

## PART TWO

### The So-called 'Keynesian Revolution'

*The two essays in this section are exercises in debunking. The notion of 'the Keynesian revolution' is so well established that it might seem frivolous to challenge it. But – if the phrase means the adoption of discretionary fiscal policy to manage demand and thereby to secure full employment – a strong case can be made that the UK did not have a 'Keynesian revolution' at all. In his final years Keynes was a dominant figure in British public life, but he seems to have irritated a significant number of Treasury and Bank of England officials. In one notorious exchange a senior Treasury official, Sir Herbert Brittain, was told to his face that he was 'intellectually contemptible'. That may not have mattered if Keynes had remained in control of events, but he died in 1946 whereas Brittain was closely involved in Home Finance (including the preparation of the annual Budget) until his retirement in 1957. Brittain used his immediate post-retirement leisure to write a book on The British Budgetary System. It made no mention of Keynes and defended principles of public sector accountancy (such as the distinction between above-the-line and below-the-line expenditure items), which had originated in Gladstone's day. Only in the 1960s and 1970s did Keynesian thinking come to dominate the Treasury, but by then British governments were not free to vary the budget deficit because of constant worries about the balance of payments and the weakness of sterling.*

*The first essay in this section, 'Did Britain have a "Keynesian revolution"?' (based on a paper given to a conference at Gresham College in February 1996), discusses the rather confused conduct of fiscal policy in practice. It denies that Keynesianism determined fiscal policy in the post-war decades, except perhaps for a couple of years in the early 1970s. A statistical test in the appendix shows that the budget deficit was not varied inversely with the output gap between 1948 and 1974 (which it ought to have been if policy had been Keynesian). After the mid-1970s Keynesianism – in the sense of fiscal fine-tuning – was dropped. For a few years in the late 1970s and early 1980s lip-service was paid to the idea that the budgetary position should be consistent with a targeted rate of growth of the money supply. While practice was again rather different from theory, this was a form of monetarism. Whatever one's views on the two systems of thought, both Keynesianism and monetarism did at least try to apply economic theory to a practical problem. But in the late 1980s unsophisticated notions of 'balance' and 'prudence' took over, and economic theory was put to one side. The New Labour government of 1997 enunciated two fiscal rules which, despite being routinely described as 'modern' in official documents, could be most readily justified in*

*neo-Gladstonian terms. The second essay, 'Is anything left of the "Keynesian revolution"?', remarks on the similarity of the reasoning behind these supposedly new rules and the conventions of public sector accounting advocated by Britain almost 40 years earlier.*