Trusting Keynes! Concepts of Trust and the Political Economy of John Maynard Keynes

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Introduction

Trust is a key, yet under-appreciated, aspect of contemporary socio-cultural reality. Trust is a generalisable term for the situational social glue in the form of *how* relations are engaged with a view to completion. It overlaps many aspects of socio-cultural reality, and as such clearly resonates with a realist social ontology. Trust is certainly an essential aspect of the economic dimension of the human condition. Without a minimum degree of trusting and being trusted market exchange is not possible. Making decisions that have consequences in the far future also are trust-based, this time relying on our trust (or confidence) in the conventional methods for coping with uncertainty. Finally, the success of state intervention is heavily dependent on the degree of trust that non-state actors have in those in positions of authority. In all these cases there is an alternative to trusting; this is the withdrawal of collective trust - the crisis of trust – in corporate- and state-based elites, authorities, power centres and decision-makers in general. What is intriguing, however, is that trust is an issue to which Keynesians and post-Keynesians have paid insufficient attention. This paper, first, provides a multi-faceted account of the concept of trust. Next the paper considers aspects of Keynes' trust-orientated contribution to political economy; on decision-making in an uncertain environment, and collective trusting, or mistrusting, of the judgment of economists and state policy-makers. Finally, two important trust-based policy implications are considered in the context of calls for an expansionary cure for the European economy. This raises important issues which deserve much greater attention from Keynesians and post-Keynesians.

1. The concept(s) of trust

In everyday usage the word trust tends to be located in personal terms. In interaction with others, it may be conceived of a personality trait that allows one to form a judgment about another. Is s/he *trustworthy* - that is, in terms of ethic criteria (such as integrity or honesty), or functional competence. The judgment is necessary because a person's action depends for completion on the action or inaction of another (or others). This personal sense of trust underpinning judgment can also extend to self-trust in a variety of future or imagined circumstances (if x occurs, can I trust myself to do the right thing, to make the correct decision). Without trust, the likelihood of some given activity actually occurring is reduced; one may decline to undertake an activity as a consequence of the withdrawal of trust from another or oneself. However, as Colledge, Morgan and Tench (2014) note, if key aspects of this ordinary language use are extracted it becomes obvious that trust is a much more differentiated concept than a mere personality trait. A number of aspects can be identified:

- Trust is about activity that is intended in some sense *to* occur (and other activity and outcomes that are not): it is forward directed.
- Trust involves significant relations: the activity involves others and relies upon them in a variety of ways; to do something, to be something, to allow something, to complete, facilitate, or not impede something…
- Trust is given or placed, it may be placed in a person, a person in a role in an organization, or in increasingly anonymous and impersonal entities such as governmental and corporate actors and also the web of configurations that affect any role, organization etc (e.g. codes of conduct, industry bodies, relevant law and broader norms). Trust may be given quickly or slowly and over different distances.
- Trust may be mutual or reciprocal, but is not necessarily symmetrical in either its extent or significance to the parties. The greater the significance to the party the greater the sense of confidence that is likely required in order for trust to be given or placed.
- Trust is a means by which the scope for activity is extended or expanded (it is an operative aspect of emergence); what is done is affected by the scale and scope of the original commitment; if the original commitments are fulfilled it can be agreed that the extent of the commitment should be increased.
- Trust involves judgment: the activity requires the anticipation of some outcome and to expect that this will be achieved as part of the reason for the activity actually occurring (one is doing more than merely hope, blind trust is not trust). Judgment may be based on experience – the repeated dealings with another individual or entity, the repeated achievement of something in terms of an activity; or it may be based on the experience of others or on some form of advice, information or research. The judgment may be directed to all or only some aspects of the relations in terms of which trust is given or placed.
- Trust involves uncertainty: there is the possibility that what is intended may not occur

(otherwise trust seems a semantically inappropriate term for the situation). One may be aware that an activity can simply fail to realise a particular outcome or one may be aware that the activity involves antagonistic parties and interests that can confound subvert or redirect the activity.

- Trust is exhibited through the activity engaged, but not necessarily by its successful completion. That trust has been given is only revealed by following through to engage in that activity. However, an observable act need not be evidence of trust nor can the failure of an outcome to be realised be evidence that there was an absence of trust. The existence of trust is a interpretative issue.
- Trust is a means by which the possibility of an activity is reproduced through the activity, and the activity helps to *build* and reproduce trust… Trust may be built in a narrow sense, through repeated dealings with a given person, organization etc, and/or building trust in a broader framework of institutions through repeated dealings with different participants in that framework.

