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Keynes on State and Economic Development

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Abstract: This article aims to present a notion of economic development that can be drawn from John Maynard Keynes's writings. We first present the concept of economic development in the economic theory to conceive what this term means to different economic perspectives. After that, we present how Keynes required the public action and understood it as a *sine qua non* requirement to the achievement of economic development. So, we present Keynes's State *Agenda* that comprehends the creation, the role and the bureaucracy of the public entities. Finally, the we show Keynes's notion of economic development, based on the previous definition.

Keywords: Economic development, Keynes, State, Post Keynesian Theory, Economic Policy.

Jel: B22, E12, F63, H70, E60.

1. Introduction

John Maynard Keynes did not regard the State as the only solution to economic and social problems. Instead, the State should be an institution of collective action, built in a bottom-to-top manner by both policy makers, who undertake economic policies to stabilize the economic cycles, and the productive economic classes, whose investments create employment and income. Thereby, the State should target economic development as its ultimate goal.

Thus, this paper has two goals. Its first purpose is to present Keynes's conception of economic development. However, to do so we also need to report Keynes's notion of the State, because he saw it as the institution that would lead the economic development. The article has two

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contributions. The first is the supply of Keynes's notion of economic development. It is defined as the situation in which the economy assured sustainable economic growth, full employment, and fair income distribution so that it can attain a further stance where the love of money is replaced by the love of living. Until to-day there is nothing said in the relevant literature about how Keynes would conceptualize economic development.[5] Our second contribution is to debate Keynes's concept of the State. Other references have also added on the topic, such as Cairncross (1978), Peacock (1993), Crabtree and Thirlwall (1993) and Skidelsky (1991). However, they did not relate State with development. In turn, we argue that Keynes saw the State as a space of conciliation between democratic will and technocratic ruling. This conciliation is key to economic development.

Besides this brief Introduction, this article has three sections. Section 2 reviews the notions of economic development in economic theory. We do not intend to compare them with Keynes's notion of it. Our idea is to outline the evolution of the concept and report some references of what development means. Section 3 presents Keynes's idea of the monetary theory of production and his views on the role of the State. Also, this section briefly discusses the economic policies Keynes prescribed to assure economic development. Section 4 describes Keynes's notion of economic development. Finally, section 5 concludes.

2. Economic Development in Economic Theory

To understand Keynes's conception of economic development, it is useful to recall that this term has several meanings in economics. Sometimes it is employed as a synonym of growth whereas other works highlight its differences from growth. For instance, the purpose of the 'political economy' was to explain the reasons driving economic growth. Quesnay (1996), in his 1759 *Tableau Économique*, attempted to understand how wealth circulated and how it was created in the primary sector, that he regarded as being the only able to generate surplus. In his 1776 *The Wealth of Nations*, Adam Smith (1996) was the first to envisage the relationship between productivity and growth. Nevertheless, these classical authors did not delineate the difference between growth and development. Both terms were, and often still are, employed indistinctively to define the progressive nature of the economy, that is, the ongoing revolution of productive techniques over time and the consequent expansion of production and markets.

When the marginalist revolution took place by the end of the 19th century, the neoclassical marginalists believed that the economic change was related to the dynamics of an economy, in contrast with the previous notion of equilibrium that dismissed temporality. Still, they adopted as their method of analysis the static comparative, which compares two resting points of a system without exploring their long-term connection. Nonetheless, this method became the predominant view of economic change amongst British economists in the following decades. Even Keynes used it to deal with short-term growth in his 1936 *General Theory* (GT), taking capital stock and technology as given.

After 1930, but mainly following World War II, a differentiation emerged between growth and development – perhaps under the influence of Keynes's GT and the creation of macroeconomics. The New Deal and the Welfare State attracted attention in the US and Europe, respectively, and discussions about well-being ensued. It became obvious that the War expenditures had helped

[5] For instance, Lavoie (2014), an important handbook of post-Keynesian economics, did not even include development as one of the keywords listed in the book's remissive index.

boosting employment, but doubts remained: did this necessarily create better conditions of life to people? From then on, the GDP growth became identified as an early stage of development.

Development, however, not only involves GDP growth but goes beyond it, demanding qualitative change in welfare. Robinson (1981) emphasized this distinction by arguing that the measurement of welfare using GDP growth was restricted to the economic orthodoxy. She noted several difficulties when counting GDP, such as the informal economy and the necessity of accounting for social indicators, like those referring to poverty, income distribution and access to health and education.

