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What Keynes really said about deficit spending

It is commonly believed that Keynes' primary policy prescription for economic stabilization and full employment is federal government deficit spending. As will be developed below, Keynes' policy for promoting full employment or reducing economic fluctuations was the socialization of investment. Any connection between his policy proposal and deficit spending was related to the choice of financing such social investment. The policies pursued in the United States over the last forty years have not been consistent with Keynes' proposals for economic stabilization and have caused ever increasing deficits and financial instability.

Keynes' proposal for economic stabilization

Several writers (e.g., Kregel, Smithin, Pressman, Minsky, Meltzer) have discussed the importance of the socialization of investment in Keynes' proposal for economic stabilization. Keynes stated that the "problem of maintaining full employment is, therefore, the problem of ensuring that the scale of investment should be equal to the savings which may be expected to emerge . . . when employment, and therefore incomes, are at the desired level" (CW, vol. XXVII, p. 321). For stabilization, the volume of investment should be controlled so as to be consistent with that "indicated level of savings." Keynes believed the following three phases would develop at the end of the war.

> (i) when the inducement to invest is likely to lead, if unchecked, to a volume of investment greater than the indicated level of savings in the absence of rationing and other controls;
> (ii) when the urgently necessary investment is no longer greater than the indicated level of saving in conditions of freedom, but is still capable of being adjusted to the indicated level by deliberately encouraging or

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> expediting less urgent, but nevertheless useful, investment;
> (iii) when investment demand is so far saturated that it cannot be brought up to the indicated level of savings without embarking upon wasteful and unnecessary enterprises. [CW, vol. XXVII, p. 321]

The first phase was associated with rebuilding after the war. It was in the second phase that the socialization of investment was required to ensure the appropriate level for full employment.

The socialization of investment did not mean government control or influence over private investment. Rather, public or quasi-public investment should add to private investment.[1] As Kregel (1985) points out, Keynes argues that the public bodies best suited to carry out his idea of social investment are "those whose criterion of action within their own field is solely the public good as they understand it and from whose deliberations motives of private advantage are excluded . . . bodies which in the ordinary course of affairs are mainly autonomous within their prescribed limitations, but are subject in the last resort to the sovereignty of the democracy expressed through Parliament" (CW, vol. IX, pp. 288–289). Keynes gave examples of universities, the Bank of England, the Port of London Authority, among others. Thus, state-controlled investment does not require that the state control or influence private investment; rather, it requires that the investment activities defined as public in nature be sufficient to add to private investment as required for economic stability (Kregel, 1985, p. 37). A more complete discussion of the types of public investment considered by Keynes will be presented below.

Keynes believed the addition of social investment to private investment would result in a more stable level of investment and, therefore, a more stable economy, preventing large fluctuations.

> We then enter the second phase which is the main point of emphasis in the paper of the Economic Section. If two-thirds or three-quarters of total investment is carried out or can be influenced by public or semi-public bodies, a long-term programme of a stable character should be capable of reducing the potential range of fluctuation to much narrower limits than formerly, when a smaller volume of investment was under public control and when even this part tended to follow, rather than correct,

[1] Meltzer (1983) confuses Keynes position on this, indicating that Keynes' reference to public works is a policy aimed at increasing consumption while his social control of investment is "state monitoring or control of investment." The implication is for the monitoring or influencing of private investment. As discussed below, Keynes was clear as to the investment nature of public expenditures in his discussion of the capital budget.

> fluctuations of investment in the strictly private sector of the economy. . . . The main task should be to prevent large fluctuations by a stable long-term programme. If this is successful it should not be too difficult to offset small fluctuations by expediting or retarding some items in this long-term programme. [CW, vol. XXVII, p. 322]

Notice the large proportion of social to private investment. The scale of social investment would depend on the propensity to save, the distribution of income, the tax system, and the practices and conventions of business. Keynes believed social investment was likely to range from 7.5 percent to 20 percent of net national income. It is important to understand that Keynes did not believe such public investment would "crowd out" private investment. The amount of necessary social investment was to be determined by the insufficiency of private investment as compared with the amount of saving that would be available at a full employment level of output. Only in phase (i) would there be insufficient saving to finance the much needed investment following the war. To prevent inflation in this circumstance, Keynes advocated rationing and other controls on consumption.

