

Remarks on the Richard E. Wagner's paper

# Public Debt and the Corruption of Contract: Can the Keynesian Cancer be Excised?

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The German composer Richard Wagner was known for not permitting the conductor to exaggerate the slowness of pace of Parsifal.<sup>1</sup> He frequently called out from the stalls, “*Schneller! Schneller! Die Leute werden sich langweilen!*” Meaning: “*Faster! Faster! The people will get bored!*”

I would be most grateful if Richard Wagner the economist will be a little more sympathetic to my remarks than Richard Wagner the composer was towards the conductor of his music!

Ladies and Gentlemen,

It is a great honor to be invited to speak tonight and to comment on Professor Richard Wagner's paper “Public Debt and the Corruption of Contract: Can the Keynesian Cancer be Excised?” The paper was a very insightful and enjoyable read for at least two reasons.

First, the author puts strong theoretical arguments forward that are not only highly critical, but also actually dismissive of Keynesianism. He draws conclusions that are nowadays seldom heard from other leading and highly respected economists.

Second, in his economic and moral(-ethical) rejection of Keynesianism, Professor Wagner paves the way towards a rather, and in my opinion very important, fundamental critique: and that is the critique of the institution of the state.

In the following, I will summarize the key arguments raised in this paper. As you will see, I am not going to disagree with any of them. What I would like do, however, is to rearrange Professor Wagner's line of argumentation somewhat.

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<sup>1</sup> See Lebrecht (1985), *The Book of Musical Anecdotes*, p. 134.

In doing so, I hope to make a positive contribution to rationalizing the conclusions drawn by Professor Wagner – and, in some sense, to radicalizing the intellectual battle against Keynesianism.

### *Summary of the paper*

The objective of the paper, according to Professor Wagner, “is to explain how such an immaterial object [that is Keynesianism, *TP*] as an economic theory can facilitate transmutation of a liberal order into a servile order.”<sup>2</sup>

Professor Wagner’s conclusion is that “the Keynesian system of economic belief creates societal cancer within a liberal order by commingling liberalism and collectivism into progressivism.”<sup>3</sup>

He argues that the Keynesian revolution destroys good standards of government – in the sense that standards of goodness relevant for families do no longer apply to governments; that governments pursue contrary standards.

The author states that Keynesianism corrupts the notion and language of contracts through political practice. In particular, it makes public debt a destructive force: “Public debt is particularly harmful to the republican and democratic polities because it promotes deceit in public disclosure.”<sup>4</sup>

Professor Wagner addresses the question why Keynesianism could rise to prominence. To me, this is a highly important issue – an issue which, as far as I am informed, has not been addressed rigorously by most economists and political analysts.

Professor Wagner writes: Keynesianism flourishes because of a “subtext of tacit understanding”, whereas “[t]acit knowledge denotes the beliefs spectators hold about the material with which experts deal in their texts.”<sup>5</sup>

I would argue that this important argument runs both ways. Firstly: People support Keynesianism because they have fallen victim to a misinterpretation of (the consequences of) Keynesianism.

Secondly: People support Keynesianism because they are actively misled by the interpretation of (the consequences of) Keynesianism.

Whereas the first argument points towards an unintentional intellectual mistake, the second argument is not quite as innocent. The second argument would mean that the popularity of Keynesianism rests on intellectual insincerity, on false testimony.

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<sup>2</sup> Wagner (2017), Public Debt and the Corruption of Contract: Can the Keynesian Cancer be Excised? Draft paper, p. 3.

<sup>3</sup> Wagner (2017), p. 2.

<sup>4</sup> Wagner (2017), p. 3.

<sup>5</sup> Wagner (2017), p. 2.

In what follows, I will argue that it is not the "Keynesian Cancer", as Professor Wagner puts it, that has befallen the 'body politics' and caused adverse outcomes. I will come up with a reversed causation, so to speak, arguing that it is the state (as we know it today) that has ever since promoted Keynesianism for pushing aside the remaining restraints of state power.

*Reconstructing the line of argument*

To set the ball rolling, let me start with a *positive definition* of the state: The state is the territorial monopolist of coercion, having the ultimate power to govern over all conflicts that arise among the state's subjects and all conflicts that arise between its subjects and the state itself.<sup>6</sup>

Just in passing, I should note that such a state cannot emerge naturally. If and when it exists, it must have emerged through coercion, the state has always been born in conquest and exploitation.

I would reject any notion that the state could have come to live through, say, a social contract. For no one would voluntarily 'sign' a contract that would subject his person or property to a coercive monopolist of ultimate decision-making forever.<sup>7</sup>

Such a contract would imply that the person had surrendered the right over his person and property permanently to someone else. Such a contract would be null and void. The right of every person to enjoy self-ownership and liberty is inviolable and inalienable. The truth is that the state (as we know it today) is irreconcilable with the idea of human liberty.