In the 1950s and the 1960s, the concept of economic development gained visibility in the US. Solow (1956) theorized about growth as well as Rostow (1966) elaborated his five stages growth model.[6] According to Boianovsky and Hoover (2014), Solow explained the long-run growth based on capital accumulation, that is population growth and technological progress, whereas Rostow's model went further and showed how an economy not only grows but also develops in the long-run. In Rostow's model the government is essential to the development,[7] a feature that Keynes also highlighted, as we shall show soon.

However, it was in Latin America, specifically so in the United Nations Economic Commission for Latin America and the Caribbean (CEPAL), that the concept of development emerged in the 1950s and was employed forcefully as a counterpoint to underdevelopment.[8] Celso Furtado (1983) helps to better understand the CEPAL's concept of development.

He argued that underdevelopment was not a step towards development, as Rostow (1966) believed, but an economic structure. Furtado's (1983) views are that (a) 'developed' countries have never been 'underdeveloped', so underdevelopment is a historical condition of countries whose economies are structurally specialized in agricultural production; (b) underdeveloped countries are peripherical to developed countries (also called the central economies) that are industrialized and have the state-of-the-art technology. So, they create and dominate the best productive structure; and (c) underdevelopment tends to repeat itself over time if nothing is done to surpass it. Thus, it is not a stage, it is a structural condition. Summing up '[i]n short, underdevelopment is not a necessary stage of the process of the formation of capitalist economies. It is, in itself, a peculiar situation. It is the result of the expansion of the capitalist economies, aiming at using the natural resources and the manpower of the areas of pre-capitalist economy.' (Furtado 1983, p.146) [9]

Going in the same direction of CEPAL, Thirlwall (2003 pp. 9–10) argued that the 'balance of payments consequences of trade is also one of the important reasons (…) for supposing a strong link between exports and economic growth.' He developed a balance-of-payments-constrained economic growth model in which the peripherical countries are likely to have their development restricted by their balance of payment. This would not be the case of developed countries.

Furtado (1983 pp. 78–80) made a clear distinction between growth and development, that was largely employed by theorists of the underdevelopment in Latin America.[10] He stated that 'the

[6] The five stages are the traditional society, the conditions for take-off, the take-off, the maturity process, and the period of mass-consumption.

[7] Like Rostow (1966), in his 1944 *The Great Transformation*, Karl Polanyi (2001) argued that in the modern economy, a combination of markets and State intervention through public policies is essential to development.

[8] To CEPAL, to overcome underdevelopment in Latin America and assure development were necessary industrialization, interventionism and the existence of a nation project.

[9] Quotes that were not in English in the original text were translated into English by the authors.

[10] Theotônio dos Santos, André Gunder Frank, Enzo Falleto and Fernando Henrique Cardoso, among others, developed the Dependence theory, that is a conceptual and intellectual structure to understand the Latin American

concept of growth should be reserved to express the expansion of real product within a subset of an economy.' However, growth without development 'would be a mental construction without correspondence to reality' (Furtado 1983 pp. 78 and 145) because growth modifies the productive structure as it changes the functions of production, expands markets, enhances productivity and intensifies the social division of labor – specially so when growth is led by the manufacturing sector. All these changes are needed for economic development. Furtado (1983) argued that development requires a long-run growth. The latter demands innovation, what also entails changes in income distribution and in welfare. He disbelieved that greater industrialization and labor productivity would reduce the supply of workers and thereby strengthen the bargaining power of the labor force (Furtado 1983, p. 133).

CEPAL saw development not only as a way to surpass underdevelopment. It was also the defense of a national industrialization plan that would drive the country's economic policies. In fact, this theoretical view was executed in Latin America when the developmentalist ideology dominated the political power between 1960 and 1980. Therefore, Fonseca (2014 p. 59) argued that,

> developmentalism is the political economy voluntarily formed or managed by Governments (national or subnational) to, by means of production and productivity growth, under the leading of the manufacturing sector, transform society aiming at reaching desirable ends, notably the surpass of the society's social and economic issues, within the institutional framework of the capitalist system.