> In the first phase, therefore, equilibrium will have to be brought about by limiting on the one hand the volume of investment by suitable controls, and on the other hand the volume of consumption by rationing and the like. Otherwise a tendency to inflation will set in. It will probably be desirable to allow consumption priority over investment except to the extent that the latter is exceptionally urgent, and, therefore, to ease off rationing and other restrictions on consumption before easing off controls and licenses for investment. [CW, vol. XXVII, p. 322]

The more normal circumstance would be a deficiency of investment demand from the private sector.

Keynes was opposed to deficit spending in the sense of "collecting taxes less than the current non-capital expenditure of the state as a means of stimulating consumption" (CW, vol. XXVII, p. 406). Borrowing to finance capital expenditure by government to stimulate investment was different and, with Keynes' suggestions as to how this would be reflected on the balance sheet of the central government versus that of local entities, should not result in a budget deficit. The only exception to this was Keynes' acceptance of Meade's proposal regarding social security contributions:

> In this connection Mr. Meade will be putting forward a proposal, which I think deserves consideration, namely that the amount of the contribu-

> tion from employers and employed to the Social Security Fund should vary according to the state of employment, rising when unemployment falls below a critical figure and falling when it rises above it. He points out that the advantage of this is that it is not subject to the time-lag which applies to direct taxation, but can be brought into operation at the shortest possible notice and should have a very rapid effect. [CW, vol. XXVII, p. 277]
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> . . . Personally I like Meade's social security proposal. . . . About other forms of deficit financing I am inclined to lie low because I am sure that, if serious unemployment does develop, deficit financing is absolutely certain to happen, and I should like to keep free to object hereafter to the more objectionable forms of it. [P. 353]

Keynes viewed deficits as the result of a decrease in revenues due to a decrease in economic activity. As such, the best way to avoid deficits was to offset fluctuations in private investment with designed changes in public investment. It was the countercyclical change in public investment that should reduce the size of or the necessity for deficits.

> But the latter part of the argument, which seems to suggest that the tendency of the proposals is to unstabilise the national budget, is surely topsy-turvy. It would be a failure to adopt a remedy for severe cyclical unemployment which might have that effect. There appears to be no glimmer of a recognition that measures to stabilise the national income are ipso facto measures to stabilise the national budget. The additional charges falling on the budget in years of bad employment as a result of the Committee's proposals are, in fact, almost negligible; whilst the effect on the revenue of maintaining the national income should be obvious. . . . It would be a failure to take such measures which would inevitably unstabilise the budget and weaken confidence. Is it supposed that slumps increase the national wealth? [CW, vol. XXVII, p. 366]

Consistent with this emphasis on countercyclical public investment, Keynes was generally opposed to policies aimed at varying incomes via tax policy in order to stimulate consumption. In response to such a proposal from Meade, Keynes stated:

> I doubt if it is wise to put too much stress on devices for causing the volume of consumption to fluctuate in preference to devices for varying the volume of investment . . . .
>
> . . . A remission of taxation on which people could only rely for an indefinitely short period might have very limited effects in stimulating their consumption. And, if it was successful, it would be extraordinarily

> difficult from the political angle to reimpose the taxation again when employment improved. [CW, vol. XXVII, p. 319]

Keynes also makes clear that a policy of planned public investment is more likely to be successful than an interest rate policy designed to stimulate private investment, "[b]ut I should regard state intervention to encourage investment as probably a more important factor than low rates of interest taken in isolation" (CW, vol. XXVII, p. 350).

It is clear that Keynes' most significant policy proposal for economic stabilization was the varying of investment plans by public and quasi-public entities as opposed to variation in incomes via tax policies. What is equally important in Keynes' analysis, however, is the type of government expenditure to be considered an investment expenditure. This is best understood by looking at Keynes' budget proposals.

Keynes' budget policy

Keynes' views about the appropriate Budget policy to be followed by the central government are consistent with his economic stabilization policies as outlined above. Several important and significant ideas with respect to what constitutes government or public investment as well as how it should be financed are revealed in his budget policy proposals.

Keynes argued that there should be an "ordinary budget" and a "capital budget." The concept of the "capital budget" was used differently in different discussions. Keynes identified four distinct capital budget concepts:

> (i) a clearer segregation of capital items paid for out of, and received into, the Exchequer and a budgetary forecast of them for the coming year;
> (ii) a compilation and budgetary forecast of all capital expenditure under public control, including local authorities and public boards;
> (iii) a compilation and budgetary forecast of capital expenditure for the economy of the country as a whole, including the private sector;
> (iv) as a temporary convenience during the post-war transitional period what might be termed a separate remanet budget to deal with items of Exchequer receipts and outgoings which do not properly belong to the income and expenditure of the current year. [CW, vol. XXVII, p. 405]

Keynes referred to these concepts as the "(i) Exchequer Capital Budget, (ii) Public Capital Budget, (iii) Investment Budget, (iv) Remanet Budget" (CW, vol. XXVII, p. 406).

