

Keynes and the Post Keynesians on Sustainable Development

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Résumé

Depuis le début des années 1970, l'intérêt croissant pour les questions liées à l'écologie va progressivement conduire à l'adoption du concept de développement soutenable, qui représente aujourd'hui un nouvel objectif mondial. Nous montrons que de nombreux écrits de Keynes portent en eux les germes du développement soutenable que nous appréhendons sous trois aspects : écologique, social et financier. Ainsi, les positions de Keynes concernant l'incertitude, la monnaie, la place de l'économie, les arts, la finance, la philosophie, etc. s'avèrent compatibles avec une approche fondée sur une soutenabilité forte. Enfin, nous montrons que la voie d'un développement soutenable post keynésien est ouverte.

Mots-clés : Keynes, développement soutenable, développement durable, post keynésien

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Abstract

Since the beginning of the 1970s, the questions related to ecology come in the forefront and progressively led to the adoption of the concept of sustainable development, which now appears to be a new world-wide objective. We argue that numerous writings of Keynes contain the premises of such a sustainable development. We present his views relatively to the three pillars of sustainability: ecological, social and financial. Indeed, Keynes' positions on uncertainty, money, the place of economics, arts, financing, philosophy, etc. are consistent with a strong sustainability. Finally, we try to give some insights for an indispensable 21st century post Keynesian sustainable development program.

Key words: Keynes, sustainable development, Post Keynesian

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1. Introduction

The concept of sustainable development has been popularized in the 1980s with the work of the World Commission on Environment and Development (WCED) leading to the Brundtland report (WCED, 1987). Nevertheless, first contemporary reflexions appear at the end of the 1960s with the work of the Club of Rome and the publication in 1972 of *The Limits to Growth* (Meadows *et al.*, 1972), highlighting the ecological consequences of the Western model of development and showing that there are natural limits to economic growth. The same year, the first United Nations Conference on Environment and Development, which takes place in Stockholm, encourages developing countries to explore other ways of growth. The concept of eco-development thus appears and emphasizes on principles such as equity, natural systems protection, the respect of cultures and socio-economic planning. But, gradually, the concept of sustainable development will impose itself. The *official* definition is given by the Brundtland report: “*Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future*” (WCED, 1987, p.40). The 1992 Earth Summit in Rio, with the adoption of Agenda 21, and the 2002 World Summit on Sustainable Development in Johannesburg will confirm this approach of sustainability which simply seeks to make economic growth compatible with social and environmental concerns.

Facing what can be called a **weak sustainability**, which marks the recovery of this concept by the mainstream and international institutions, **a more radical vision emerges**, founded on a **strong sustainability**¹, aiming at privileging human well-being rather than economic exchange, i.e. production and consumption of goods whose utility can be discussed while they lead to social impoverishment and ecological catastrophe. With this intention, the partisans of an ecologically sustainable, socially equitable and financially bearable development propose to influence the power struggle between dominant and dominated by privileging politics while being opposed to a cultural homogenisation and an alignment over Western values.

The “triumph” of liberalism in the past 30 years has imposed weak sustainability as a new worldwide objective. For developing countries, this means achieving the Millennium Development Goals (MDGs)² while searching for a better quality of growth in “developed” countries. However, unemployment rises in the latter, inequality — either internal or international — increases, poverty is still growing in many countries, basic needs — in terms

¹ Some are going further by rejecting the concept of development and appeal to a “post-development”. On those issues, see Berr and Harribey (2006), Daly (1973), (1996), Latouche (1993), Nederveen Pieterse (1998), (2000), Rist (1997), Schuurman (2000). One also sees developing a mainstream environmental economics, as well as an heterodox ecological economics, thus showing the increasingly central part played by environmental concern (see Ruth (2006), Sneddon *et al.* (2006)).

² The MDGs were formulated at the time of the United Nations Millennium Declaration adopted in New York in September 2000. They wish to achieve by 2015 eight objectives, namely: (1) Eradicate extreme poverty and hunger; (2) Achieve universal primary education; (3) promote gender equality and empower women; (4) Reduce child mortality; (5) Improve maternal health; (6) Combat HIV/AIDS, malaria and other diseases; (7) Ensure environmental sustainability; (8) Develop a global partnership for development.

of food, health or education —, are far from being satisfied, the debt crisis always strangles developing countries while ecological disasters expand, showing the mainstream view to be a failure.

On these issues, we argue that the ideas of Keynes have been wrongfully ignored and should represent, on the contrary, the foundations of a post Keynesian sustainable development that is missing today (Mearman, 2005a). His positions on environment and Arts, which lead him to a virulent criticism of capitalism, constitute the base of an ecological sustainability (2). This base is reinforced by his philosophy of uncertainty, which foreshadow the precautionary principle (3). Regarding social aspects, Keynes seems also to be a precursor. Indeed, the emphasis put on unemployment and equity on the one hand, his vision of economics as a secondary science on the other hand, represent the foundations of a social sustainability (4). *The Economic Consequences of the Peace* (1919), real pamphlet against the treaty of Versailles and its implications, show that we have not learnt from the past and are reproducing today the same errors with developing countries than yesterday with Germany. Yet, Keynes delivers in this text his vision of an indispensable financial sustainability (5). Consequently, even if post Keynesians, who are considered to be the worthy heirs of Keynes, did not fully investigate this field of research, we will see that the way of a post Keynesian sustainable development is opened (6).