If we accept the nature of the state as outlined above (and being aware that it is an aggressive apparatus), we can logically deduce that the state will lead to moral and economic decline as suggested by Professor Wagner – in the form of, say, corruption of law and order (including the corruption of contract), fiscal irresponsibility, debasement of money, and relentless war (a consequence that, unfortunately, was not mentioned in this paper).

From a theoretical point of view, it is quite obvious what the modern state – organized according to majority rule (or: democracy) – is going to do: It will keep expanding its power. And even a minimum state has an inherent tendency to develop into - and become - a maximum state.<sup>8</sup>

For under majority rule, politicians must secure their (re-)election by cinching the approval of the majority of the voters. The support of the electorate must and can be bought by handing out financial benefits.

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<sup>6</sup> See Rothbard (1998), *The Ethics of Liberty*, pp. 161.

<sup>7</sup> See Hoppe (2006), *Democracy. The God That Failed*, pp. 227-228.

<sup>8</sup> See Hoppe (2006), *Democracy. The God That Failed*, p. 229.

Voters, in turn, put politicians into power who they expect to cater to their needs, that is, making financial and other benefits available – irrespective of whether or not the costs of such policies cause harm to third parties.

As a result, taxes rise, redistributing income and wealth from producers and contractors to non-producers and non-contractors. This, in turn, must lower the economy's production potential (compared to a situation of no taxation and redistribution of income).

The state (as we know it today) causes even more harm: It erodes peoples' morals and ethical standards. For instance, the state's handouts make a growing number of people financially dependent on the state.

The net receivers of state subsidies increasingly favor a financially strong state, and they develop an economic incentive to use the state to secure benefits at the expense of their fellow citizens.

This conclusion brings us right to Professor Wagner's point that the "Keynesian Cancer" corrupts contracts and leads to fiscal irresponsibility.

If and when the state is the coercive monopolist of law and order, the price of law and order will rise, and its quality will decline steadily. Justice will be increasingly corrupted in favor of the state – constitutions, courts, and supreme courts notwithstanding.

Especially the institution of property will suffer. The freedom of contract will increasingly be reduced through regulations and prohibitions. Taxes will rise, which amounts, of course, to an increasing invasion into producers' and contractors' property rights.

These considerations also tie in quite nicely with Professor Wagner's conclusion, namely that formal rules (such as laws, constitutions, etc.) cannot control the state (or, as Professor Wagner puts it: *the beast*).

It simply cannot be controlled – especially not if and when the state has monopolized law and order. It would be naïve, actually illogical, to think otherwise. This, in turn, also explains why the modern state (as we know it) causes fiscal irresponsibility.

The state has just one source of revenue: the income of the people. To ensure this revenue, the state imposes various forms of taxes. The most obvious form of taxation is levying taxes (direct or indirect).

Open taxation has its limit, though. It can go only so far. People realize that someone is taking away their hard-earned income. They will sooner or later revolt against too high a level of open taxation.

Fortunately for the state and its beneficiaries, there is another, politically much more convenient form of taxation – and that is issuing debt. For people typically hand over their savings *voluntarily* to the state in exchange for interest-bearing bonds.

The holders of the bond secure themselves a low-risk income and can hope that not they but others (namely future taxpayers) will have to foot the bill. The state obtains funds without coercive action and passes the bill of debt service on to future taxpayers.

This is what Professor Wagner correctly points out when he notes that the state (via “triadic exchange organized through public ordering”<sup>9</sup>) systematically makes future taxpayers reliable for the public debt burden.

The consequence of such a practice is obvious: It leads to a chronic public deficit and, as a result, an accumulation of public debt over time. Fiscal irresponsibility becomes rampant – as a direct (and logical) outcome of the action of the state.

Public finances in most of the Western nation-states bear witness to this theoretical reasoning. Unfortunately, the story does not end here. The state (as we know it today) will monopolize money production and replace commodity money with its own fiat money.

For then the state’s central bank (the monopolist of money production) can manipulate the interest rate downwards, making the financing of state outlays through issuing debt increasingly attractive.

Controlling money production also allows the state to slyly and stealthily inflate the currency, thereby perniciously enriching itself at the expense of the money holders. In fact, the monopolization of money production increases its financial strength well beyond regular tax revenues: The control over money production is close to unlimited financial power.

The latter allows the state to finance its power expansion by, for instance, employing all sorts of people and handing out lucrative contracts to businesses. In other words: The monopolization of money production is an essential element for removing any remaining restraints on state power.

This brings me to my last point – in which I will argue that it was not Keynesianism that has perverted “good government”, but that it is the state (as we know it today) that deliberately propagates and nurtures Keynesianism.

Professor Wagner argues that Keynesianism flourishes because it misleads the citizens regarding its actual consequences: "Most theories of cancer locate cancer as internally-generated cellular processes gone wrong. It is in this spirit that I describe the Keynesian framework as cancerous, through its ability to act on the tacit understanding of what constitutes good governmental performance."<sup>10</sup>

The key question that arises here is: Where does “the tacit understanding” come from? To find an answer to this question, we may want to look at what Friedrich August von Hayek had

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<sup>9</sup> Wagner (2017), p. 18.