In his discussion of the appropriate policy to be followed with respect to required planned public investment to offset fluctuations in private investment, Keynes is clearly referring to (iii) Investment Budget. The compilation and forecast of capital expenditure for the economy as a whole were to be compared with the level of "indicated" savings (the volume of savings at full employment) to determine if "the prospective set-up is reasonably in accordance with the requirements of equilibrium" (CW, vol. XXVII, p. 352).

> A capital budget, in the sense in which I understand it, means a regular survey and analysis of the relationship between sources of savings and different types of investment and a balance sheet showing how they have been brought into equality for the past year, and a forecast of the same for the year to come. [CW, vol. XXVII, p. 368]

In his discussion of budgetary policy in a letter to Sir Richard Hopkins and others, however, he refers primarily to the Exchequer Budget, both the capital and the "ordinary budget" (CW, vol. XXVII, pp. 277–280). Keynes called for a surplus in the ordinary budget and suggested the following debit and credit items in the Exchequer's capital budget.

Debits	Credits
Net redemption of debt	Surplus on the Social Security Fund
Deficit on the Social Security Fund	Surplus on other extrabudgetary funds
Expenditure or advances on Capital Account	Surplus on the ordinary budget
	Net new borrowings from the public

In the United States, state and local governmental units maintain accounting records that include account balances compatible with Keynes' debit and credit categories above. Keynes' debits are outflows of funds; credits are inflows. To report on accounting and budgetary information, local governmental units are required to prepare a "Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual," which will show expenditures and other uses of funds (debits) deducted from revenues and other sources of funds (credits) (GASB, § 2200.605). Moreover, state and local governmental units must segregate their expenditures by "character," that is, current expenditures, capital outlays, debt service, and intergovernmental transfers (GASB, § 1800.119).

Keynes later adds some more specific things to his list of items to be included in the Exchequer's capital budget (CW, vol. XXVII, pp. 407–408). The important point is that the surplus, which he assumed would ordinarily be the case, from the ordinary budget would be carried over to the capital budget for use either to finance expenditures or advances for social investment or to repay the debt. State and local governments frequently budget appropriations from current operating tax levies for capital projects and debt service, items that are analogous to Keynes' "ordinary budget surplus," but debt financing is more common for major capital investments. Clearly, in Keynes' view, social investment could at least partially be financed by new borrowings from the public.

Keynes was quite specific as to the type of social investment to be provided by the state. The significant criterion was that the project provide a return over a period of time. It was not necessary that the return be a direct cash return, such as is normally expected from an investment in buildings or equipment acquired by a municipal electric utility plant. An indirect flow of services was equally valued, such as the return from buildings or equipment acquired by a university or public school district.

> An Exchequer Capital Budget should cover both the capital expenditures which are now entered "above the line" and included in the estimates to be paid for out of the normal Budget, and also the capital expenditures which are now entered "below the line" and are financed by loans specially authorised for the purpose. . . . the existing criterion for charging "below" or "above" the line according as the expenditure does or does not bring in a cash return in subsequent years. This seems to me wrong. The criterion should be whether the real return in meal or malt is spread over a period. If so, it is reasonable that the charge on revenue should be similarly spread. Moreover the present criterion leads to meaningless anomalies. . . . A capital contribution to school buildings is "above" in the Exchequer Accounts and is paid for out of Revenue, and is "below" in the Local Authority Accounts and is paid for out of loans. . . . The existing practice is an unnecessary deterrent to capital expenditure. With a full employment policy, we should not be biased as between two useful capital projects because one will bring in a direct cash return and the other a social or indirect cash return. [CW, vol. XXVII, pp. 406–407]

Thus, it appears that the justification for financing the capital expenditure (whether done by the central government or by local authorities) by borrowing from the public is that the capital provides a real return over time. There is little question that the equipment or buildings of both an electric utility plant and a public school district will provide such returns. Keynes' position is logical: it advocates matching expenditures with the benefits they generate.

Keynes points out that much of this type of social investment is done by local authorities. He argues that there are major benefits to be had by central government borrowing to finance such activities. The proceeds of the central government borrowing would be made available to the local authorities either by loans or by advances.