2. Environment, Arts and the critic of capitalism

Keynes' references to environmental issues are rather rare. This can be easily explained if one keeps in mind the historical context of the first half of the 20th century. Indeed, the main concerns are to manage the First World War consequences, to correct monetary and financial imbalances, to fight against mass unemployment or more generally to implement an international environment aiming at favouring peace. However, Keynes knows that some classical economists have investigated environmental issues, such as Malthus on population or Stuart Mill in connection with the search for a steady state. He is himself conscious of the limits of capitalism, coming from its need for accumulation and its perpetual research for profit. Thus, his positions as regards environment and his vision of Arts will lead him to strongly criticize capitalism, but without fully rejecting it.

2.1. Keynes on environment and Arts

In a text entitled *National Self-Sufficiency* (Keynes, 1933), Keynes militates in favour of a gradual movement of relative withdrawal of national economies, in opposition with the 19th century internationalism, in order to restore the primacy of politics on economics. But this national self-sufficiency is only a necessary condition to the advent of a new model, which can break with the logic of *laissez-faire*. His critic of free trade is not without pointing out certain positions of the supporters of sustainable development: “*I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel — these are the things, which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national. Yet, at the same time, those who seek to disembarrass a country of its entanglements should be very slow and wary. It should not be a matter of tearing up roots but of slowly training a plant to grow in a different direction*” (Keynes, 1933, p.236). This reduction of the interdependence between nations is wished today, either by the advocates of a strong sustainability or the post-developmentalists. Through it, we would assist to a re-localization of the production, limiting transport in the productive processes and thus various pollutions. He continues by denouncing the fact that “*the*

same rule of self-destructive financial calculation governs every walk of life. We destroy the beauty of the countryside because the unappropriated splendours of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend. (...) Or again, we have until recently conceived it a moral duty to ruin the tillers of the soil and destroy the age-long human traditions attendant on husbandry if we could get a loaf of bread thereby a tenth of a penny cheaper” (Keynes, 1933, p.242). Keynes realises that economic and financial logic are in opposition with ecological and social reason³. He refutes the mainstream view which, accordingly to the neoclassical model, integrates the environment as a natural capital within a production function whose factors — labour, physical capital and thus natural capital — are substitutable, thus subordinating nature to economic calculation⁴.

If direct references to environmental problems are rather limited, the stances of Keynes as regards Arts, or his philosophy of uncertainty — that will be further developed —, contain the premises of a Keynesian approach of environment that foreshadows sustainable development. For Dostaler (2005, p.457), Keynes considers that the purpose of life is to enjoy beauty, knowledge, friendship and love, all concepts that are not primarily concerned with economics. He rejects the “classical” vision coming from the 18th and 19th centuries, which he considers to be a catastrophic change for civilization. “This view was the utilitarian and economic — one might almost say financial — ideal, as the sole, respectable purpose of the community as a whole; the most dreadful heresy, perhaps, which has ever gained the ear of a civilised people. Bread and nothing but bread, and not even bread, and bread accumulating at compound interest until it has turned into a stone. Poets and artists have lifted occasional weak voices against the heresy” (Keynes, 1936b, p.342). In his opinion, Arts, as nature, must be disconnected from economic considerations, because “the exploitation and incidental destruction of the divine gift of the public entertainer by prostituting it to the purposes of financial gain is one of the worse crimes of present-day capitalism” (Keynes, 1936b, p.344).

2.2. The critic of capitalism

His positions concerning environment and Arts lead Keynes to formulate a virulent criticism of capitalism, which can be found in many texts. Visiting communist Russia in 1925 (which became USSR in 1922), he notices that if the communist “faith” is likely to involve a collective adhesion, nothing like this can happen with capitalism because of its amorality. In his opinion, “it seems clearer every day that the moral problem of our age is concerned with the love of money, with the habitual appeal to the money motive in nine-tenths of the activities of life, with the universal striving after individual economic security as the prime objective of endeavour, with the social approbation of money as the measure of constructive success” (Keynes, 1925b, p.268). If he is wary about communism, he considers that we should give Russia a chance: “that out of the cruelty and stupidity of Old Russia nothing could ever emerge, but that beneath the cruelty and the stupidity of New Russia some speck of the ideal lie hid” (Keynes, 1925b, p.271)⁵.

³ Keynes condemns environmental destructions and reacts to the disfigurement of the planet, which lead him to minimize the role of economics, as we can note in his *Economic Possibilities for Our Grandchildren* (Keynes, 1930, p.332): “do not let us overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater and more permanent significance”. Besides, he rejects both “classical” and Marxists economists because of their too large emphasize on economic factors and thus join the positions developed by Polanyi (1944).

⁴ On this point, see Holt (2005).

⁵ This initial curiosity is partly explained by the fact that Keynes joins Russian Communism in its will “to construct a framework of society in which pecuniary motives as influencing action shall have a changed relative importance, in which social approbations shall be differently distributed, and where behaviour, which previously

Whatever his criticism of capitalism, Keynes rejects any idea of revolution and preaches gradual changes towards a society less subjected to international constraints. He recognizes however the risks of an “economic nationalism” which introduces many dangers, in particular the one of a great haste: *“it is of the nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited”* (Keynes, 1933, p.245). This criticism, which is addressed to the Russian revolution of 1917, is quite relevant concerning the “shock therapy” imposed to Russia in the early 1990s whose negative consequences are well known. But the main risk for Keynes is intolerance, i.e. the confiscation of the power by a minority for its own interest⁶. Indeed, *“it is the modern method — to depend on propaganda and to seize the organs of opinion; it is thought to be clever and useful to fossilise thought and to use all the forces of authority to paralyse the play of mind on mind”* (Keynes, 1933, p.245). On this point, the partisans of a strong sustainability fully agree with Keynes. Indeed, they consider capitalism to be responsible of the increase of inequalities while it reinforces the power of the “powerful” — i.e. multinational firm managers, northern but also southern political leaders and main media — whose cupidity or ignorance make them put their own interest before the general interest. Thus, they manage to convince the victims of the system how they need to make sacrifices today in order to reach an unceasingly differed and largely illusory happiness.