[Colledge *et al*, 2014: 1-2]

Trust should, therefore, be considered in multiple ways and contexts; and this multi-dimensional concept of trust clearly resonates with a realist social ontology (for example, as summarised Collier, 1994: Chp.5). When considering the case for x existing within a socio-cultural reality, one element of the answer is likely to be trust. In essence, trust seems to be "a generalisable term for situational social glue in the form of *how* relations are engaged with a view to completion" (Colledge *et al*: 3). For example, consider a market transaction for a mortgage agreement. An applicant may entrust a mortgage advisor to give competent advice as an authorised representative of a specific corporation, whilst the mortgage advisor entrusts the applicant not to intentionally engage in misrepresentation or fraud. Therefore, for the transaction to be completed both parties to it must both *be trusting* and *entrusted*; trusting and being entrusted is the social glue that binds together those involved in the market-based exchange. There is, however, no reason to suppose that the degree of trust is symmetrical between the parties to the transaction, but trust must exist, to some degree, in each party. If one party at any point ceases to trust the other, the transaction collapses, it is not completed. But our understanding of trust cannot stop there. If trust is restricted to an exclusively individual orientation this stops consideration of socio-cultural aspects of the concept which make it significant (see e.g. Sztompka, 1999; Mollering, 2006). This is the *aboutness* of the individual person within the wider complex of social reality. The study of trust may even be conceived of as a specific frame of reference for investigating forms of social reality.

However, neither the idea of the ‘aboutness’ of trust, nor the sense of trust as a social glue, should be limited to an individual-society conceptual binary. In both contexts, the concept of trust can also embrace overlapping decision-makers engaged in corporate- and state-orientated planning activities in an uncertain environment. Corporations must make forecasts about the vague and fluctuating future, especially when making decisions about purchasing capital equipment that generates returns in the distant future. When making decisions corporations use conventional techniques that, in the absence of more concrete knowledge, allow them to act in a reasoned manner. Trust, in the conventional techniques, is the social glue which connects forecasts made with the state of confidence with which the forecasts are held by decision-makers. State planners, engaged in intervention in the macro-economy, must also make forecasts about the performance of the economy with and without interventionary policies. In which case, state planners must trust the economic theory which underpins the policy regime they promote; trust, in economic theory, is the social glue.

In both these cases, and in other instances, the concept of trust has an important *collective*, or group, dimension. Collective trust is an essentially holist idea; an individual cannot exhibit collective trust; it can only occur in a group-setting, where the focus is on us and them, rather than you and I; it is reflected by majority opinion not personal belief. In other words, the sense of collective trust goes beyond a merely transactional or rigidly individual conception. In terms of those engaged in collective trusting, this category includes include corporate and state planners, shareholders and bond-holders, associations of businesses/ workers/ consumers, an electorate, a nation, and the like. Collective entities that can be entrusted, and from whom collective trust might be withdrawn, include professional bodies, an academic discipline (e.g. economists), corporations, the state, governmental departments, the legal system etc. It is likely that collective trust is a critical component of the social glue by which communities, societies or nations operate successfully, or, when collective trust is withdrawn, cause them to break-down. The idea of collective trust may also be important for appreciating how an economic system operates, why it succeeds and how it fails. Finally, evidence of the existence of collective trust, or consent, may help to explain the scope for successful interventions in an economic system; the withdrawal of collective trust, by contrast, might highlight the limits of intervention. In sections 3 and 4 the collective dimension of trust will play a pivotal role in the analysis.

The complexity of socio-cultural reality is one explanation for why the concept of trust has been developed in a variety of different forms. However, the multi-dimensional character of trust, and the proliferation of ways of investigating it, has rarely been posed ontologically (as a product of the imbricate nature of trust within social reality); the focus instead has been on epistemological and methodological pluralism (see, however, Reed, 2001; Dow, 2102a and 2012b, Lawson, 2012; Latsis and Repapis, 2013). In addition, the editorial introduction to launch edition of the *Journal of Trust Research* in 2011 gave emphasis to the lack of consensus in the field of inquiry, whilst calling for a more productive cross-disciplinarity (see Li, 2011). What is accepted is the sense that trust is a quality imbued in an expectation; beyond that, achieving a consensus on a single all-encompassing concept of trust has been and is likely to remain 'elusive' (Kramer, 2006: p. 2). What, however, is disappointing is lack of interest that Keynesians and post-Keynesians have shown in the topic. This is surprising for, as the next two sections will demonstrate, Keynes was keenly aware of the importance of trust, and collective trust, to the economic dimension of the human condition and to the workings of capitalism.

2. Keynes on trust and decision-making

Intriguing connections can be made between the discussion in section 1 and Keynes' seminal contribution to economic theory: the general theory of employment. The leitmotif of the theory is that capitalism has an Achilles heel. Capitalism succeeds in generating high rates of economic growth because investment spending constitutes a large portion of GDP, yet the scale of investment spending is highly unstable. What is more, this instability is ultimately a trust-related issue.