Furtado's (1983) view of development relates to some of Keynes's propositions. When referring to the long-term, Keynes claimed that development is not growth, though the first depends upon the latter. He understood that progress, often a euphemism for development, would liberate men from economic restrictions, stating 'in the long-term *that mankind is solving its economic problem*' (Keynes 1972, pp. 325–326, emphasis in the original). Like Keynes, Furtado (1983) believe that markets could not either provide for full employment or overcome underdevelopment. Keynes's (1980a) thoughts suggested that development requires sustainable and continuous growth over time, requiring permanent State economic intervention, an idea shared with Furtado (1983).[11]

To sum up, the concept of development is not unambiguous. It has several meanings, such as (i) it is a process of surpassing some point of a country's economic progress; (ii) there is no automatic path to development; (iii) it is not a stage, but a structural condition; (iv) market forces alone are uncapable of developing a country, so that the State is needed; (v) market forces are not dismissible, and their productivity improvement is required to the development of an economy; and (vi) growth is not development, however there is no development without growth. Growth is the means to development, no development itself.

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thought in the 1950s. This theory constitutes the basis for the underdevelopment theory in Latin America. For additional details about the relevance of dependency theory see Bielschowsky (2000) and Kvangraven (2020).

[11] In this sense, some authors have debated the differences between the 'prime the pump' policies, which are meant to reanimate the economy (Samuelson 1940), and the long-term public expenditures (Dillard 1980) to address the permanent insufficiency of effective demand.

3. Monetary Theory of Production, the Role of the State and the Guidance of Fiscal and Monetary Policies

3.1. The Context in which the Development Happens: The Monetary Theory of Production

One key feature of the Keynesian revolution is its refuse of the quantitative theory of money, so that money is partly responsible for the inherent instability of capitalism. In his 1930 *Treatise on Money* (TM), Keynes outlined an asset choice theory to link the real and financial markets. To model this possibility, Keynes (1976 p. 243, emphasis in the original) described two spheres of the economy, namely industrial and financial, in that

> By *Industry* we mean the business of maintaining the normal process of current output, distribution and exchange and paying the factors of production their incomes [...] By *Finance*, on the other hand, we mean the business of holding and exchanging existing titles to wealth [...] including Stock Exchange and Money Market transactions, speculation and the process of conveying current savings and profits into the hands of entrepreneurs.

In the industrial circulation, income and business deposits assure monetary resources to boost consumption and investment; thereby, money is a means of exchange. In turn, money in the financial circulation relies on the savings-deposits circuit. This circuit depends on the speculative stances of agents, that can be either bull, those who hold securities and borrow cash, or bear, those that avoid securities and hold cash. So, money is either used as a hold against uncertainty or to speculate in the financial markets. It can be demanded to store wealth, but this type of money possession is an alternative to retaining other assets that makes asset prices oscillate and disturbs the industrial circulation. Money is not neutral as it is in the quantitative theory of money. Its circulation in the financial sphere can cause economic instability, and 'changes in the financial situation are capable of causing changes in the value of money in two ways. They have the effect of altering the quantity of money available for the Industrial Circulation; and they may have the effect of altering the attractiveness of Investment' (Keynes 1976, p. 254).

At the outset of the 1930s, Keynes (1979 pp. 77–78, emphasis in the original) explicitly established his monetary theory of production, presenting an economic taxonomy where,

> a *real-wage* or *co-operative economy* as one in which the factors of production are rewarded by dividing up in agreed proportions the actual output of their co-operative efforts. […] [when] the factors are hired by entrepreneurs for money but where there is a mechanism of some kind to ensure that the exchange value of the money incomes of the factors is always equal in the aggregate to the proportion of current output which would have been the factor's share in a co-operative economy, we will call a *neutral entrepreneur economy*, or a *neutral economy* [...] [when] the entrepreneurs hire the factors for money but without such a mechanism as the above, we will call a *money-wage* or *entrepreneur economy*.

The difference between the neutral and entrepreneur economies is that Say's Law prevails in the first, so that supply creates its own demand and there is no obstacle to full employment. In the second, production only takes place when the costs of production are smaller than the expected return. In entrepreneurial economies, '[a] process of production will not be started up, unless the money proceeds expected from the sale of the output are at least equal to the money costs which could be avoided by not starting up the process' (Keynes 1979, p. 78). While the purpose of a co-operative economy is the accumulation of goods, monetary accumulation is the aim of businesspeople in Keynes's entrepreneur economy.

