important feature Keynes noticed.

The New Deal might have evidenced to Keynes how a fiscal policy of expenditure could work as the most powerful countercyclical policy (not a monetary policy, as Keynes believed at the very beginning of the 1930s). Last, but not less important, is that economic policies of state planning should focus mostly on the demand side, in favour of which Keynes had argued. Supply-side policies could be inefficacious and even injure entrepreneurial liberty.

In 1932, four years before Keynes's *General Theory* was published, Foster coincidentally synthesized Keynes's general view of planning. By presenting a plan that he himself had proposed in the 1932 *Annals of the American Academy of Political and Social Science*, Foster stressed:

The plan I propose is American to the core. It is not based on terror or tyranny or spies or secret police or bureaucracy; it requires no change in human nature, no new incentives to individual effort; it requires no sacrifice of our traditions. It is based on individual initiative and reward and freedom of enterprise; it does not dictate to anybody what he shall produce or whom he shall hire or what wages he shall pay or what prices he shall charge. It is managed money, but it is unmanaged men. (Foster 1932, 57)

Though someone might think that Keynes influenced the New Deal, this has not been proven. As a matter of fact, it may have been the other way around: Keynes was influenced by the New Deal. According to Stein, "... no substantial influence from Keynes on the New Deal has been found" (Stein 1990, 148). Keyserling was more incisive: "With all due respect to Keynes, I have been unable to discover much reasonable evidence that the New Deal would have been greatly different if he had never lived, and if a so-called school of economics had not taken on his name" (Keyserling 1972, 135). Moreover, Tugwell, who introduced Keynes to the US president, remembered that in 1934, soon after their first meeting, Roosevelt told him, "Well, that damned Englishman is trying to tell us what we're doing already" (as quoted in Balisciano 1998, 169).

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