To explain this more fully, consider how decision-makers (within a corporation or wealth-holders) trust themselves to make judgements in an uncertain economic environment. As noted in the previous section, *trust involves uncertainty; decision makers judgement may be based on experience...the repeated achievement of something..or...based on the experience of others.* This resonates with the capitalistic characteristics of wealth accumulation described by Keynes; for decision-makers engaged in the accumulation of wealth, uncertainty is an occupational risk. This theme continually permeates Keynes' contribution to political economy.

> The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible. If we speak frankly, we have to admit that our basis of knowledge for estimating the yield ten years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London amounts to little and sometimes nothing; or even five years hence.
> [Keynes, 2007:149-150]

And again:

> By uncertain knowledge, let me explain...The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention, or of the position of private wealth owners in the social system [thirty years

hence]. About these matters there is no scientific basis on which to form any calculable probability whatever.
[Keynes, 1973: 113-114]

How did Keynes explain the process by which decision-makers cope with uncertainty? The answer is remarkably simple: through the use of conventions or rules of thumb. Keynes referred to these conventional techniques as his practical theory of the future.

How do we manage in such circumstances to behave in a manner which saves our faces as rational, economic men? We have devised for the purpose a variety of techniques, of which much the most important are the three following.
(1) We assume that the present is a much more serviceable guide to the future than candid examination of past experience would show it to have been hitherto. In other words we largely ignore the prospect of future changes about the character of which we know nothing.
(2) We assume that the existing state of opinion as expressed in prices and the character of existing output is based on a correct summing up of future prospects, so that we can accept it as such unless and until something new and relevant comes into the picture.
(3) Knowing our own judgment is worthless, we endeavour to fall back on the judgement of the rest of the world which is perhaps better informed. That is, we endeavour to conform with the behaviour of the majority or the average. The psychology of a society of individuals each of whom is endeavouring to copy the others leads to what we may strictly term a conventional judgement.
[Keynes, 1973: 114]

Yet, Keynes recognised that these techniques could be *confounded, subverted or redirected,* and that decision-makers were keenly aware that the conventional techniques were somewhat arbitrary. That is, they know that the probable forecasts will, in hindsight, prove to be incorrect to some degree; therefore, probable forecasts are never completely trustworthy. To analyse this Keynes suggested that decision-makers’ probable forecasts were held with a particular *state of confidence*; the state of confidence was strong or weak depending upon how reliable decision-makers believed the conventional techniques to be. If significant changes in the economy were expected, but it was unclear what precise form they would take, confidence in probable forecasts would weaken. Conversely, when few changes were expected, and the present was likely to be a good guide to the future, the state of confidence would strengthen.

Keynes believed that the state of long term expectation formed by these conventional techniques was reasonably stable, so long as decision-makers could trust the conventions applied. He realises, however, that such arbitrary conventions would inevitably have grave weaknesses. Therefore, Keynes' practical theory of the future had a number of key attributes.

> In particular, being based on so flimsy a foundation, it is subject to sudden and violent changes. The practice of calmness and immobility, of certainty and security, suddenly breaks down. New fears and hopes will, without warning, take charge of human conduct. The forces of disillusion may suddenly impose a new conventional basis of valuation…At all times the vague panic fears and equally vague and unreasoned hopes are not really lulled, and lie but a little way below the surface.
>
> [Keynes, 1973a: 114-115]

With decision-makers lack of trust in conventional techniques, Keynes concluded that the state of long term expectation was *liable to fluctuate* suddenly and violently. Instability need not be the norm, *but it was a continual threat.* The consequences of this analysis are dire for those who view capitalism as efficient, optimal, stable...trustworthy! Here is the contradiction at the heart of capitalism. It generates growth and prosperity because it creates incentives to invest in new capacity; consequently, investment spending makes up a significant portion of total economic activity. Yet, when the system is hit with adverse circumstances, the practical techniques of decision-making become untrustworthy; confidence evaporates; investment spending is curtailed and, amplified by the multiplier effect, effective demand collapses. The result is economic depression and penury.

3. Keynes on trusting economists and state policy-makers

Section 1 notes that *trust involves judgement: the activity requires one to anticipate some outcome*. This is certainly true for market participants and investment orientated decision-makers. However, it also applies to the elites engaged in establishing state planning policies – expert economists, civil servants and politicians. Collectively can we be confident in the judgements of these elites? Do we collectively trust them to correctly anticipate the consequences of their actions, which will have implications for the well-being of society as a whole?