On the way to his final concept of a monetary economy, in the GT Keynes (1964 p. vii) argued that this sort of economy is 'essentially one in which changing views about the future are capable of influencing the quantity of employment and not merely its direction'. Expectations cause fluctuations in effective demand because they modify money demand, making 'the use of money is a necessary condition for fluctuations in effective demand.' (Keynes 1979, pp. 85–86). The GT clarified Keynes's theoretical framework of how a monetary economy works. He elaborated three theories regarding (a) the determination of investment, (b) the setting of interest rates and (c) the theory of money. The relationship between investment, interest rates, and money explains the instability of the economy. In face of uncertainty, the only available insurance is retaining money instead of spending. Hoarding money can happen suddenly as agents' decisions are highly sensible, once they rely on subjective elements, namely expectations and confidence. When agents demand money and not goods though, there is no reason the maintain the level of employment and production that delivered the good that was not consumed.

GT's monetary theory innovatively declared money an asset different from all others because of two features. On the one hand, money's elasticity of production is negligible. Money cannot be freely produced when its demand increases, thereby, a greater preference for money does not result in higher employment. On the other hand, money's elasticity of substitution is null. No other asset replaces money when its price varies. These features, which are taken care of by central banks, uphold agents' trust in money and make it becomes a unit of account, a means of exchange and a reserve of wealth over time. Consequently, money has absolute liquidity through time and works as a form of wealth alternative to other financial and real assets. Hence, it is not neutral to economic activity. As Keynes (1964, p. 235) explained, 'unemployment develops, that is to say, because people want the moon; – men cannot be employed when the object of desire (*i.e.* money) is something which cannot be produced and the demand for which cannot be readily choked off'.

3.2 The Role of the State

Although Keynes did not develop a general theory of the State, based on his pamphlets, articles and books we delineate his views on the emergence of State entities, the directions of their actions, and to envision a proper bureaucracy. In his 1926 *The End of the Laissez-Faire*, Keynes argued that *laissez-faire* would not cause individual and social interests to coincide. He also stated that the main economic, social and political problems usually stem from 'risk, uncertainty and ignorance' (Keynes 1972, p. 291). The survival of capitalism would rely on the 'visible hand' of the State, which is responsible for regulating the socioeconomic dysfunctions that markets promote, 'I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system in sight […]. Our problem is to work out a social organization which shall be as efficient as possible without offending our notions of a satisfactory way of life' (Keynes 1972, p. 294).

In *The End of the Laissez-Faire*, and mainly in the 1925 *Am I a Liberal?*, Keynes (1972) discussed how he expected the creation of State entities. Taking as examples joint-stock companies, which are owned by a great number of individuals, he expressed his hopes that social organizations oriented to public interests should emerge from the association of individuals. This logic does not exclude the creation by the State, but highlights that their structure must be fully impersonal, just as happens with joint-stock firms, in which 'the technique of modern capitalism by the agency of collective action' prevails (Keynes 1972, pp. 292–293). Considering that the community sets rules and habits seeking public welfare, reputation and stability would be more important than the payment of dividends. In light of that, these institutions would be safe from personal dominance, something Keynes (1972) insisted upon.

Keynes (1972) conveyed this idea to State entities. They should be formed by semi-autonomous bodies. Semi-autonomy has two meanings, (a) a partial autonomy of public entities in relation to any other specific entity, but that is at the same time subordinated to the democratic powers of a free society, namely parliament and government. Moreover, (b) semi-autonomy also means that the technical bureaucracy of State entities does not set their goals, just the means to reach them.

The State entities Keynes (1972) prescribed could be private-public partnerships, with joint public and private capitals.[12] Thereby, public and private interests are matched, and the public services offered to the private sector are produced and certified by individuals who will be in touch with them. Once again, the idea of autonomy emerges, meaning State entities are, at the same time, close to, and distant from government and parliament.

Another feature that appeared in *Am I a Liberal?* is Keynes's concerns about the long-term character of public policies. He believed that they should be only partly changed at every new government. The parliament has the power to oversee the set of policies that continue and those that are changed or created respecting the interests of voters passed on to State entities through the goals chosen when people voted for a government.