To sum up, we can note that Keynes is conscious of environmental and cultural limits of capitalism. But, for more personal reasons, due mainly to his social origins⁷, he does not reject it and only proposes a regulation of the system. This position does not seem to be free from contradiction on behalf of an author wishing to reduce the importance of pecuniary aspects. Thus, Keynes appears to be halfway between the weak and strong versions of sustainable development.

3. Uncertainty and Precautionary Principle

The whole economic philosophy of Keynes is based on uncertainty, a concept that prefigures the precautionary principle.

was normal and respectable, ceases to be either the one or the other” (Keynes, 1925b, pp.259-260). However, he will finally reject this experiment: *“Let Stalin be a terrifying example to all who seek to make experiments. If not, I, at any rate, will soon be back again in my old nineteenth-century ideals, where the play of mind on mind created for us the inheritance which we are seeking today to divert to our own appropriate purposes”* (Keynes, 1933, p. 246).

⁶ However, Keynes is convinced that only a lit elite, of which he considers to be part of, is able to allow great progress. Dealing with “Red Russia”, he asserts: *“How can I adopt a creed which, preferring the mud to the fish, exalts the boorish proletariat above the bourgeois and the intelligentsia who, with whatever faults, are the quality in life and surely carry the seeds of all human advancement?”* (Keynes, 1925b, p.258). Consequently, we can rightfully wonder if he would endorse a “participative democracy” based approach to which strong sustainable development refers to.

⁷ His political course confirms this ambiguity. As a member of the liberal party, to which he will remain faithful throughout his political life, Keynes reproaches the Labour party, of which he shares a number of positions, for being a class party. Whereas he wonders about, in *Am I a Liberal?*, the possibility of joining the Labour party, his position is devoid of ambiguity: *“To begin with, it is a class party, and the class is not my class. If I am going to pursue sectional interests at all, I shall pursue my own. When it comes to the class struggle as such, my local and personal patriotisms, like those of every one else, except certain unpleasant zealous ones, are attached to my own surroundings. I can be influenced by what seems to me to be justice and good sense; but the class war will find me on the side of the educated bourgeoisie”* (Keynes, 1925a, p.297). On the political course of Keynes, see Dostaler (2005), chap.3.

3.1. The philosophy of uncertainty⁸

If the concept of uncertainty constitutes one of the pillars of Keynes' "revolution", his vision on this subject is strongly influenced by the philosophy of George Moore whose *Principia Ethica* (1903) will deeply mark the apostles of the Bloomsbury group, and particularly Keynes⁹. Besides, this influence will be found in his *Treatise on Probability* (1921) and, later, in his *General Theory* (1936).

Moore tries to answer two questions: *what is the good?* *How to make the good?* As he considers that one cannot define the good, except by intuition, he deduces that "the *largest conceivable goods are state of minds associated with aesthetic pleasure and appreciation of beautiful objects on the one hand, with personal affections on the other hand*" (Dostaler, 2005, p.41). Facing difficulties in apprehending the good, Moore considers that we can never be sure of the results of our actions nor even of their desirable nature. As there is no probabilistic basis, we must rely on traditions, rules of conduct, moral standards and common sense.

Keynes will embrace the "religion" of Moore, which allows him to reject the benthamian utilitarianism that he considers "*as the worm which has been gnawing at the insides of modern civilisation and is responsible for its present moral decay*" (Keynes, 1938a, p.445). This also enables him to push back economic values and therefore the rationality principle¹⁰. Lastly, Keynes will draw from Moore the idea that *we live in a largely non-probabilistic world*. Indeed, if, following Moore, we consider the good to be indefinable — because its definition supposes that one knows what it is —, we must logically deduce that we can never be sure of the positive or negative effects of our decisions. Consequently, the neoclassical mechanics cannot function any more¹¹. Actually, *probabilistic calculus based on Bernouilli's law is not applicable to economics where the same fact cannot be repeated*. Thus, between two situations *a* and *b*, the fact that the first has a probability a hundred times higher to happen does not prevent the second from occurring, or even any other situation which was not foreseeable. Therefore, Keynes thinks that we must reason in *radical uncertainty*, i.e. *in a world where "there is no scientific basis on which to form any calculate probability whatever. We simply do not know"* (Keynes, 1937, p.114)¹².

Thus, as Dostaler points out, "*in moral sciences, the unit of analysis is human being acting in the history while groping in the fog*" (Dostaler, 2005, p.138). But, as it is necessary to act, we must find a new basis from which it becomes possible to take decisions. These decisions must be established, according to Keynes, from expectations¹³ allowing to determinate a conventional behaviour, whose foundations are not very solid. Therefore, he

⁸ This paragraph owes a lot to Dostaler (2005), chap.1.

⁹ Keynes will later claim this influence in *My early beliefs* (Keynes, 1938a).

