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Keynesianism: Its Rise, Fall and Transformation in Europe and North America

Keynesianism in Germany

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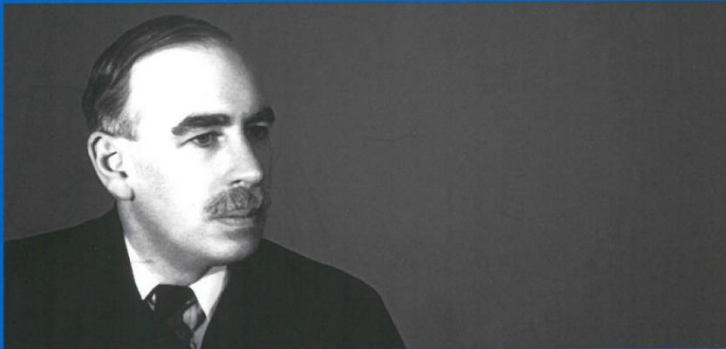


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John Maynard Keynes

Gesammelte Artikel im „Wirtschaftsdienst“ von 1920 bis 1932

Herausgegeben von Kristin Biesenbender, Brigitte Preissl
und Cora Wacker-Theodorakopoulos



Mit einer Einleitung von Harald Hagemann
und einem Vorwort von Jürgen Kromphardt

Keynes had been a central point of reference in economic debates in Weimar Germany ever since his publication of *The Economic Consequences of the Peace*.

Die wirtschaftlichen Folgen des Friedensvertrags (1920)

In 1919 Keynes befriended *Carl Melchior* (Warburg Bank, Hamburg) Chairman of the German finance delegation at Versailles

Keynes essays (51) published in *Der Wirtschaftsdienst* edited by *Kurt Singer* (1920-27) and *Eduard Rosenbaum* (1927-33)



2. The wage-employment debate in Germany and the UK

There had been many parallels in the debates on the *wage-employment nexus* between Germany and Britain in the years 1929-32. This topic also matters for some controversies which center on an important paragraph at the end of Keynes's Preface to the German edition of the *General Theory*.

Germany: Reparation payments: Necessity to generate export surpluses

Britain: Return to the gold standard at pre-WWI parities

Keynes (1925): 'The Economic Consequences of Mr. Churchill'

Keynes: 'The Question of High Wages' (1930) advocated squeezing the higher wages out of increased efficiency, i.e. *relative* instead of absolute wage reductions to regain international price competitiveness



The watershed year 1933

J.M. Keynes, “A Monetary Theory of Production”, in: G. Clausing (ed.), *Der Stand und die nächste Zukunft der Konjunkturforschung. Festschrift für Arthur Spiethoff* (1933).

1933 watershed year

Many of the most qualified reviewers of the *Treatise on Money* (1930) had already emigrated from Nazi Germany when the *General Theory* (1936) was published (e.g. Neisser, Röpke).

Nevertheless many substantial reviews in Germany (Lautenbach, Peter; Föhl 1937) or the German language area (Amonn, Jöhr, Schüller).



3. The German edition of *The General Theory*: Controversies on the Preface

The first foreign-language publication of the *General Theory* was published in German in the same year as the English original in 1936. It was in Germany that “*A Monetary Theory of Production*”, the outline of his research programme, had been published as his contribution to the *Spiethoff Festschrift* in 1933, when Keynes was half-way from his *Treatise* to the *General Theory*. However, with the Nazis’ rise to power this year also marked a deep political watershed. The dismissal, expulsion and emigration of economists had the consequence that many of the earlier reviewers and commentators of the *Treatise on Money* were not living in the German language area anymore when the *General Theory* was published. Nevertheless, the extent and intensity of the early reaction to Keynes’s book was remarkable.



3. The German edition of *The General Theory*: Controversies on the Preface

“...For I confess that much of the following book is illustrated and expounded mainly with reference to the conditions existing in the Anglo-Saxon countries. Nevertheless 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 (the German text carries the official expression: Totaler Staat), 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. *This is one of reasons which justify calling my theory a General (emphasis in the original) theory. Since it is based on less narrow assumptions than the orthodox theory, it is also more easily adapted to a large area of different circumstances. Although I have thus worked it out having the conditions in the Anglo-Saxon countries in view-where a great deal of laissez-faire still prevails-it yet remains applicable to situations in which national leadership (staatliche Führung) is more pronounced.* For the theory of psychological laws relating consumption and saving, the influence of loan expenditure on prices and real wages, the part played by the rate of interest-these remain as necessary ingredients in our scheme of thought *under such conditions, too.*”

(Keynes, taken from the foreword to the German edition, translation in Schefold (1980), Cambridge Journal of Economics, 4: 175-6)



3. The German edition of *The General Theory*: Controversies on the Preface

“To suppose that a flexible wage policy is right and proper adjunct of a system which on the whole is one of *laissez-faire*, is the opposite of the truth. It is only in a highly authoritarian society, where sudden, substantial, all-round changes could be decreed that a flexible wage policy could function with success. One can imagine it in operation in Italy, Germany or Russia, but not in France, the United States, or Great Britain.”

(Keynes 1936: 269)

“[T]here remains a margin of doubt as to the responsibility for the text which finally appeared in German.”

Schefold (CJE, 1980, p. 176).

