

Keynes, Consumption and Hollow Prosperity: A Response to Claar and Forster

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Every economist should read *The Keynesian Revolution and Our Empty Economy*. It asks major questions about our discipline, and shows how ideas that many economists take as given (the positive/normative distinction, for example) have a background that may not align with a Christian worldview and values. While we may comment on Keynesian ideas in our classes, we are probably not aware of the full impact of Keynes' thought.

This is a book about the history of economic thought, and also of current economic analysis and policy. In addition, the authors discuss the current state of our society, a situation they describe as “hollow prosperity” (Claar and Forster, 2019, p. 1). They closely examine important methodological questions in our field in a deep, yet easy to read, style. At times the book almost reads like a novel: it tells a story, but a thorough and sensible one; a story that is well researched and thought out. As I respond, I will engage with the some of the authors' historical arguments as well as some of the implications of their analysis.

Paradigms, Keynes, and Consumption

Claar and Forster develop the historical context for their book by describing three paradigms from human history and how they influenced economic thought. They suggest that while these three paradigms (Nature, God and Reason) were different in a variety of ways, a common feature is that principles in each of them provided a moral purpose for their respective societies.

For example, the goal of the Nature paradigm (associated with Greek philosophy) was to gain wisdom or increase virtue, albeit only for a segment of the population (p. 199). In the God paradigm, the goal was “to cultivate and maintain the created world in a way that glorifies, obeys and enjoys God” (p. 204). Claar and Forster suggest that in the framework of the Reason paradigm, “improving the world is a moral

end in itself rather than (or, at most, in addition to) a way of glorifying God” (p. 210).

The authors assert that the goals of all of these paradigms also gave some direction to economic activity: “For 2300 years, western civilizations understood economics as a moral and cultural system” (p. 23). As the Reason paradigm began to break down, they explain, it was supplanted by what they call the Consumption paradigm, and they describe in detail the role of Keynes and his followers in promoting these ideas within economic thought and policy.

Claar and Forster suggest that the Consumption paradigm did not hold outside obligations as primary but, instead, made consumption the measure of human economic activity: “now consumption (satisfaction of people’s appetites) is the purpose of economic life and production shall henceforth be organized to serve it” (p. 220). They outline how this revolution has had a major impact on our society and suggest that, as a result of it, we suffer from a hollow prosperity, a situation in which “the richer we get, the more dissatisfied we become” and “we are anxious about our affluence” (p. 1). This does not surprise the authors, who note that “one of the most consistent warnings of the Bible and Christian ethics is the danger that consumption preferences will become ends in themselves rather than means of glorifying, obeying and enjoying God” (p. 8).

As part of their analysis, they trace in detail the development of the positive/normative distinction, an idea that is highlighted in the first chapter of most of our economics textbooks. Claar and Forster believe that this distinction paved the way for the ascendancy of the Consumption paradigm. In contrast, the authors assert that “like all social science,” economics “is already a moral and cultural discipline. Economists incessantly tell us what we ought to do. We all know this. We might as well admit it” (p. 321).

The authors believe that the Consumption paradigm has led to an economics without a moral compass (p. 234). In response, they propose that both economics and society try to develop what they describe as the Moral Consensus paradigm. They believe that there are ideas around which there is broad consensus (for example, that the present generation does care about the future; see p. 319) and that we should try to develop both economic thought and policy around this consensus. They also outline details for a new research agenda for economics based on these ideas (p. 328).

Claar and Forster organize their response to the Consumption paradigm and the current state of economic thought and policy around four key anthropological questions, which consider how “human beings relate to their environment, to the past and future, to one another and to the transcendent” (p. 12). Each question leads to a separate chapter in the book. The authors assert that “economics can neither avoid morality nor individualize it. Because each of these four questions raises moral concerns that will ubiquitously structure economic behavior, they show that the study of economics cannot avoid recognizing the importance of moral categories” (p. 196).

An important distinction highlighted in the book is the distinction between consumption preferences and “production preferences.” Production preferences include human desires to “participate personally in the production of the intrinsically good,” and the authors understand them also as “stewardship preferences, meaning a desire to leave the world with more intrinsic good than it had when we arrived” (p. 327). They suggest that the Consumption paradigm is concerned only with consumption preferences, while humans care about both.