A key element in *Am I Liberal?* is Keynes's proposal of the *Agenda*. It is a set of actions he expected the State to fulfill aiming at building welfare and securing the stability and social justice required for long-term progress. This set of State actions also comprehends the economic policies designed to stabilize the economic cycle, distribute wealth and income, build financial stability and enable a functional credit system.[13]

The *Agenda* should be concerned with both constructing the technically social actions and excluding technically individual ones. Technically social actions are those that would not come to be if the State were uninvolved. They have horizontal outcomes across all private sectors, once they build the productive and financial infrastructures that allow for the private initiative to constitute its productive structure with isonomic opportunities. The technically individual action,

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[12] For instance, the port of London was one of these joint ventures. The Bank of England, the British monetary authority, was another, both cited by Keynes in *The End of Laissez-Faire*. However, in the 1932 *The Monetary Policy of the Labour Party*, Keynes turned against the public-private partnership of the Bank of England. His concerns aimed at keeping public interests on the monetary policy protected from private lobbies.

[13] The State intervention is also noticed in Keynes's 1929 *Can Lloyd George do it?*. He argued that the State economic policies could dynamize economic activity 'whether we like it or not, it is fact that the rate of capital development in the transport system, the public utilities and the housing of this country largely depends on the policy of the Treasury and the Government of the day' (Keynes 1972, p. 113).

which should be avoided, is the State assisting the needs of one or a few private capitals, giving them benefits through something that should improve the public welfare.

It is possible to notice that Keynes (1972) also suggested that the *Agenda* should have tools to limit individual action when it creates unfair competition, greater ignorance and, consequently, uncertainty. The State entities should include in the *Agenda* ways to furnish the greatest set of information, in order to reduce uncertainty and its effects on private spending. Within an original argument of Ferrari-Filho and Conceição (2005), Keynes's GT notion of investment socialization can be seen as the State creating the best business environment it can possibly build, so that it may lessen uncertainty and prompt private investment. The *Agenda* is the way to make the socialization of investment.

Regarding the State bureaucracy, Keynes (1972) stated that the *Agenda* should be endowed with a technical staff bearing public spirit, knowledge and ambition. Politicians should implement, respecting democratic processes of choices, the institutional framework able to facilitate the government's accomplishment of the *Agenda*. Likewise, in his 1932 *The Monetary Policy of the Labour Party*, Keynes (1982) engaged in similar reasoning, though he refrained from using the word *Agenda* to express it. Yet, he was still arguing that the management of economic policies was a hard task and that the members of the bureaucracy should have the right skills to undertake it. With this reasoning Keynes (1972, p. 295) showed, however, a seeming contradiction in his arguments about the technical staff of the State,

> I cannot explain it without beginning to approach my fundamental position. I believe that in the future, more than ever, questions about economic framework of society will be far and away the most important of political issues. I believe that the right solution will involve intellectual and scientific elements which must be above the heads of the vast mass of more or less illiterate voters.

Hence, there is a kind of tension between democratic wishes *vis-à-vis* the aristocratic execution of the economic guidelines of society. This is crystal clear in Keynes's writings when one reviews his arguments regarding the State technical staff. The background of this tension is the need to understand the techniques of economics, that is, the limits set by the knowledge of the relationships between its key variables. That is why Keynes was keen to provide technical autonomy for those in charge of undertaking and evaluating economic policies.

The solution Keynes envisioned to this tension between the people's democratic choice of economic goals, and the aristocratic decision of how to accomplish them, was the prevalence of public spirit and democratic exercise. The semi-autonomy of State entities, as well as their counterpart, namely the partial subordination to the democratically-elected parliament and government, necessarily imply a constant dialogue and make the State be the space of the conciliation between democratic wills and technocratic ruling. Therefore, the more immediate goals of the populace are presented for execution. However, the details of such execution (How to set these goals? When? How to pay for them?) *pari passu* to what the State has been doing – the long-term public spirit – match in a State policy rather than just in government policy. The latter is, nevertheless, the official body for the new democratic wishes to be accomplished, assisted by a technical staff designated for this purpose.

What does Keynes expect the State to aim for as its ultimate target? The State would be the solution to '[t]he outstanding faults of the economic society in which we live [which] are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes' (Keynes 1964, p. 372). To do so, he argued that the State *Agenda* would be the resolution to crises of effective demand and should fight against unemployment and unequal income and wealth distribution. Regarding unemployment, 'I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative' (Keynes 1964, p. 378).

The *Agenda* was wider than the well-known Keynes's economic policies prescriptions. Still, they are one of the most important outcomes of the State *Agenda*. Active and countercyclical economic policies, notably fiscal and monetary ones, should be undertaken to stabilize economic cycles and sustain effective demand, ensuing employment. Let us briefly explore Keynes's propositions of the countercyclical fiscal and monetary policies.