This is important when appreciating Keynes' contribution to political economy. For, whilst being a fully-paid up member of the establishment, at heart an inveterate elitist, he had a quarrelsome streak.[1] Put bluntly, he rarely trusted the judgement of those in power during the turbulent inter-war period, from his resignation from the UK legation to the Versailles Conference, through his opposition to the return to Gold, onto is criticism of the conventional response to the Great Depression. In addition, he was never content with the economic theory passed down from Marshall and others. He sought first to improve it (*Treatise on Monetary Reform* and *Treatise on Money*), then to question and challenge it. A recurring theme of the *General Theory* was that neither the postulates of the classical orthodox theory, nor the policy regime derived from them, could be trusted to provide economic prosperity. In the process, Keynes undermined the social glue of trust in mainstream economics.

An exemplar of Keynes' caustic questioning of the judgement of elites is the famous *Economic Consequences of Mr. Churchill*. In this well-known, and oft-quoted, philippic he makes a prescient evaluation of the conventional (contractionist) cure for unemployment caused by an over-valued exchange rate: that of wage-cutting.

> The working classes cannot be expected to understand, better than Cabinet Ministers, what is happening. Those who are attacked first are faced with a depression of their standard of life, because the cost of living will not fall until all the others have been successfully attacked too; and therefore, they are justified in defending themselves…Therefore, they are bound to resist so long as they can; and it must be war, until those who are economically weakest are beaten to the ground.
> [Keynes, 1972a: 211]

By the late 1920s, in *Can Lloyd George Do It?*, Keynes had graduated on to bitter denunciation of a British government unwilling to engage in radical remedies for the Great Depression.

> Negation, restriction, inactivity – these are the government's watchwords. Under their leadership we have been forced to button up out waistcoats and compress our lungs. Fears and doubts and hypochondriac precautions are keeping us muffled up indoors. But we are not tottering to out graves. We are healthy children. We need the breath of life. There is nothing to be afraid of. On the contrary. The future holds in store for us more wealth and economic freedom and possibilities of personal life than the past has ever offered.
> [Keynes and Henderson, 1972: 125]

By the early 1930s, in *The Means to Prosperity*, Keynes could not contain his exasperation at the judgement of elites that borrowing money to pay people to do nothing was sound.

> The paradox is to be found in 250,000 building operatives out of work in Great Britain, when more houses are our greatest material need. It is the man

who tells us that there is no means, consistent with sound finance and political wisdom, of getting the one to work at the other, whose judgement we should instinctively doubt.

[Keynes, 1972d: 336]

Finally, in the *General Theory*, he outlined the reasons why the classical theory, and the policy regime derived from its postulates, could not be trusted.

I shall argue that the postulates of the classical theory are applicable to a special case only and not to the general case, the situation which assumes being at a limiting point of the possible positions of equilibrium. Moreover, the characteristics of the special case assumed by the classical theory happen not to be those of the society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience.

[Keynes, 2007: 3]

By contrast, Keynes offered measured, careful judgements about the outcomes of policy based on his general theory. Consider, for example, how he estimated the employment multiplier associated with a public works programme financed by borrowing – loan expenditure. Out an every extra £100 of loan expenditure he first deducted £33 when making his calculation of the multiplier effect. This was because he thought that the real income growth associated with higher spending would be retarded due to i) the leakage of imports, ii) the depletion of existing stocks of products already produced to meet higher demand, iii) the redirections of workers and land from other activities and iv) the cost of wages that simply replaced dole payments to previously unemployed workers. He also acknowledged that higher spending and employment growth would pull up product prices, further mitigating the impact on new real incomes. Once the increase in real income out of £100 of loan expenditure was estimated a figure for the propensity to consume (and hence the multiplier) could be gauged. In this context Keynes made the following conditional claims.

I believe myself that it is chiefly in the estimate of expenditure which becomes additional income that we have to cautious; and the estimates, which I should feel happiest in making, would be based on some such assumption as that not less than 66 per cent of additional expenditure…would become additional income in the hands of an Englishman, and that not less than 75 per cent of this additional income would be spent; whilst I would more readily increase the latter proportion to 80 than the former proposition to 70. In what follows I will base my estimates on these figures, which leads to a multiplier of 2.

[Keynes, 1972d: 344-345]

Keynes was therefore cautiously confident that policy-makers could trust that a multiplier effect would be forthcoming.

> The argument applies, of course, both ways equally. Just as the effect of increased primary expenditure on employment, on national income and on the budget is multiplied in the manner described, so also is the effect of decreased primary expenditure. Indeed, if it were not so it would be difficult to explain the violence of the recession both here and, even more, in the United States…There is no magic here, no mystery; but a reliable scientific prediction.
>
> [Keynes, 1972d: 349]

After the experience of expansionary war-time policies, Keynes is much more confident about his predictions – especially regarding socialised investment. "[I]f the bulk of investment is in public or semi public control and we go in for a stable long-term programme, serious fluctuations are enormously less likely to occur" *[Keynes, 1980, p326].*

Section 1 notes that *trust involves significant relation: the activity involves others and relies upon them in a variety of ways*. This dimension of trust allows consideration of Keynes' argument about the make-up of an expansionary cure. Curing a depression required higher levels of effective demand. But should the cure rely on monetary or fiscal policy to do the heavy-lifting? For Keynes, active monetary policy's reliance on the response of others for its success is its major deficiency.