> The last item, namely, expenditure or advances on capital account, raises the question whether public boards and local authorities should borrow after the war either on their own credit, for what it is worth, or with a government guarantee; or whether we should substitute something more on the lines of the Local Loans Fund, by which all borrowings would be by the Treasury, direct advances then being made out of the pool for various capital purposes. I much prefer the latter alternative. (i) It will allow cheaper borrowing; (ii) it will avoid the present undefined and anomalous position, by which there is a sort of implied government guarantee, e.g., to municipal loans or to the Central Electricity Board, without the full advantage of this implied guarantee being realised in the price of the loans; and (iii) it will facilitate the management of conversions and the management of the market generally, if all borrowings are under the same title. We have seen during the war what great advantages there are in having a single borrowing programme. [CW, vol. XXVII, pp. 279–280]

There are limited analogies between Keynes' view and some current practices in the United States. The central government often is involved in financing investments of local governments. However, modern activities are normally subsidized by grants or loan guarantees rather than local authorities borrowing from federal lending pools. Examples include Small Business Administration loan guarantees and Elementary and Secondary Education Act grants. Three critical distinctions between Keynes' position and current practices are that today's borrowing is not specifically to finance a given investment, it appears in the "ordinary budget," and it may add to the federal government budget deficit. Perhaps borrowing from central government pools would be preferable. Keynes referred to the debt incurred to finance such capital as "productive debt." It is important to note, however, that all such projects were to be amortized and this amortization was to be shown in the "revenue budgets" of the appropriate governmental unit. The advance or loan would show on the balance sheet of the exchequer as an asset to be repaid by the local entity. The revenues would be collected by the local entity for repayment of the loan to the central government.

> It is contemplated here that the annual amortisation of the productive debt would always be charged to the Revenue Account of the authority

> responsible, including the Exchequer in the case of projects financed out of the Exchequer Capital Budget. [CW, vol. XXVII, p. 410]

Keynes did discuss the necessary provisions for retiring nonproductive debt with a sinking fund that could be increased if it appeared there was excessive public and private investment as related to the "indicated" level of saving. He suggested that "It would also be a good plan . . . to include in the Revenue Budget a modest normal contribution . . . towards the extinction of the dead-weight debt or . . . towards the conversion of the dead-weight debt into productive debt." This was qualified with the provision that the amount of public capital investment would have to be sufficient to cover the dead-weight Sinking Fund "in addition to current amortisation, public and private, and to the current net savings of the private sector." Thus, if tax revenues were collected to go toward the repayment of debt, including amortization of the loans for capital or productive debt, the leakage would have to be offset by additional public investment. Keynes did not believe the repayment of debt would occur, but rather that dead-weight or unproductive debt would be replaced with productive debt—that associated with the financing of public capital. "But this would not involve repayment of debt, since I should expect for a long time to come that the government debt or government-guaranteed debt would be continually increasing in grand total" [CW, vol. XXVII, p. 278]. Keynes clearly argues against increasing nonproductive or dead-weight debt but suggests that the increase in government debt would not be "out of proportion to the growth of the national income" (CW, vol. XXVII, p. 366).

In summary, Keynes' budget policies and stabilization policies call for the following:

1. As the normal circumstance of a capitalist system would result in insufficient private investment,[2] where total investment is less than the amount of saving that would be generated at full employment, social investment would be necessary to maintain full employment. Further, since fluctuations in private investment are likely to occur, the investment plans of public and quasi-public entities should be designed so that they could be varied in a countercyclical pattern.

2. Countercyclical variation in incomes via taxes and, therefore, spending should not be relied on to maintain full employment and the

[2] This fall in investment would result from a decrease in the return to capital as capital became less scarce.

stimulation of private investment by lowering interest rates is not likely to be sufficient to maintain the level of investment necessary for full employment.

3. Public investment should consist of those projects that provide a real return over time, either in cash returns such as public enterprises, or indirect returns such as school buildings. Such investment should be done from the point of view of the public good rather than private return. The shortage of private investment is likely to be so large that required public investment could range from 7.5 percent to 20 percent of net national product.

4. The government should not deficit finance current expenditures. Public investment expenditures should be financed by borrowed funds that are repaid over the service life of the project. Tax revenues should be budgeted so as to meet these payments.

5. There should be no deficit in the current or ordinary budget. In economic downturns the automatic variation in the collection of social security contributions might result in a deficit in that fund. However, in prosperous times, the fund should automatically run a surplus. No other type of deficit should be incurred in the current budget. It is possible, however, to reduce contributions to the sinking fund for repayment of outstanding nonproductive debt in periods of economic downturn.