In terms of fiscal policy, in his 1933 *The Means to Prosperity*, Keynes (1972, p. 345) explored the concept of income multiplier and argued that a 'relief to the budget', that is, an expansionary fiscal policy to stimulate economic activity, was one of the solutions to an unemployment crisis. In the 1940 *How to Pay for the War?*, Keynes (1972) suggested taxing inheritance to improve wealth distribution. As a member of the Beveridge Commission, Keynes proposed a public budget divided in two parts, namely current and capital budgets. The first finances the public services offered to a country's population. The latter enrolls long-term public investments, which Keynes expected to automatically stabilize economic cycles and build the socially technical infrastructure of the *Agenda*. This is the most important of Keynes's fiscal policy proposals. Finally, in his GT Keynes (1964, p. 373) proposed the fiscal policy as an instrument for 'increasing the community's propensity to consume' and as a means to pursue an 'optimum rate of investment (…) of securing an approximation to full employment.' (Keynes 1964, p. 378)

Regarding the monetary policy, in the GT Keynes (1964) stated that its target is to influence the yield curve of the financial system attempting to stimulate private investments. This emerged from Keynes's (1964) view that the interest rate is a conventional phenomenon, dependent on the expectations of both agents and the financial system concerning the actual and future stance of the monetary policy. Keynes (1964, p. 376) figured out the 'rentier aspect of capitalism', e.g. agents prefer to stay liquid, speculating about the price of securities, which depends on the yield curve. He proposed that the monetary policy should use all the available tools to aim at determining a low interest rate, that is, 'I am advocating (…) the euthanasia of the rentier' (Keynes 1964, p. 376).

In sum, Keynes did not seek the end of capitalism, quite the opposite. He desired to save it and make its progress, its development. Rejecting the *laissez-faire* doctrine, he proposed a regulated capitalism, whose market disfunctions were dealt with through State intervention. Keynes's economic policy proposals extensively suggested regular State economic intervention to regulate economic activity and, consequently, reduce unemployment and mitigate the unequal distribution of income and wealth. State economic interference was seen by Keynes as indispensable to 'stabilize the instability' inherent to capitalism. Still, what was Keynes's major goal regarding State economic intervention? Would his final goal only be the stabilization of the economic system? Keynes's intentions were even greater. He hoped to push capitalism to a superior level, at which it would prevail what he understood as economic development. This idea is explored in the next Section.

4. Keynes's Notion of Economic Development

Although the Neoclassical Synthesis of Keynes and New-Keynesians say Keynes was mostly preoccupied with the short-term and little concerned with the long-term, we believe that Keynes emphasized a short-term analysis not because he was focused on time *per se*. He was concerned with the necessity of State intervention throughout time. Keynes's view was not weighing the short-term *versus* the long-term, so much as he tailored his arguments toward the mainstream theories of his time, which claimed that the State should not act in the short-term because in the long-term, equilibrium would be reset by market forces. Keynes did not believe in this. Hence, he designed the *Agenda* so that it would work overtime and promote the long-term economic goal, development. Therefore, what is development to Keynes?

In the concluding chapter of the GT, Keynes (1964) launched his *Concluding notes on the social philosophy towards which the General Theory might lead*. After bearing a high level of theoretical rigor in economics, he decided to delve substantially into social philosophy. Andrade (2000) stated that this philosophical ending of the book is due to Keynes's view that knowledge is not contemplation, but a tool to shape reality. After theorizing employment levels, which always stand below full capacity, and explaining the importance of money and interest rates in molding this common situation of the capitalism wasting its productive resources, Keynes adopted a normative stance, suggesting how society should behave in light of his theory.

However, Keynes's (1964) social philosophy did not present a notion of development beyond scarce references to the need to modify capitalism in order to safeguard private initiatives and the individual freedom. Keynes wondered about the importance of viewing production as an individual act of entrepreneurs, whose action multiplies social wealth. Entrepreneurs risk their own wealth without knowing whether they would profit or not. Thus, Keynes's social philosophy required the *Agenda* to socialize investment risks, given its dilemma: an action whose risk is imminently individual, but whose outcomes are social.