¹⁰ Indeed, Keynes considers that "*the attribution of rationality to human nature, instead of enriching it, now seems to me to have impoverished it. It ignored certain powerful and valuable springs of feeling*" (Keynes, 1938a, p.448).

¹¹ "*All these pretty, polite techniques, made for a well-panelled board room and a nicely regulated market, are liable to collapse*" (Keynes, 1937, p.115).

¹² His conception of uncertainty will lead him to rebel against some of the most famous statisticians of his time, namely Pearson and Tinbergen.

¹³ These expectations fall into two groups: the first type (short-term expectation) "*is concerned with the price which a manufacturer can expect to get for his 'finished' output at the time when he commits himself to starting the process which will produce it*" (Keynes, 1936a, p.46); the second type (long-term expectation) "*is concerned with what the entrepreneur can hope to earn in the shape of future returns if he purchases (or, perhaps, manufactures) 'finished' output as an addition to this capital equipment*" (Keynes, 1936a, p.47).

argues, “it is reasonable (...) to be guided to a considerable degree by the facts about which we feel somewhat confident, even though they may be less decisively relevant to the issue than other facts about which our knowledge is vague and scanty” (Keynes, 1936a, p.148)¹⁴. Expectations also depend on the confidence with which the forecast is made¹⁵.

The adoption of this convention allows “the immoralist” Keynes to reject Moore’s conclusions according to whom moral standards must guide our action. The conventional base that he describes leads rather to situations where rumour, fear, disillusion or on the contrary hope — which are non probabilistic elements — can involve a brutal and sudden revision of these expectations, which can be one of the causes of the crises in the emerging countries since the second half of the 1990s.

3.2. From uncertainty to the precautionary principle

The conventional base defined by Keynes allows us to understand better our behaviour concerning environmental questions. Indeed, numerous studies show the unsustainability of the Western model of development. For instance, the increase in the amount of pollution will induce important climatic changes. However, if we are sure that these changes will occur, the fact of being unaware of the form that they will take — according to Keynes, we have a weak confidence — prevent us from fully taking into account this problem, showing that **the most important is not to know that changes will happen, but to believe in their appearance.**

However, **because ecological matters become an increasingly important component of expectations as environmental risks become more visible,** we should adopt a more careful attitude. And if we consider, according to Keynes, that economic issues are secondary and that **we live in a world where radical uncertainty prevails,** **we must promote a necessary precautionary principle (PP).** This principle, which appeared for the first time in Germany at the end of the 1960s, is now widely accepted. For instance, the **Rio declaration on environment and development (1992),** gives in its **principle n°15** the following definition: “*In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation*”.

This principle gave place to two **antagonistic conceptions.** The first one is connected to a weak PP that is based on an advantage/cost analysis expressing risk management. In that case, the burden of proof of the danger falls onto the opponents of a decision. Thus, this approach recognizes the primacy of economic values because it is easier to highlight economic benefits than human and ecological costs. The second one, which relies on a strong PP, considers that the promoters of a potentially dangerous decision have to show the absence of “serious” risk. Joining the “imperative of responsibility” of Jonas (1984), this approach states that environmental issues — and one could add social ones — prevail over economic questions. Therefore, strong PP is not in opposition with Keynes’ primacy of investment but questions the contents of such investment, emphasizing the role of the State that must urge firms to engage in “clean” investments and promote a code of ethics.

¹⁴ “For this reason the facts of the existing situation enter, in a sense disproportionately, into the formation of our long-term expectations; our usual practice being to take the existing situation and to project it into the future, modified only to the extent that we have more or less definite reasons for expecting changes” (Keynes, 1936a, p.148).

¹⁵ So, **“if we expect large changes but are very uncertain as to what precise form these changes will take, then our confidence will be weak”** (Keynes, 1936a, p.148).

4. Unemployment, distribution and the place of economics

If Keynes is conscious that many economic problems remain, such as unemployment and distribution, he considers economic issues not to be the most important.

4.1. Economic matters

In the final chapter of his *General Theory*, Keynes thinks 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, 1936a, p.372). Seventy years later, this assertion is still relevant. Indeed, mass unemployment and increasing precariousness are common either in developed or developing countries and are assimilated to a collateral damage of globalisation despite the speeches of circumstance. Meanwhile, inequality increases¹⁶.

Keynes, whose economic analysis focuses on demand, cannot accept this situation. Indeed, an increasing instability as regards as employment contributes to create a morose economic environment resulting in a negative impact on effective demand. If he summarizes very well his views on that matter in a text entitled *The General Theory of Employment* (Keynes, 1937), he considers also that technological unemployment, “*due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour*” (Keynes, 1930, p.325), may result in reducing the sorrow of each one, i.e. “*to make what work there is still to be done to be as widely shared as possible*” (Keynes, 1930, p.329), a point of view endorsed by the supporters of a strong sustainability as by the post-developmentalists.

Concerning distribution, Keynes condemns “*the love of money as a possession*” (Keynes, 1930, p.329) which generates speculation and therefore an increasing economic instability and more inequality. This diagnosis is confirmed by more than twenty years of neo-liberal policies based on the so-called Washington consensus¹⁷. Let’s remember that the Tobin tax, popularized by the altermondialist movement, was largely inspired by Keynes for whom “*the introduction of a substantial government transfer tax on all transactions might prove the most serviceable reform available, with a view to mitigating the predominance of speculation over enterprise*” (Keynes, 1936a, p.160)¹⁸.

