Funding the Future

hat Keynes knew that modern economists have seemingly

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I reread Keynes' 1940 book 'How to Pay for the War' last night to prepare for a debate this week (online, of course, and invitation only). This is from page 62:

> There is no difficulty whatever in paying for the cost of the war out of voluntary savings;—provided we put up with the consequences. That is where the danger lies. A Government, which has control of the banking and currency system, can always find the cash to pay for its purchases of home-produced goods. After allowing for the yield of taxation and for the use of foreign reserves to pay for the excess of imports over exports, the balance of the Government's expenditure necessarily remains in the hands of the public in the shape of voluntary savings. That is an arithmetical certainty; for the Government having taken the goods, out of which a proportion of the income of the public has been earned, there is nothing on which this proportion of income can be spent. If prices go up, the extra receipts swell someone's income, so that there is just as much left over as before. This argument is of such importance and so little understood that it is worth our while to follow it out in detail.

Five thoughts.

First, Keynes understood that a government can create as much cash is it needs, at its own will.

Second, the discussion of foreign reserves was in a de-facto gold standard era: we are no longer on the gold standard.

Third, Keynes understood sectoral balances and that it is government spending that creates private saving.

Fourth, inflation is distortionary of relative value and so distribution within the economy, but not necessarily of physical production, and this issue has to be addressed (the answer was a universal basic income; the family allowance).

Fifth, tax controls inflation.

Why have we forgotten?