> If, however, we are tempted to assert that money is the drink which stimulates the system to activity, we must remind ourselves that there may be several slips between the cup and the lip. For whilst an increase in the quantity of money may be expected, **cet. par.**, to reduce the rate of interest, this will not happen if the liquidity-preferences of the public are increasing more than the quantity of money; and whilst a decline in the rate of interest may be expected, **cet. par.**, to increase the volume of investment, this will not happen if the schedule of the marginal efficiency of capital is falling more rapidly that the rate of interest; and whilst an increase in the volume of investment may be expected, **cet. par.**, to increase employment, this may not happen if the propensity to consume is falling off. Finally, if employment increases, prices will rise in a degree partly governed by the shapes of the physical supply functions, and partly by the liability of the wage unit to rise in money terms. And when output has increased and prices have risen, the effect of this on liquidity-preference will be to increase the quantity of money necessary to maintain a given rate of interest.

[Keynes, 2007: 173; Keynes' emphasis]

In addition, Keynes was keenly aware of the trust-related dangers associated with an expansionary fiscal policy; the scale of the dangers *depended on how others responded*. To counter these threats he advocated using fiscal and monetary policies in double harness. Keynes' argument needs further explanation. He was aware that increased loan-expenditure (fiscal policy) without regard for its psychological impact on financial confidence was likely to increase interest rates. This was not due to a lack of loanable funds, but from the strengthened liquidity preferences of wealth-holders as they withdrew trust a government engaged in seemingly reckless action. Keynes' solution – designed to re-assure wealth-holders - was that prior to implementing an expansionary cure:

a temporary reduction of loan-expenditure plays a necessary part in effecting the transition to a lower long-term rate of interest. Since, however, the whole object of the policy is to promote loan-expenditure, we must obviously be careful not to continue its temporary curtailment a day longer than we need.
[Keynes, 1972d: 353-354]

To be clear, Keynes advocated temporarily reducing loan-expenditure by both scaling back welfare spending and through an extension of the tax base. But to enhance the creditability, the trustworthiness, he believed difficult decisions must be made. New taxes should be levied on economic activity previously free from taxation. In 1931 Keynes proposed a new duty, and, in-so-doing, questioned a shibboleth of liberal economics.

I am of the opinion that a policy of expansion, though desirable, is not safe or practicable today**,** unless it is accompanied by other measures which would neutralise its dangers. Let me remind the reader what these dangers are. There is the burden on the trade balance, the burden on the budget, and the effect on confidence…
What measures are available to neutralise these dangers? A decision to reform the grave abuses of the dole, and a decision to postpone for the present all new charges on the budget for social services in order to conserve resources to meet schemes for the expansion of employment, are advisable and should be taken. [Keynes as austerity advocate!!] But the main decision…is the introduction of a substantial revenue tariff. It is certain that there is no other measure all the immediate consequences of which will be favourable and appropriate.
[Keynes, 1972c: 236]

Therefore, against the background of an economic tsunami, Keynes questioned the judgement, the trustworthiness, of liberal fundamentalists

Free traders may, consistently with their faith, regard a revenue tariff as our iron ration, which can be used once only in an emergency. The emergency has arrived. Under cover of the breathing space and the margin of financial strength thus afforded us, we could frame a policy and a plan, both domestic and international, for marching to assault against the spirit of contraction and fear.

[Keynes, 1972c: 238]

Keynes' concerns about the potential dangers of expansionary fiscal policy, and how they can be avoided, have relevance to contemporary debates about how to address Europe's deep-seated economic woes. This topic is examined in the section 4.

Finally, the concept of collective of trust in policy-makers (aka planners) must be explored. This is not an issue to which either Keynesians or post-Keynesians give much attention, must it was important to Keynes. Put succinctly, can we – the electorate, shareholders, consumers, workers and the like - collectively trust planners to resist self-aggrandisement, vested-interest lobbying and short-term popularism; can we trust them to serve God not the devil, and promote a reformed version of capitalism? Intriguingly, Keynes addressed the topic in a letter to Hayek after he had read *Road to Serfdom*:

I should say that what we want is not no planning, or even less planning, indeed I should say we almost certainly want more. But the planning should take place in a community in which as many people as possible, both leaders and followers, wholly share your own [Hayek's] moral position. Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue...
But the curse is that there is also an important section who could almost be said to want planning not in order to enjoy its fruits but because morally they hold ideas exactly the opposite of yours, and wish to serve not God but the devil...
Dangerous acts can be done safely in a community which thinks and feels rightly, which would be the way to hell if they were executed by those who think and feel wrongly."