6. The borrowing from the public for financing public investment is best done by the central government. This would reduce credit costs to local governmental entities.

It is clear that Keynes' view of appropriate economic policy did not call for recurring deficits to finance current operations. Similarly, he did not call for a policy aimed at countercyclical variation in income and consumption. Most important, he did not call for government policy aimed at the direct stimulation of private investment. Indeed, he felt the only way to increase the return to capital was to keep capital scarce and that this was not in the best interest of society.

Postwar economic policies—Keynesian or not?

The policies followed by the United States since World War II have not been consistent with Keynes' proposals. There are three important differences: (1) although government spending has increased, government expenditures described as public investment have actually decreased over the period; (2) the primary policy for stimulating (or curtailing) economic activity has been the policy of changing taxes; (3) tax policies and subsidies have been aimed toward the stimulation of the returns for financing private investment. All of this has resulted in increasing deficits, increased economic instability, and increasing speculation in the financial markets accompanied with decreases in the pace of investment and economic growth.

Kregel (1985) and Pressman (1987) point out that government or public investment has decreased since the 1950s. Kregel's study refers to public gross fixed investment, indicating the acquisition of fixed capital. In Eisner (1988), an expanded notion of government and private investment is used in adjusted national income accounts.[3] The measures of gross domestic capital accumulation are presented in Table 1. The marked items are those items that would be considered as public investment.

Notice that the average annual percentage change of two of these items actually decreased during the 1966–81 period. The third item, government enterprises, shows a large decrease in its rate of increase during the 1966–81 period as compared with the change from 1946–81. Private business investment and household investment also reveal a slower change in the later part of the period as compared with the entire time period; however, the slow-down is not as great as that in the public investment categories. Total public investment in 1966 was 68.8 billion in 1972 dollars. In 1981 total public investment was only 63.8 billion in 1972 dollars. As a percentage of private business investment, public investment fell from 68 percent in 1966 to 38 percent in 1981. Pressman (1987) explains the fall in public investment:

> The decline in Government investment has occurred in two stages. Throughout the 1960s, Federal government investment fell as more money was directed to the military.... In the 1970s stagflation caused investment at the state and local levels to fall. Higher prices had to be paid for all goods and services, and high levels of unemployment necessitated more social welfare spending. Voter resistance to tax in-

[3] Among other things, Eisner increases the measure of capital accumulation. It includes the BEA's GPDI measure, acquisition of structures and equipment and additions to inventories by government and government enterprises, and acquisition of durable goods and additions to inventories by households. The Eisner measure also includes very large amounts of investment in intangible capital in the form of research and development, education and training, and health (1988, p. 1650).

Table 1
Eisner: extended accounts for national income and product (1972 dollars)

	Billions of 1972 dollars		Average annual percentage change	
	1966	1981	1966–81	1946–81
8. Gross domestic capital accumulation	654.5	866.8	1.89	7.13
9. Original cost	634.9	936.1	2.62	3.75
10. Tangible				
11. Structures and equipment and household durables and semidurables				
12. Business	101.0	166.3	3.38	3.44
13. Nonprofit institutions*	7.2	5.2	–2.15	4.45
14. Government enterprises*	8.1	9.9	1.35	4.87
15. Government*	53.5	48.7	–0.62	2.32
16. Households	157.8	264.5	3.50	3.80

* Items that should be included as public investment.
Source: Eisner (1988), table E.ID, p. 1659.

> creases left lower investment spending as the only means for state and local governments to balance their budgets. [P. 17]

Kregel's study not only confirms the findings of Eisner and Pressman, but also shows a decrease in the ratio of general government gross fixed capital formation to gross domestic product in the United States from 3.25 in the 1955–64 period to 2.75 in the 1962–72 period and to 1.98 in the 1973–79 period (Kregel, 1985, p. 41). Kregel concludes that the data give evidence "not of the failure of Keynes's policy, but of a failure to carry it out" (p. 43).