If Keynes’ solutions concerning unemployment and distribution of wealth are marked with sustainability, his vision of what is economics makes him a precursor of a socially sustainable development. In this respect, the reading of his *Economic Possibilities for Our Grandchildren* (1930) is very instructive. In this text, Keynes considers that the role of economics is to allow the satisfaction of “*those needs that are absolute in the sense that we feel them whatever the situation of our fellow human beings may be*” (Keynes, 1930, p.326)¹⁹. And in his opinion, once these needs are satisfied, humanity will be able to turn to non economic activities that will be much more important. With his usual optimism, Keynes thinks that

¹⁶ There is a broad consensus to recognize that inequality, either internal or international, have not ceased increasing for approximately 30 years. See Milanovic (2003), Wade (2004), Bourguignon and Morrisson (2002).

¹⁷ On the impact of those policies on developing countries, see for instance Berr *et al.* (2005), Bresser-Pereira and Varela (2004), Davidson (2004), Stiglitz (2002).

¹⁸ According to Keynes, speculation is “*the activity of forecasting the psychology of the market*” while enterprise is “*the activity of forecasting the prospective yield of assets over their whole life*” (Keynes, 1936a, p.158).

¹⁹ In the case of developing countries, these absolute needs are connected with the satisfaction of the Millennium Development Goals.

“assuming no important wars and no important increase in population, the economic problem may be solved, or be at least within sight of solution, within a hundred years. This means that the economic problem is not — if we look into the future— the permanent problem of the human race” (Keynes, 1930, p.326).

However, despite Keynes’ predictions, the economic problem is still not being resolved. In his opinion, “the pace at which we can reach our destination of economic bliss will be governed by four things — our power to control population, our determination to avoid wars and civil dissensions, our willingness to entrust to science the direction of those matters which are properly the concern of science, and the rate of accumulation as fixed by the margin between our production and our consumption” (Keynes, 1930, p.331). If population does not seem any more to be a major problem, it is not the same concerning the three other conditions: wars and latent conflicts are expanding; the logic of accumulation keeps progressing and leads Science to be a mean of achieving such an accumulation, resulting in the precautionary principle being inoperative.

4.2. The primacy of politics on economics

A question arises. Why, in a world producing so much wealth, the essential needs are still not satisfied? Keynes thinks the reasons are more political than economic. Dealing with unemployment, he asserts: “I believe that our destiny is in our own hands and that we can emerge from it if only we choose — or rather if those choose who are in authority in the world” (Keynes, 1931, p.344). If he claims that the elite have to show the way to be followed, Keynes remains vague as for their composition. The evolution of capitalism in the last ten years leads us to believe, following the example of the partisans of a strong sustainability and the post-developmentalists, that the power is confiscated by the “powerful” who actually do not work any more in favour of the general interest but try to enhance their dominant position and their privileges²⁰. According to Perkins (2005), this “corporatocracy” represents the contemporaneous form of imperialism whose “economic hit men” are the trusty servants²¹.

Keynes would certainly not agree with such radical positions²². Having a high opinion of the *bourgeoisie* and the intelligentsia, he could not resign himself, even if he often noticed, that they were acting in their own interest. However, as Perkins (2005) suggests, the “powerful” maintain conflicting situations in order to draw a pecuniary advantage and a reinforcement of their power. As regards employment, they may not find beneficial to preach a cut in working time which would limit the economic dependence of a growing number of people. In the same way, a very uneven distribution of wealth has, if nothing is done, a cumulative effect that favours upper social classes and most developed countries while weakening the poorest in order to make them increasingly more docile²³. This domination results in promoting a free trade based competition that appears in fact largely distorted.

²⁰ Stiglitz (2002) confirms this judgment in the case of the North-South relations.

²¹ “Economic hit men are highly paid professionals who cheat countries around the globe out of trillions of dollars. Their tools include fraudulent financial reports, rigged elections, payoffs, extortion, sex, and murder” (Perkins, 2005). Their job is to convince countries that are strategically important to the U.S. to accept enormous loans for infrastructure development, and to make sure that the lucrative projects are contracted to U.S. corporations. Saddled with huge debts, these countries come under the control of the United States government, World Bank and other U.S.-dominated aid agencies that act like loan sharks — dictating repayment terms and bullying foreign governments into submission.

²² He considers “that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas” (Keynes, 1936a, p.383).

²³ In *The Economic Consequences of the Peace* (1919), Keynes, for instance, denounces Lloyd George’s attitude who broke the promises made with Germany at the time of its capitulation, supporting a law of the strongest that

Thus, Keynes' criticism is still relevant even if the economic context has changed since the 1930s: *"if nations can learn to provide themselves with full employment by their domestic policy (...), there need be no important economic forces calculated to set the interest of one country against that of its neighbours. (...) International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle, but a willing an unimpeded exchange of goods and services in conditions of mutual advantages"* (Keynes, 1936a, pp.382-383). Behind what seems to be a plea for a free trade regime, Keynes believes in fact that solutions are national and promotes a trade regime based on mutual aid rather than on competition. So, *"it does not now seem obvious that a great concentration of national effort on the capture of foreign trade, that the penetration of a country's economic structure by the resources and the influence of foreign capitalists, that a close dependence of our own economic life on the fluctuating economic policies of foreign countries, are safeguards and assurances of international peace. It is easier, in the light of experience and foresight, to argue quite the contrary. The protection of a country's existing foreign interests, the capture of new markets, the progress of economic imperialism — these are a scarcely avoidable part of the scheme of things which aims at the maximum of international specialisation and at the maximum of geographical diffusion of capital wherever its seat of ownership. Advisable domestic policies might often be easier to compass, if, for example, the phenomenon known as 'the flight of capital' could be ruled out"* (Keynes, 1933, p.235-236).