[Keynes, 1980: 386-387]

Can we trust planners to serve God not the devil? According to Keynes, the answer is yes we can. If they are brought up correctly and share Keynes' (and Hayek's) moral perspective. In other words, economic planning can be made safe, and protect the essentials of a free society, if it is left in the hands of the educated elite. Whether a modern audience finds this answer re-assuring, in an era of weakened collective trust in elites and authority, is a subject discussed in the next section.

4. Policy Implications

There are many potential implications which flow from Keynes' treatment of trust-related issues. But, in the limited space available, we will focus on two important contemporary European policy implications. The reason why we focus on these issues is that they seem to have received insufficient attention in Keynesian and post-Keynesian circles.

<u>A trustworthy European expansionary cure: extending the tax base</u>
The drama of 2008, and subsequent efforts to bail out key corporate players, left a toxic legacy: a crippled financial system and a debilitated governmental sector mired in debt. This means that, in a European context, financial mega-corporations (often inaccurately referred to as "banks") – many of which would be insolvent without quantitative easing – will only lend to the sovereign governments of Portugal, Ireland, Italy, Greece and Spain (PIIGS) at exorbitant rates of interest. The European recession, shrinking taxes revenues and accelerating unemployment, generate a vicious cycle of ever-greater government debt.

The policy response in the PIIGS (at the behest of the European Commission, the ECB and the IMF) has been austerity: deficit reduction, public spending cuts and higher indirect tax rates. Consequently, key foundations of the European social-economic model are being dislodged. Entitlements to unemployment benefits, pensions, free health and education have been restricted or withdrawn. Meanwhile, the wealthiest have prospered from rising stock and derivatives markets (artificially inflated by quantitative easing), and the redirection of wealth off-shore.

The traditional Keynesian response to austerity is for national governments to spend more and cheap money policies. In present European circumstances, this generates a conundrum: how can demand be increased when fiscal policy is debt-constrained and monetary policy is already extremely relaxed. Keynesians claim that the conundrum is resolved through the Europeanization of debt. That is, an EU-wide expansionary policy should be financed by Euro-bond issues, guaranteed by member-state sovereigns (especially Germany). Put another way, the EU should borrow and spend to benefit the PIIGS. Proponents of Euro-bonds claim the EU as a whole is more solvent and trustworthy than the PIIGS. Transnational lenders strongly support Euro-bonds: for lenders it is a no-brainer to replace assets guaranteed by the untrustworthy Greek government with assets backed by strongly-trusted Germany. Additionally, interest rates charged on Euro-bonds should reflect the trustworthy character of the collective EU borrower. What is more, if transnational lenders are unwilling to buy the bonds, they can be purchased by European Central Bank (ECB), through quantitative easing; buying Euro-bonds by-passes the pesky constitutional problem that the ECB cannot monetise a member-state's debt.

There are many political obstacles to the creation of Euro-bonds. But, as Naomi Klein might say, every crisis creates an opportunity; political problems are often dispelled when economic "reality" strikes. There is a more significant problem with Euro-bonds - for *borrowers*: that is European taxpayers of today and tomorrow. European governments already mired in debt will become more indebted – although the burden may be more broadly spread. Is there another way? Building on Klein's insight, there is scope to reframe the dominant discourse – by focusing on widening the tax base. As noted in the previous section, during the Great Depression Keynes was a powerful advocate of expansionary fiscal policy. But he was keenly aware that before borrowing more, governments should enhance their credibility with lenders by expanding the tax base. This is common sense. Nothing enhances the trustworthiness of a borrower in the eyes of a lender than to hear that the former is actively seeking new revenue sources. Extending the tax base quells lender disquiet about additional lending; and a trustworthy borrower is charged lower interest rates on new loans. In the 1930s Keynes proposed that the UK government extend the tax base through a revenue tariff. President Franklin D. Roosevelt was similarly minded when he abolished Prohibition in the 1930s and extended the tax base on to alcoholic products. The additional tax revenues mitigated the impact on lender confidence as budget deficits mushroomed during Roosevelt's presidency.

Contemporary Keynesians would be well-advised to take note of Keynes' insight. To credibly propose massive increases in borrowing and spending to stimulate the European economy it must be combined with proposals to extend the tax base of European governments. Finding ways to generate new tax revenues is not the problem. At least four areas of European economic activity are prime candidates for new taxation.