The two obvious examples of attempts to affect economic activity via tax policy are the Kennedy-Johnson tax cuts in the 1960s and the Reagan or supply-side tax cuts in the 1980s. The surrounding economic conditions were quite different and, therefore, the results were significantly different. Kregel argues that the Kennedy-Johnson tax cuts, made during a period of economic expansion, "simply prevented the emergency of an excessive surplus in the full employment budget" (1985, p. 44). Further, these tax cuts were designed to affect the aggregate level of consumption, not individual work incentives as proposed by the supply-siders and there was no clear attempt to alter the distribution of income. The 1981 tax cuts, however, were designed to alter the distribution of income so that the after-tax incentive to work and, more important, the after-tax incentive to save were increased. The argument was made that increasing saving would increase investment and end the period of economic stagnation. The tax cut was enacted in a period of economic stagnation accompanied by large government deficits due to high levels of unemployment. As Kregel points out, the effect, if any, on labor supply would only change the level of employment if labor could control the amount of labor employed. If there is no expectation of increased demand on the part of business, more labor will not be hired. The main focus of the supply-side tax cuts was on increasing saving and, as a consequence, increasing investment. Presumably the increased availability of savings would decrease interest rates and cause investment to increase. As mentioned above, Keynes had very little confidence in the ability of simply lowering interest rates to increase investment. The tax cut resulted in even higher deficits. As Kregel points out, in conditions of changing expectations, "government manipulation of tax and interest rates could only increase the state of uncertainty and the instability of behavioural relations" (1985, p. 45). Both the spending and taxing polices followed in the postwar period have focused on the effect on private investment as opposed to public investment. If economic stagnation is due to excessive saving—that is, where the level of saving generated at full employment is greater than the level of total investment, private plus public—such policies would appear to aggravate the situation.[4]

Conclusion

Keynes believed that aggregate real income would continue to increase as more and more capital is accumulated. This increase in income results in an increase in aggregate savings and an increase in the average propensity to save. This leakage required ever increasing amounts of

[4] This misunderstanding of Keynes' emphasis on investment may stem from a confusion about the relationship of capital and production. Since many neoclassical economists argue that production only takes place in the business sector, the idea of "investment" can only be related to business investment. This is the concept embodied in the national income accounts and appears to be the source of Meltzer's confusion of Keynes' policies. Meltzer argues that Keynes policy of "spending on public works . . . increases current consumption" and this is differnt from his second policy of increasing the stock of capital (1983, p. 72). Keynes' notion of capital was a physical notion—a man-made item that yielded a real service to its user over time. The "yields" on capital obtained by the business sector were due to the scarcity of capital—not the physical productivity of capital.

injections in the form of investment to maintain a reasonably full level of employment and income. If such investment were not forthcoming, unemployment and slow economic growth would result. To achieve such ever increasing amounts of investment in capital would be difficult by relying on the profit motive and yields from ownership of capital as these yields would have to fall as capital became less scarce. In addition to long-term insufficient amounts of private investment, short-term fluctuations in investment were quite likely, causing periodic recessions and booms. He believed the answer to both of these problems was a planned program of social investment to be conducted on the basis of needed public services but the scale of which would depend (assuming urgent social needs had been met) on the level of expected private investment relative to the full-employment level of savings. Public investment could fill the gap left by insufficient private investment and public investment could be adjusted in its delivery to offset short-run fluctuations in private investment. Deficits in the current or ordinary budget were a symptom of insufficient private and public investment. They were not a cure for unemployment. Borrowing to finance public investment was justified on the grounds that the capital acquired provides a real return over time. Further, such borrowing was to be associated clearly with the cost of the particular services to be provided and amortized with scheduled payments from tax revenues.

> The more socialised we become, the more important it is to associate as closely as possible the cost of particular services with the sources out of which they are provided even when a grant-in-aid is also required from general taxes. This is the only way by which to preserve sound accounting, to measure efficiency, to maintain economy and to keep the public properly aware of what things cost. [CW, vol. XXVII, pp. 224–225]

The postwar polices pursued in the United States with respect to government spending, taxation, and investment have not followed Keynes' proposals. While government has responded to the request for greater economic stability, the focus has been on guarantees of income supplements and stimulation of returns to financing and ownership of private capital. An ever increasing need for new private investment has led to more economic and financial instability. Thus, the guarantee for income stability has been more and more difficult to achieve with the increased fluctuations in private investment. The result in the United States has been the need for increasing transfer payments to offset the effects on income with economic downturns and stagnation and increasing tax breaks and subsidies to shore up the return to ownership of capital, resulting in larger and larger deficits. The cause of large deficits is slow economic growth and periodic recessions due to insufficient levels of total investment and fluctuations in total investment due to fluctuations in private investment and the inability of local and state governments to finance such investment in a countercyclical manner. Such policies should not be labeled as Keynesian economic policies.

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