Therefore, Keynes condemns in advance export-led growth strategies inspired by the Washington consensus. Besides, such strategies were a failure and slowed down the development process rather than supporting it. However, developed countries and international institutions, despite shaming humanistic rhetoric, continue to promote a model which makes it more and more difficult to hide its true objectives. The (wrongfully?) naive interrogation of Keynes concerning the fulfilment of his ideas — *"Are the interests which they will thwart stronger and more obvious than those which they will serve?"* (Keynes, 1936a, p.383) — is meaningful to that extent and help us to understand why the "powerful" are rejecting such proposals.

Ultimately, promoting a cut in working time, rejecting an immoderate pecuniary accumulation, conflicting with speculation and favouring a balanced international trade result in minimizing the place of economics and make Keynes an initiator of sustainable development, which it is going to be confirmed by his insights relative to financial matters.

5. Financial sustainability

The international debt crisis, which has been striking many developing countries since 1982, allowed the implementation of structural adjustment programs followed by poverty reduction strategies — both based on the ten commandments of the Washington consensus (Williamson, 1990) —, whose conditionality, imposed by the international financial institutions, involved an increasing dependence of developing countries with respect to their creditors. Thus, we are the witnesses of a kind of economic colonialism that prevent developing countries from embarking on the sustainable development way.

will cause much devastation: *"There are few episodes in history which posterity will have less reason to condone — a war ostensibly waged in defence of the sanctity of international engagements ending a definite breach of one of the most sacred possible of such engagements on the part of the victorious champions of these ideals"*. (Keynes, 1919, p.91).

In *The Economic Consequences of the Peace* (1919), Keynes is devoted to an indictment of the treaty of Versailles which rules on the fate of the defeated Germany. In many respects, this prophetic work²⁴ show that indebted countries are currently in a situation similar to the one of Germany after the First World War, showing that, yesterday like today, we have not been favouring the general interest.

5.1. From the treaty of Versailles to the international debt crisis: the law of the strongest

Keynes is opposed to the treaty of Versailles because it only takes into account the winners' interests and humiliates Germany. Indeed, he believes in solutions based on a partnership and not on a relation of domination. For him, *"the policy of reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness should be abhorrent and detestable — abhorrent and detestable, even if it were possible, even if it enriched ourselves, even if it did not sow the decay of the whole civilised life of Europe. Some preach it in the name of justice. In the great events of man's history, in the unwinding of the complex fates of nations, justice is not so simple. And if it were, nations are not authorised, by religion or by natural morals, to visit on the children of their enemies the misdoings of parents or rulers"* (Keynes, 1919, p.142). Thus, he stresses that solidarity is a key feature of development and meet the Brundtland report's definition of sustainable development.

The purpose of the treaty is *"to extract from Germany year after year the maximum sum obtainable"* (Keynes, 1919, p.105). Nowadays, it involves, for indebted countries, to be at the top of the **Laffer debt curve defined by Krugman** (1988)²⁵. Accordingly, Keynes considers that there are two possibilities whose consequences are markedly different for the debtor: *"There is a great difference between fixing a definite sum, which though large is within Germany's capacity to pay and yet to retain a little for herself, and fixing a sum far beyond her capacity, which is then to be reduced at the discretion of a foreign commission acting with the object of obtaining each year the maximum which the circumstances of that year permit. The first still leaves her with some slight incentive for enterprise, energy and hope. The latter skins her alive year by year in perpetuity, and however skilfully and discreetly the operation is performed, with whatever regard for not killing the patient in the process, it would represent a policy which, if it were really entertained and deliberately practised, the judgment of men would soon pronounce to be one of the most outrageous acts of a cruel victor in civilised history"* (Keynes, 1919, pp.105-106). The second case described by Keynes corresponds to the true-situation of developing countries today. Creditors are aiming to make the debtors pay the maximum, regarding them not as partners but enemies. However, the interest of the former should not be to strangle the latter, as Keynes had clearly perceived it.

Keynes also denounces the interference to which this treaty leads. As the sum to be paid by Germany was not fixed, *"it was necessary, therefore, to set up a body to establish the bill of claim, to fix the mode of payment, and to approve necessary abatements and delays. It was only possible to place this body in a position to exact the utmost year by year by giving it wide*

²⁴ Keynes early perceives the risks of a treaty humiliating Germany, as much for her as for the rest of Europe: *"a victory of reaction in Germany would be regarded by everyone as a threat to the security of Europe (...). Besides, a new military power establishing itself in the East, with its spiritual home in Brandenburg, drawing to itself all the military talent and all the military adventurers, all those who regret emperors and hate democracy, in the whole of Eastern and Central and south-eastern Europe (...) might well found (...) a new Napoleonic domination"* (Keynes, 1919, p.184).

²⁵ The Laffer debt curve shows that there is a turning point from which repayments decrease as the debt increases.

powers over the internal, economic life of enemy countries who are to be treated henceforward as bankrupt estates to be administered by and for the benefit of the creditors” (Keynes, 1919, p.132). The activity of the reparation commission, that Keynes considers being “*an instrument of oppression and rapine*” (Keynes, 1919, p.138)²⁶, is not without reminding the one of the international financial institutions which are today the guarantors of the “powerful” interests²⁷.