<u>War Taxes</u>. There are three methods of financing wars: taxes, borrowing and quantitative easing. Wars have regularly initiated radical extensions of the tax base. In Britain in 1798 income tax was introduced – framed as a tax to beat Napoleon. In the USA the Civil War caused income tax to be introduced (in 1862 in the North, in 1863 in the South). Similar trends were evident in World War 1 and 2. War taxes can be justified through the mantra of "shared sacrifice". War taxes, however, can be deeply unpopular; an exemplar is Henry VIII's attempt in 1524 to impose an extra-parliamentary special levy – a poll tax – to finance the war against France.[2]

There is therefore a powerful case to levy a new tax to pay off past war costs and finance future military adventures. What new source of tax revenue might be found to finance war costs? The simple (Henry) Georgian answer is: land values. A land valuation tax is extremely difficult to avoid; land ownership involves documented property rights. Additionally, land cannot be shipped off to a tax haven. It is the surest way that those with the most pay the most. This proposal has two further advantages. First, any government calling for a new war will be required to explain the extent of the Land Tax rate hike needed to pay for the campaign. Then voters could decide whether the trade-off was really worth it. Second, once past war debts have been repaid the Land tax rate could be lowered to zero; keeping it zero would require a pacific foreign policy. [3]

Financial Transactions Tax. Financial innovation over the last thirty years has led to an explosion of activity in derivative markets. None of these transactions are subject to a transaction tax, or value added tax, nor excise duties as on alcohol or tobacco. This enormous zero-rated zone of activity is a prime candidate for taxation. A financial transactions (or Robin Hood) tax (FTT) is a potent source of European tax revenues, as numerically there are more global exchange markets located in Europe than anywhere else in the world. Given the volume of transactions, the rate of the FTT could be set at a very low level and still generate huge revenues. In the UK, for example, there is a Stamp Duty Reserve Tax (SDRT) paid on paperless, electronic share transactions which raises well in excess of £3 billion per annum, even though the tax rate is only 0.5 per cent. Taxing derivatives (even at a rate as low as 0.01 per cent) and currency transactions would generate considerably more revenues.

Cannabis Production and Sales Tax. It's time to consider breaking the umbilical cord with 20th century cultural norms by legalising the production, distribution and consumption of cannabis. This anti-prohibition reform has considerable merit: de-criminalising otherwise law-abiding stoners, freeing-up police resources, permitting the proper regulation of product production, and, most importantly, extending the tax-base. The revenues might be considerable.

Air Transport Tax. Air transport, despite its' considerable emissions of CO2, is a largely tax exempt economic activity. Remember one long haul flight emits as much CO2 as the average motor vehicle driver emits over 12 months. Yet, by international agreement, and unlike road transport fuel, airlines pay no duty on aviation kerosene (AVTVR) which is used in jet engines. This is a potent source of new tax revenues, especially given the projected exponential growth in air transport over the next ten years.

Identifying new taxes is quite simple. Creating a political consensus, and fighting off pressure from powerful corporate lobbying entities, is the real challenge. But let's assume there is an extension of the European tax base, and an increase in potential future revenue flows. This would create the circumstances in which European governments could issue trustworthy Euro-bonds, at very low interest rates, to finance a sizeable Green investment and jobs programme. This might kick-start economic growth in Europe, and additional tax revenues to repay the outstanding Euro-bond debt. Framed in this manner, the Keynesian and post-Keynesian case for an expansionary cure is more credible…and trustworthy!

Can we trust state planners?

The issue of collective trust in policy-makers is one to which Keynesians and post-Keynesians give insufficient attention. The essential question is: can "we" collectively trust elites within the state to make decisions in our collective best interests? The issue becomes more prominent in a post-neo-liberal society where the economic powers of the state would be enhanced. Luckily, Keynes was not averse to addressing the question directly. As demonstrated in section 2, Keynes was keenly aware of the dangers to a free society and individual initiative from an expansion of state planning powers.[4] Keynes ably expressed the crux of the concern: can we trust planners to serve "God not the devil"? Keynes' answer was yes, as long as the planners were members of the elite who shared the background, education and moral compass of Keynes. This answer might have been acceptable in the more paternalistic, hierarchical 1940s. It was certainly compatible with the *zeitgeist* of the times: the aftermath of a world war where victory had relied heavily on generalised state planning and control. Can the same be said to apply in contemporary European circumstances? Is it possible to honourably claim that elitist EU decision-makers can be trusted to serve God and not the devil?