Based on his *Essays in Persuasion* (Keynes 1972) and *Essays in Biography* (Keynes 2010), it is possible to say that Keynes's notion of development involves a stage of capitalism where economic problems, such as unemployment, unequal income and wealth distribution, the waste of productive resources, the fight for the basic necessities of life, among others, are no longer widespread. These economic issues should be surpassed to reach development, a stage in which 'the economic problem is not – if we look into the future – *the problem of the human race'* (Keynes 1972, p. 326, emphasis in the original). Full employment and more equal income and wealth distribution are important elements on the road to development; still, they are not development itself. They help society to attain a subsequent stage of economic and social systems. The new status quo, reached after the issues of modern capitalism are overcome, is development.[14]

What would be, to Keynes, the mindset of this new status quo and stage of development? In *The End of Laissez-Faire*, Keynes (1972) argued that the motto of individual behavior in capitalism is the love of money, what causes individuals to confuse means and ends. In *Am I a Liberal?*, *A Short View on Russia* (1925) and *Economic Possibilities for Our Grandchildren* (1928), the author recurrently rejected the love of money as the main driver of capitalist progress. So, he believed that the developed society would need 'great changes in the code of morals' (Keynes 1972, p. 329). The love of money should be eliminated as the core of individual behavior.

[14] The post-Keynesian macrodynamic models (Harrod 1939; Kaldor 1957; Thirlwall 1979) are concerned with long-term growth, complementing Keynes's short-run analysis in the GT. However, the long-term growth in these models did not mention any definition of development.

Hence, Keynes's utopia asked for the end of the 'love of money as a possession' (Keynes 1972, p. 329). In this stage, individuals would have resolved their economic burdens and thus have the opportunity to 'cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes' (Keynes 1972, p. 328). Keynes's notion of development signifies a capitalism that 'for the first time since his creation man will be faced with his real permanent problem – how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well' (Keynes 1972, p. 328).

The roots of the love of money that drives the capitalism are not to be found at any economic problem. They are a human condition, as Freud (1930) stated.[15] Humans beings are subject to a series of psychological suffering, mostly because of some feeling of lacking that is inherent to the human race. To fulfill this unidentified but always felt desire of something, men have found money. Money furnishes a mix of realization and power, given that capitalism is the system of producing to exchange and money can buy everything.

Still, as long as money just cover the lack of a fated purpose for human beings, such as religions do, its accumulation is never ending. Covering something does not solve it and when the humankind saw in money this cover, it turned means into ends. Like Freud (1930), Keynes was trying to make humans live their real life, not one covered by any symbol, such as God or money. His attempt was to show the love of living as a substitute for the love of money.[16] That is why after explaining the nature of money in the Chapter 17 of the GT, and what it can do to the economic activity when strongly desired, Keynes ended his magnus opus with a non-economic debate, but with social philosophy.

If the young and adult Keynes strongly believed in the power of reasoning to reveal the impulses of humans' emotion, such as the love of money, the 55-old Keynes was disillusioned as he said in his 1938 *My Early Beliefs* (Keynes 1972). There, Keynes assumed his skepticism regarding the human rationality being able to guide the humankind to a more reasonable and solidary social engagement. Even being contrary to Marxism and communism, Keynes (1972) extoled the pecuniary detachment of the Soviet Union and the social pact built into the socialist experience. There, progress, understood as a route to development, was a collective goal, different from the capitalist approach, whose evolution emerges from the individual love of capital accumulation.

There is another element that reinforces Keynes's claim for collective action as fundamental to achieving economic development. In *The Economic Possibilities for our Grandchildren*, a still optimistic essay about the future, Keynes (1972) argued that the uncoordinated economic behavior of individuals was, if left by its own, unable to enhance the life of whole community. To fight this preeminent search of individuals for fulfilling their own interests, Keynes proposed the force of the collective action of people through the State *Agenda*. He believed that the emergence of its entities by means of people's aggregative action could balance egoism and altruism. This is a very different interpretation of the relationship between individuals and the whole society when compared to the orthodox tradition in economics. The latter sees the whole society (including the

[15] O'Donnell (1989, p. 293) stated that Keynes's idea of love of money was taken from Sigmund Freud. In his words, 'on the one hand, [Keynes started a] scientific investigation in the psychological roots of money-love [in TM]; and on the other hand, a conception of money-love as a disgusting morbidity, as a disease whose eventual elimination in the ideal could be envisaged.'