5.2. Which financial sustainability?

Keynes denounces the dead end in which the treaty of Versailles led Germany, and more generally Europe. In the same way he would surely reject the Washington consensus and its impact on developing countries that, sooner or later, will also have harmful consequences on Western countries. Indeed, humiliating the weakest, that currently account for 80% of the world population, can only lead to situations where despair and hatred constitute the vectors of increasing instability and insecurity. Keynes notices that “*economic privation proceeds by easy stages, and so long as men suffer it patiently the outside world cares little. Physical efficiency and resistance to disease slowly diminish, but the life proceeds somehow, until the limit of human endurance is reached at last and counsels of despair and madness stir the sufferers from the lethargy which precedes the crisis. The man shakes himself, and the bonds of custom are loosed. The power of ideas is sovereign, and he listens to whatever instruction of hope, illusion, or revenge is carried to him on the air*” (Keynes, 1919, pp.158-159). If he refers here to Bolshevism, his forecasts will later apply to Germany that is “*at the mercy of unchained irresponsibles*” (Keynes, 1933, p.244). Today, economic deprivation maintains about half of the mankind under the poverty line, involving a certain toughening of the populations of the South that nourishes terrorism and fosters a clandestine immigration that Western countries are fighting against.

Re-establishing the relations between creditors and debtors is thus an absolute necessity. In the case of Germany, Keynes considers “*that an annual payment can only be made (...) over a series of years by diminishing her imports and increasing her exports, thus enlarging the balance in her favour which is available for effecting payments abroad*” (Keynes, 1919, p.118). Therefore, he defines a capacity of payment corresponding to the external surplus of the debtor. Consequently, payments can only occur if the creditors agree to import from the debtors, which the winners of the First World War refuse to do. The present situation of developing countries is rather comparable. Indeed, their economies are more or less managed by creditors who, under cover of globalisation, flood them with their products — too often subsidized, thus violating the rules enacted by the World Trade Organization (WTO) — while limiting the access of the productions coming from the South to their own markets. Such a situation is financially unsustainable.

Extending the research of Keynes, the theory of the circuit²⁸ underlines a widened capacity of transfer representing “*the maximum of income which a country can transfer abroad without damaging the standard of living of its population*” (Poulon, 1988, p.17). This

²⁶ “*The commission (...) is authorised to exert pressure on the German system of taxation and on German internal expenditure, with a view to ensuring that reparation payments are the first charge on the country’s entire resources*” (Keynes, 1919, p.136). Thus, reparation payments in the past as debt repayment nowadays take precedence over the wellbeing of the populations, as Keynes rightly denounces it.

²⁷ Stiglitz (2002) notes for example that the IMF ceased serving the interests of the world economy to serve those of world finance. The financial markets liberalization, if it did not contribute to world economic stability, opened immense new markets in Wall Street. Consequently, if one considers IMF measures under this angle, one better understands his insistence to make foreign creditors reimbursed instead of helping national firms not to founder.

²⁸ See Poulon (1985), (1988).

approach, by giving a greater place to human being, is marked with sustainable development. However, by considering a possible transfer of non-monetary assets, such as shares for example, it still leaves the door open to a takeover of indebted countries by foreign creditors. Consequently, is substituting an internal debt for an external debt the solution? Keynes seems to suggest that it would promote better international relations: *“A debtor nation does not love its creditor (...). In the case of internal debt, however, there are interested parties on both sides, and the question is one of the internal distribution of wealth. With external debts this is not so, and the creditor nations may soon find their interest inconveniently bound up with the maintenance of a particular type of government or economic organisation in the debtor countries”* (Keynes, 1919, p.177). Thus, it is the existence of *“the continuance on a huge scale of indebtedness between governments [which] has special dangers of its own”* (Keynes, 1919, p.178), what should naturally lead us to favour debt relief. Finally, Keynes shows us, once again, that cooperation should replace competition if we really want to solve the evils afflicting our societies²⁹.

This financial sustainability, guarantor of economic and political independence of Nations, must be seen as a necessity, although not a condition sufficient enough to the advent of a socially equitable and ecologically sustainable development.

6. Towards a post Keynesian sustainable development

Keynes, without being aware of it, can be considered as a precursor of sustainable development³⁰. Incontestably, his positions relative to ecological, social and financial matters should provide the foundations of an analysis closely related to strong sustainable development. Moreover, post Keynesians, who are thought to be the faithful heirs of Keynes³¹, share some key features with sustainable development.

Indeed, Bird (1982) considers that the incorporation of political judgments about future generations' welfare is an explicit feature of post Keynesian environmental analysis and stresses the immutable ecological constraint. Lavoie (2005) thinks that post Keynesians attach a great importance to the concepts of hysteresis and irreversibility. Combined with radical uncertainty, which prefigures the precautionary principle³², these concepts provide the foundations of an ecological approach of sustainability and show that bringing them together is possible with ecological economics (Holt, 2005). Moreover, post Keynesians reject the substitutability of production factors and favour a complementarity in phase with a reasonable management of the natural resources (Lavoie, 2005; Holt, 2005). They consider today's decisions to have an impact on tomorrow, not only on the people but also on the biosphere³³. Holt (2005) agrees with Keynes when considering that the economic problem can be solved and that we should now turn to a qualitative improvement of the standard of living. We are

²⁹ In that way, and according to sustainable development, Keynes considers that *“the assertion of truth, the unveiling of illusion, the dissipation of hate, the enlargement and instruction of men's hearts and minds, must be the means”* (Keynes, 1919, p.188).