Across the EU's constituent states it is recognised that the EU-wide institutions are both deeply undemocratic and unpopular. The, long-recognised, democratic deficit has never been fully or adequately addressed, which only encourages disillusionment and pessimism.[5] This then causes popular disengagement with the very limited democratic procedures to elect the European Parliament.[6] In addition, data suggests a pronounced withdrawal of collective trust from institution of the EU in the aftermath of the global financial crisis. Those willing to trust EU institutions peaked in 2007 at roughly 60 per cent of member state citizens; by 2013 that figure had fallen to just above 30 per cent. Over the same period, member state citizen's positive image of the EU significantly deteriorated – down from 52 per cent (2007) to 30 per cent (2013). Even support for the Euro has markedly declined, and opposition to it strengthened, in this time frame (Standard Eurobarometer, 2013). Data on trust in the European Commission is not published, but it is likely to be the most unpopular of all the EU institutions. Put succinctly, European citizens have increasingly withdrawn trust from the EU's institutions. Consequently, calls for increased EU powers to engage in greater state planning is inconsistent with European popular sentiment. As if all this was not bad enough, Standard Eurobarometer evidence indicates that collective trust levels in member state governments are even lower than those for EU institutions. The withdrawal of trust in national governments reflects the perception that governments have been fatally compromised by decisions made in the build-up to the global financial crisis and its aftermath. Consequently, there is a deep scepticism about calls for more national government action to solve problems which national governments were complicit in creating. Consequently, big government solutions, so beloved by Keynesians and post-Keynesians, are inconsistent with the contemporary *zeitgeist* – characterised by the withdrawal of trust from elites, authority and government.[7]

Unfortunately, Keynesians and post-Keynesians are unwilling to fully address the crisis of collective trust. Of course, to more fully appreciate the subject matter requires a genuinely multi-disciplinary approach, which engages with the trust literature. The withdrawal of trust in elites, authority and government, the deep pessimism emanating from the belief that state planners are more likely to serve the devil than God, is too important for Keynesian and post-Keynesians to ignore any longer. This paper, hopefully, makes a contribution to rectifying this omission.

Conclusion

Trust and collective trust are important aspects of social reality, ones to which realist social theory has paid little attention, but which clearly resonates with a realist social ontology. Trust is a key aspect of contemporary social reality. Trust is a generalisable term for the situational social glue in the form of *how* relations are engaged with a view to completion. It is imbricate within many aspects of social reality, and as such clearly resonates with a realist social ontology. Trust and collective trust are certainly essential aspects of the economic dimension of the human condition. In this paper we have provided a multi-faceted account of the concept of trust – both giving trust and being entrusted. We have considered aspects of Keynes' trust-orientated contribution to political economy. We have shown that decision-makers' trust in conventional techniques for coping with an uncertain future is vital for the success, or otherwise, of a capitalist economy. We have examined how Keynes sought to undermine trust in classical orthodoxy – both theory and policy – and how he carefully sought to enhance the trustworthiness of his policy recommendations. Finally, the paper discusses two important trust-based policy implications of calls for an expansionary cure for the European economy. First, we examined how the credibility, trustworthiness, of the policy would be enhanced by an extension of the tax base; possible candidates of economic activity have been identified to which the tax base could be extended. Second, we considered the demise of collective trust in big government solutions and the problems this poses for Keynesians and post-Keynesians arguing for an expansionary cure.

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[1] To be clear on this point, Keynes did not distrust elites; he distrusted elites who disagreed with him.

[2] War costs can be deferred, financed on the “never-never”. Future generations pay the costs of present-day military escapades, plus interest charges. World War 1 was unduly financed through borrowing; the result was massive post-war debts which blighted the inter-war economy. The burden was amplified through quantitative easing. This policy aggravated the rapid price-inflation during and subsequent to World War 1. Lessons were learned in World War 2; the UK partially followed the proposals proposed by Keynes in *How to Pay for the War*, the costs of war were financed by some borrowing plus significantly higher taxes and a deferred pay scheme (Keynes, 1972e). The lessons were unlearnt in the wars conducted since 2002 in Afghanistan, Iraq and Pakistan.

[3] Sir Robert Walpole, British Prime Minister from 1730 to 1742, pursued a pacific foreign policy throughout his policy tenure. In this way he kept the rate of Land Tax low, much to the appreciation of the land-owning classes.

[4] This is evidenced by Keynes’ response to Hayek’s *Road to Serfdom* published in 1944. Having read this famous polemic against the dangers of state planning, Keynes wrote to Hayek to congratulate him. “In my opinion it is a grand book. We all have the greatest reason to be grateful to you for saying so well what needs to be said…[M]orally and philosophically I find myself in agreement with virtually the whole of it; and not only in agreement with it, but in a *deeply moved agreement.*” (Keynes, 1980: 385; my emphasis).

[5] Of course, corporate-lobbyists abhor a vacuum, and they now occupy the space vacated by electors. This, in turn, increases the suspicion that EU institutions and key policy-makers are in the pocket of corporate interests.

[6] In the EU Parliament election of 2013, roughly 60 per cent of electors didn’t vote, and of those who did, roughly 25 per cent supported explicitly anti-EU parties in some member states.

[7] Instead web-based, free market, decentralised, anti-state, anti-corporate, anti-elitist proposals (e.g. Bitcoin and other virtual currencies) are those to which radical young minds are attracted.