(1) Neoclassical Synthesis: Erich Schneider (1900-1970)



- *Theory vs. Policy*
- *Theory*: early dominance of the neoclassical synthesis (until today)
central role of Erich Schneider (who had done his habilitation with Schumpeter at Bonn)
- *Policy*: early dominance of Ordoliberalism (social market economy)
Keynesianism came relatively late in international comparison (Karl Schiller 1966) and lasted less than a decade (1974/5 switch to supply side policies)



4.1. Post WWII – Economic Theory

(2) Neoclassical Synthesis: Erich Schneider (1900-1970)

At German universities the ***Keynesianism of the Hicks–Samuelson neoclassical synthesis*** had become the dominant position since the late 1950s. This can largely be attributed to ***Erich Schneider***, whose three-volume Introduction into Economic Theory, originally published in 1946–52, became the dominant textbook in the 1950s and 1960s, going through many editions. Schneider became Professor in Aarhus in 1936, came back from Denmark in 1946 to become professor in Kiel, where he also directed the Institute of World Economics from 1961–9 (when he was succeeded by Herbert Giersch). From 1963 to 1966 Schneider was *chairman of the Verein für Socialpolitik*, which had been re-founded in 1948. When the influential *Theoretical Committee* was re-established shortly afterwards, Schneider exercised his power as chairman in the direction of *a more mathematically oriented approach*, which at the beginning had to overcome strong resistance (Schefold, 2004).



4.1. Post WWII – Economic Theory

(1) The high years of Keynesianism 1967-1974

Until the recession of 1966–7, however, **economic policy** was still dominated by **ordoliberal ideas**. As a consequence, *Ludwig Erhard*, who had been a successful Minister of Economics from 1949 to 1963, lost his job as Chancellor in December 1966, when the first ‘Grand Coalition’ of Christian and Social Democrats was formed. With the Social Democrats’ entry into government and the ratification of the *Stability and Growth Act* in June 1967, **Keynesianism gained a relatively late admission into Germany.**



4.1. Post WWII – Economic Theory

(2) The high years of Keynesianism 1967-1974

According to Article 1 of the Act, the federal and state governments

have to respect the requirement of macroeconomic equilibrium in their economic and financial policy measures which have to be taken in a way that they contribute, within the scope of a market economy, to simultaneously achieve *stability of the price level, a high level of employment, and external equilibrium* together with *steady and appropriate growth*.

These *four macroeconomic goals* appeared in the statutes of the German Council of Economic Advisers (CEA), which was founded in August 1963 and from autumn 1964 presented its annual report. The German council differs from the American in being an external and independent committee for policy consultation rather than part of the government.



4.2. Post WWII – Economic Policy

Keynesian economic policy in Germany: Karl Schiller (1911-1994)





4.2. Post WWII – Economic Policy

(3) The high years of Keynesianism 1967-1974

In the public eye **Karl Schiller's** term of office as economics minister from the end of 1966 to the summer 1972 is remembered as the *heyday of Keynesian economic policy in Germany*. This is due to Schiller's remarkable ability to coin phrases such as '*Globalsteuerung*' ('macroeconomic demand management'), and his charismatic interpretation of economic policy which contributed to a widespread belief in the government's management power of macro variables, before the first oil price shock and the new phenomenon of stagflation shook that confidence. However, it should not be overlooked that *Schiller* had always followed **a synthesis of Keynesianism and ordoliberal ideas**. This is expressed most clearly in his influential article on economic policy in the *Handwörterbuch der Sozialwissenschaften* (Handbook of Social Sciences) (Schiller, 1962), in which he formulated his famous credo: '*competition to the extent possible, planning to the extent necessary*', with 'planning' understood in the sense of Keynesian demand management.



4.2. Post WWII – Economic Policy

(4) The high years of Keynesianism 1967-1974

Through his homage to *Eucken*, that is, in *supplementing process policy with Ordnungspolitik*, Keynesian policies took on a distinctly German tinge. This came against the background of discrediting the interventionist policies of the Nazi period, policies that were being pursued in Stalinist East Germany, and the need to safeguard the market economy against *Marxist policies* that were *finally given up by the Social Democratic Party (SPD)* only in its *Godesberg programme adopted in 1959*. In line with Giersch and the majority of the CEA, Schiller also advocated flexible exchange rates in the final years of the Bretton Woods system and in debates in the German 1969 election campaign when currency flexibility was heavily opposed by the Christian Democrats and the German export industry. The strong revaluation of the Deutschmark thereafter contributed to a dampening of inflation in Germany.



5. The Fall and Rise of Keynesian Economics

The mid-1970s marked the fall of Keynesianism and the rise of supply-side policies

Since December 1974 the Bundesbank followed an explicit monetarist policy

Main intellectual carrier: Constance seminar on monetary theory and policy initiated by Karl Brunner (since 1970)

In the 1990s macroeconomic policies had to cope with the consequences of German unification

Since the global financial and economic crisis of 2007-9 a comeback of Keynesianism

Keynes Gesellschaft founded in 2003 (today 170 members) Forum for Macroeconomics and Macroeconomic Policies FMM

It considers macroeconomic theory “as the basis for policies which aim at high employment, environmentally sustainable growth, price stability, reduced inequality, and the elimination of poverty“