Claar and Forster make the case that the Consumption paradigm has had a substantially negative impact on institutions that our society needs in order to thrive, such as churches and schools: “The breakdown or vulnerability of mediating institutions needed for economic flourishing, like families and churches, is inevitable if we think of ourselves as bundles of appetites” (p. 300). They note that these institutions are future-oriented, and that their “survival depends on our willingness to make sacrifices now in order to sustain institutions that we know we need in the long run” (p. 271). The authors also include a very suggestive analysis that links this breakdown of institutions to increasing “political control over daily life” (p. 300).

Economic Possibilities for our Grandchildren?

One of Keynes’ most famous essays is “Economic possibilities for our grandchildren.” Claar and Forster make a strong case, however, that Keynes wasn’t actually that concerned about our grandchildren. They assert that the Consumption paradigm that Keynes helped promulgate “holds that there is no value in building things up over time” (p. 330).

They also suggest that for this paradigm, “if the only end of economic activity is to satisfy consumer appetites, we cannot make economic decisions today based on what will provide a better economy for our grandchildren; we do not know what our grandchildren will want” (p. 330). Here the authors emphasize several salient points: that we do, and we should, care about the world we leave to our grandchildren, that we should “hold some things to be intrinsically good,” and that our “economic activity is partly motivated by a desire to build up a world over time that has more rather than less of those good things” (p. 330).

For me, this was one of the most convincing critiques of the Consumption paradigm – it doesn’t value the future as much as it should, but, instead, it privileges current consumption to a great degree. It emphasizes the current state as opposed to either the past or the future. As a father and grandfather, I care very much about the world that my children and grandchildren will live in; I also have strong “production preferences” that I try to live out in my work and in my personal life.

One example of how the Consumption paradigm plays out in current US economic policy is the decreased attention paid to larger budget deficits and the burgeoning national debt. At the time of writing, our economy currently sits at an unemployment rate right at, or even below, the full-employment level, and our federal government is still running a budget deficit of around a trillion dollars. Given current spending patterns, when the next recession hits, deficits will hit unprecedented levels, and much of the spending is directed to current consumption. Policymakers for the most part hold a relatively sanguine view of this situation, as does the general population, and the Fed’s policy of very low interest rates has minimized the pain of interest payments on the debt. However, savers suffer with low interest rates on their savings accounts.

The current level of spending and borrowing shows very little concern with issues of generational justice. Most of us believe that eventually we will “need to pay the piper,” but we hope that this will take place after our generation has left the scene. Some economists (Paul Krugman, for example) even suggest that now is the time to borrow and spend more, given such low interest rates. Occasionally this is couched in the need for more infrastructure, but the purpose of this increased infrastructure seems to be to increase consumption, not necessarily to build things of meaning.

Another recent example of economists emphasizing the current state over the future is the growing interest in Modern Monetary Theory; its followers suggest that we can continue to increase the money supply without any significant future penalty. Given the current strong low-inflation economy we currently enjoy, this idea has started to gain some traction. However, this policy makes sense only if one accepts the Consumption paradigm.

The Importance of Work

One of the most significant ideas that comes out of the book is the importance of work for humanity. The authors outline how work played a central role in each of the three pre-Keynesian paradigms, and how Keynes devalued work by his emphasis on consumption as the purpose of economic activity. According to Claar and Forster: “Teleology is the key to the change. Where consumer appetite is the only intrinsic good, no work is intrinsically good. All work is reduced to merely an instrumental good, valuable only as a way to earn a paycheck for consumption” (p. 218).

The authors consider this belief to be embedded at the foundation of Keynes’ economic theory. “Keynes treats propensity to consume as a variable, but not propensity to work,” they write, and as a result, “all awareness of the role of workers’ personal and social capital in employment (and, for that matter, the personal and social capital of the employers) is excluded by definition” (p. 219). The result of this theory is that work, and its central position as an organizing and meaning-giving activity in our lives, has become increasingly diminished.

Laying out their Moral Consensus paradigm, Claar and Forster suggest that economics should build on a few areas of moral agreement, including the fact that people “have production preferences as well as consumption preferences” (p. 327). They “don’t just prefer that certain good things be produced; they want to be busy producing good things themselves” (p. 328). For Christians, these preferences about work are not merely personal but extend to our desire and responsibility to serve God and our neighbors.