³⁰ Holt (2005, p.181) agrees with us when he affirms that Keynes, although not stressing on ecological issues, would be in phase with a sustainable based approach.

³¹ The main characteristics of post Keynesian analysis can be found, for instance, in Eichner and Kregel (1975), Lavoie (1992), (2004), Davidson (2002).

³² Lavoie thinks that, except when a crisis occurs, *“uncertainty creates a certain continuity, because the behaviour of economic agents or institutions will slowly change as regards to fluctuations of any kind, precisely because of their hesitations vis-à-vis imperfect information”* (Lavoie, 2004, p.22).

³³ Lavoie (2005) believes that post Keynesian works can be closely related to Georgescu-Roegen, who is one of the pioneers of sustainable development.

consequently very far away from the neoclassical analysis, based on the recognition of the environmental Kuznets' curve that considers that, in the long run, economic growth is beneficial to the environment.

Yet, Mearman (2005a), (2005b) notes that little has been said by post Keynesians about the environment. He suggests that it is because they were engaged in a struggle with neoclassical economists for whom, environment is not a key issue. Furthermore, the focus on growth, unemployment and capital accumulation could reveal a certain incompatibility with a sustainable approach.

On the other hand, the emphasis laid on distribution, equity and demand confirms that post Keynesians join social sustainability. According to Mearman (2005a), they follow Keynes' rejection of the positive/normative distinction³⁴, which implies the primacy of politics on economics. Thus, **economics should only aim at ensuring the satisfaction of the essential needs.**

Regarding financial sustainability, we already mentioned the contribution of the circuit theory which widens the capacity of transfer, defined by Keynes in 1919 as being the difference between exports and imports of a debtor country, by integrating the possible surplus of investment on households' savings, the whole being equivalent to the non distributed net profit of firms (Π_n). Π_n is also equal to the difference between net investment of the firms (I), i.e. the wealth they create, and net financing obtained (F) in order to start producing. With the usual notations, the widened capacity of transfer (WCT) can be written as follow³⁵:

$$WCT = (I - S) + (X - M) = \Pi_n \quad (1)$$

More conventionally, sustainable indebtedness is defined by the stability of the debt/GDP ratio (d)³⁶:

$$\Delta d = d(i - g) + \frac{M - X}{Y} \quad (2)$$

Δd represents the variation of the debt/GDP ratio, i the interest rate to which the debt was contracted, g the growth rate, $X-M$ the current account balance and Y the GDP.

According to the equation (2), foreign debt becomes unsustainable when $\Delta d > 0$, which occurs when the interest rate is higher than the growth rate and/or when the current account balance is negative. To avoid such a situation, the neoclassical theory, using the bitter potion of the Washington consensus, urges developing countries to promote free trade in order to support exports, and counts on a rise of the interest rates to increase savings and therefore investment. By doing this, a sustainable indebtedness can only be carried out if high growth rates are achieved, which compatibility with a sustainable approach is more and more disputed. On the contrary, post Keynesians assess that financial sustainability can only be carried out by applying more accommodating monetary policies, based on low interest rates, which at the same time allow better reimbursement expectations according to equation (1) — $I - S$ and thus profit increase — and reduce the debt stock — $i - g$ decreases in equation (2).

³⁴ In a letter addressed to Harrod on July 4, 1938, Keynes clearly asserts his rejection of the positive/normative distinction: "*economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value*" (Keynes, 1938b), p.297).

³⁵ A detailed demonstration is given by Poulon (1988).

³⁶ This relation is obtained starting from a dynamic analysis of the general equilibrium of the balance of payments.

We must acknowledge that a unified post Keynesian approach does not exist yet that deals with the three pillars of sustainable development, even if we can find some insights of such an analysis. Following Mearman (2005a), (2005b) or Holt (2005), we consider that today's main objective for post Keynesians should be to gather these elements in order to contribute to the advent of a model based on a strong sustainability. Such a model should emphasize the realism of assumptions and a "reasonable" rationality, fruit of radical uncertainty and the principle of effective demand. In this respect, we should integrate time in its historical dimension, leading to the recognition of the irreversibility principle. Such a model should also stress on social class conflicts, thus rejecting methodological individualism, and privilege production over exchange. The central role of the State, and more generally of its institutions, should be strongly reaffirmed if we consider, following Keynes, that economic issues are subordinated to politics. But, in succeeding to compete with the mainstream, post Keynesians need to get closer to other heterodoxies. For example, connections with ecological economics are obvious if we accept the increasing importance of environmental concerns. In the same way, the assistance of the institutionalism could be fruitful to better apprehending relationships between social groups so as to promote greater equity.

7. Conclusion

Whereas the Keynesian thought is nowadays neglected, we showed, on the contrary, that Keynes was well ahead of his time, particularly with regard to sustainable issues, which one finds the traces of ecological, social and financial aspects in his works.

Consequently, post Keynesian authors should not hesitate any more as for the way to follow and should forget their reserves regarding sustainable development. Their analysis, enriched by contributions coming from other heterodoxies, is perfectly compatible with an approach based on sustainability. Indeed, it is by federating heterodoxies rather than emphasizing their specificity that the challenge aiming at supplanting the neoclassical model could be taken up.

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