[16] It is important to mention that the idea of love of living, which means friendship, goodness, and freedom, is related to Keynes's views about philosophy and ethical principles that were influenced by the 1903 G. E. Moore's *Principia Ethica*. For additional details, see O'Donnell (1989).

economy) as a mere optimum and efficient result of the 'final *reduction ad absurdum'* (Keynes 1972, p. 446) of Bentham's utilitarian calculus.

Keynes's trust in the power of rationality in guiding the collective action of people is perhaps most illustrated by his proposal for an *International Clearing Union* (Keynes 1980b). It aimed at mitigating or eliminating the love of accumulating money in a global level. Despite the fact that he was pessimistic in the late 1930's, and even with his proposal being unsuccessful in Bretton Woods, Keynes did not give up saying that another world was possible. His utopia was the stage of economic development.

History showed that Keynes's legacy was ambiguous. On the one hand, he won some battles for a while, when the Welfare State was built after World War II and the western world lived what is nonetheless called 'the gold ages of capitalism'. During these years, the State *Agenda* coordinated the economic activity and built a wide social security police. This was the time when capitalism had the greatest growth and the better distributed personal income ever. On the other hand, Keynes's legacy started to lose the battle from the 1970 onwards, although the Keynesian prospects were right. Those at the financial market began the financialization era, and as never before the love of money has ruled the mood of capitalism.

Thus, Keynes's notion of development is the stage where humankind overcomes its economic concerns, which are no longer a major problem for the general populace. The means to accomplish it is the State *Agenda.* It the locus of conciliation between the democratic wills, government intentions, society's needs, and technical knowledge to execute the public policies. The State *Agenda* should put all that together. For, collective action and public spirit are needed.

In the developed phase of society, the love of money as the dynamo of individual action in capitalism, that is, the moral of accumulating money for its own sake, is surmounted. Hence, the combination of people freed from material scarcity with a State organized for public welfare lessens the risk of the rise of totalitarian political regimes. This, however, claims for the economic stability that the *Agenda* is responsible for reaching once market forces are incapable of doing so. Totalitarian regimes submit both individuals and collective wills to dictators, who are the extreme opposite of the collective action Keynes envisioned. Development would guarantee the liberty of individuals not only to do what he or she desires, but also to elect their representatives, responsible for deliberating and carrying out the goals of the collective.

5. Final Remarks

The most remarkable contrast between growth and development only emerged after World War II, when growth came to mean GDP expansion and development to refer to people's quality of life. This common distinction establishes the long-term perspective of development, assuming a more valuative connotation than growth, though tacitly bringing both concepts together, while adding social and economic indicators, better productivity and income and wealth redistribution, amongst other elements.

Even though Keynes died before the emergence of development as a research topic in economics, he had in his mind elements that put together this idea, as we suggest hereby, a Keynesian notion of economic development. It includes a rather qualitative than quantitative view of what economic progress should produce. Keynes's monetary economy of production saw capitalism as inherently unstable so State intervention by means of the *Agenda* should be continuous. There is no division between short- and long-term in this process. The *Agenda* is needed throughout the arduous path to build a developed society – that almost one century after Keynes's death has been reached by a few countries and, apart from Canada and Japan, are exclusively western-Europeans; even the USA, which is the wealthiest country in the world, did not reach Keynes's development, given the strong inequality, structural racism, deep-financialized love of money (that caused the 2008 Great Financial Crisis) that prevails in that country. He believed that the *Agenda*, together with all the economic policies of which it is comprised, leads to stable growth, improves employment levels and enhances income and wealth equality. Yet, these are intermediary goals of the State, necessary but not enough to reach the final target: development.

Another element is integral to the path to development, perhaps the hardest of all: a change in moral codes. The love of money must be replaced by the love of living. This is what Keynes desired to arise in the mindset of the people of a developed society. He saw economic development as the historical possibility of a society of abundance, not abundance *per se* but a better way of living: a society not in love with capital accumulation, but with life's amusements and pleasures, just as Freud (1930). Abundance should be a gateway to this new society, not an end unto itself. Development would be the final stage of the regulated capitalism Keynes dreamt of. Finally, sustainable economic growth, income and wealth distribution and social justice, accomplished by the co-operative association between the State, private initiatives (generalizing, market), and Institutions (public and private agencies, rules and people/society habits are necessary to force agents, with limited insights, to adopt strategies characterized by conventions), serve as the building blocks of true development.

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