This notion is clearly articulated by John Calvin, as described by Lee Hardy in his book *The Fabric of this World* (which I use as a supplementary textbook in my Labor Economics class). “In his Institutes,”

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Hardy states, “Calvin asserts that ‘all the gifts we possess have been bestowed by God and entrusted to us on condition that they be distributed for our neighbors’ benefit’” (Hardy, 1990, p. 61). Hardy notes that, given how much time we spend at work, we don’t spend that much time reflecting on it (1990, p. 4). It seems likely that this is a consequence of Keynes’ Consumption paradigm.

Christian economists have a vital calling to understand the intrinsic importance of work and to greater integrate this concept into our field. In their discussion of potential research agendas for economists, Claar and Forster propose some ways that this might be possible. One of their suggestions is that we “refine, and bring to the forefront of the profession, more complex measures of unemployment that take account of workers’ preferences about their work (such as quantitative and qualitative underemployment)” (p. 329).

Teaching Economics 101

The Keynesian Revolution and Our Empty Economy raises significant questions about how we should be teaching economics, starting with the first week in a principles class, when the subject of the normative/positive distinction often arises. Tracing out for a class how the positive/normative distinction has led to what the authors call the Consumption paradigm, and highlighting its influence on how economics is structured, would lead to many interesting questions throughout the course, and perhaps even a substantial restructuring of how and what we teach.

In their book, the authors explain how various concepts that we use in economics are normative. For example, they highlight the idea of GDP per capita, explain its implications, and then compare it to an invented standard for economic policy of “GDP per yak” (p. 278). Their point is that GDP per capita implies a certain view of humanity and what is important to us. While their example is perhaps a bit stretched, it illustrates very well that many of our concepts are normative. As we discuss this idea with our students, the concept of GDP per capita and its shortcomings will take on new significance. One could ask why we don’t have, as the major goal of economic policy, increasing the percentage of people who have meaningful jobs, the sustainability of our environment, or even the number of weeks off per year.

I would love to hear the authors' thoughts about how the material presented in their book might be integrated into a Principles of Macroeconomics class. While not every professor teaches the Keynesian multiplier analysis or the "Keynesian cross" (a subject the book tackles directly), the authors claim that, to a great extent, we teach and study macroeconomics in a Keynesian framework in which consumption is the goal that drives economic analysis. I know colleagues who are concerned that their students might become more materialistic or manipulative after taking an economics course, and there is some evidence that this could happen. Might this be taking place because students implicitly understand that the Consumption paradigm is driving much of what they learn?

Conclusion

This book got me thinking more than anything I have read for a long time; the responses that I have provided here don't do justice to the many ideas that Claar and Forster present. One strong point of the authors' analysis is that they set out a potential research agenda for their new way of viewing economics. As noted above, Claar and Forster assert that "production preferences" matter for people: individuals want to have good work and want to produce things that are good. A research idea suggested by Claar and Forster asks (p. 329): "if having good work to do can be a positive value, how does this affect our conception of how people value leisure time?" They also suggest studying whether "some consumer tastes undermine the productive virtues while others reinforce them" (p. 329).

Although I wish I could be, I am not as positive about the prospects for agreement on a Moral Consensus paradigm as the authors seem to be. Observing the trends of discourse in our world, and within academia in particular, has caused me to be pessimistic about the likelihood of finding many "shared values." So, how should we move forward in our individual economic lives in an overwhelming current fed by the Consumption paradigm? It would be interesting for the authors to comment on ways that their new economic vision could be advanced in a situation in which moral consensus doesn't develop.

My major takeaway from the book is an enhanced understanding of the implications of the Consumption paradigm and how it developed

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within the field of economics. Like the authors of the book, I do not accept its assumptions or the implications of this way of thinking. As a result, I concur with their goal of emphasizing and enhancing the moral dimension of economics. In addition, reconsidering economics through their Moral Consensus paradigm brings about a host of new research questions and possibilities. This is a great book, and I am thankful for the opportunity to read it and interact with it. Thanks to Professors Claar and Forster for providing us with this valuable resource.

References

- Claar, Victor V. & Forster, Greg** (2019). *The Keynesian Revolution and Our Empty Economy: We're All Dead*. Cham, Switzerland: Palgrave Macmillan.
- Hardy, Lee** (1990). *The Fabric of this World*. Grand Rapids, MI: Eerdmans. ■