<sup>10</sup> Wagner (2017), p. 6.

to say about *intellectuals*' role in shaping public opinion.<sup>11</sup> Most people would follow the interpretations and value judgments of intellectuals when it comes to new theories.

As a result, the state has ever since been in need of opinion-molding intellectuals, who make the public believe that the state is wise, good, and inevitable. Many intellectuals, therefore, make it onto the state's payroll – as a reward for legitimizing the state and its actions.

These statist intellectuals manipulate the minds of the public. For instance, they re-label “socialism” as “progressivism”, “liberals/libertarians” as “radicals”, “free-marketers” as “reactionaries”, to give just some examples.<sup>12</sup>

In this context, Professor Wagner rightfully points out that “[t]he challenge for political salesmanship is always to connect a political program with some positive sentiment that had been generated through private ordering.”<sup>13</sup> We can rest assured that the statist intellectuals will do a great job and meet the challenge.

When Keynes published his *General Theory* in 1936, the intellectuals had already done an excellent job in making socialist-collectivist ideas popular. Keynesianism could quite easily take root because the socialist-collectivist ideology had already become a widely accepted ideology among many intellectuals at the beginning of the 21<sup>st</sup> century.

Keynesianism provided the state with a rather elegant and effective scientifically-sounding theoretical program for making socialism-collectivism (or, as Professor Wagner puts it: progressivism) coming through the back door.<sup>14</sup>

We have to remind ourselves that, at the time Keynesianism became increasingly popular, the supporters of socialism-collectivism in the Western world had already changed course and adopted a new strategy.

After the bloody experience of the Russian Revolution 1918, socialists had recognized that trying to establish socialism (nationalizing the means of production, erasing the middle class, and killing political opponents) in the West through violence would not work.

Their new idea was to establish socialism through parliamentary approval. This concept can be called social-democratic socialism. Under social-democratic socialism, private property is not outlawed as it is under Russian-style socialism.

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<sup>11</sup> See Hayek (1960), *The Intellectuals and Socialism*.

<sup>12</sup> See Rothbard (1973), *For A New Liberty*, p. 15.

<sup>13</sup> Wagner (2017), p. 15.

<sup>14</sup> It should be noted here briefly that John Maynard Keynes was very much aware of what his theory was all about. In the German edition of *The General Theory of Employment, Interest, and Money* he wrote in September 1936: "The theory of aggregated production, which is the point of the following book, nevertheless can be much easier adapted to the conditions of a totalitarian state than the theory of production and distribution of a given production put forth under conditions of free competition and a large degree of laissez-faire." Keynes's foreword was taken from Henry Hazlitt (1959), *The Failure of the "New Economics"*, p. 277.

According to social democratic socialism, no owner of any means of production rightfully owns all the income that can be derived from it. Instead, part of this income is said to *rightfully* belong to society – and is redistributed according to the ideas of egalitarianism.

However, the difference between these two types of socialism is one of degree, not of a categorical nature.<sup>15</sup> Social democratic socialism is – in contrast to Russian-style socialism – a gradual approach.

Social democratic socialism erodes the institution of private property, and Keynesianism is its natural ally. It provides the theoretical concept for increasingly interfering with the free market and, most importantly, the freedom and liberty of businesses and the people.

From this viewpoint, the popularity of Keynesianism may not be ascribed to a misjudgment of its consequences on the part of its proponents. It seems more convincing to assume that the rise of Keynesianism can be attributed to the deliberate effort of those in favor of social-democratic socialism.

Influential supporters of social-democratic socialism can be found, perhaps most importantly, among the profession of economists. And it is the state that provides these “intellectual bodyguards of the state” with prestigious jobs, awards, and social standing.

*The end*

Let me conclude by saying that the “Keynesian Cancer” seems to be a symptom of what I would call “state cancer”. I would argue that the chain of causation runs from “State Cancer” to “Keynesian Cancer” rather than the other way round.

I do hope that my comments lend further support to Professor Wagner’s revealing analysis of the destructive consequences of Keynesianism. Devoting effort to such an ‘intellectual battle’ is indispensable. As the Austrian economist Ludwig von Mises (1881 – 1973) put it:

“It is a mistake to think that the lack of success of experiments in Socialism that have been made can help overcome Socialism. Facts *per se* can neither prove nor refute anything. Everything is decided by the interpretation and explanation of facts, by the ideas and the theories.”<sup>16</sup>

Thank you very much for your attention!

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## **Literature**

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<sup>15</sup> See Hoppe (2010), *A Theory of Capitalism and Socialism*, p. 62.

<sup>16</sup> Mises (1981), *Socialism*, p. 459.

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