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Keynes's Vision of Inequality

(And Why it Matters)

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Working paper



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Abstract

This article challenges the prevailing view that John Maynard Keynes ignored income distribution in his economic thinking. While scholars such as Branko Milanovic argue that Keynes lacked an “integrative vision” of inequality, a closer reading reveals that distributional concerns are woven throughout his work—from *The Economic Consequences of the Peace* to *How to Pay for the War*. Though Keynes never developed a full theory of distribution like Michał Kalecki, he embedded inequality into key parameters of his macroeconomic analysis, particularly in relation to effective demand, wage policy, full employment, and the burdens of war. We argue that Keynes's evolving engagement with a “functional theory of distribution”—in which inequality is assessed mainly by its effects on the macroeconomy—offers essential insights for current policy challenges. Far from indifferent, Keynes provides a historically grounded and macroeconomically coherent framework for understanding inequality. Revisiting this overlooked dimension of his thought opens the way toward a Keynesian “economics of enough” for today's ecologically constrained and unequal world.

Keywords: Keynes; inequality; macroeconomic theory; economics of enough.

JEL Classification: B22; E12; D31.

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1. Introduction

In an oft-quoted passage from the end of *The General Theory of Employment, Interest and Money*, its author John Maynard Keynes commented that the “outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes” (Keynes, 1936, p. 372). Multiple scholars have noted that Keynes’s reputation as perhaps the most important economist of the twentieth century was built on his prescient analysis of the first of these faults, having little to nothing to say about the second one, even according to the most dedicated scholars of his life and work (Skidelsky, 2023). In the words of the Cambridge Keynesian Nicholas Kaldor —who alongside Joan Robinson was instrumental in integrating Keynes’s macroeconomics and classical political economy, inspired from the contemporary work of Michał Kalecki— “Keynes, as far as I know, was never interested in the problem of distribution as such” (Kaldor, 1955, p. 94). On the contrary, the “Post Keynesian” research program that subsequently developed from these early contributions around Keynes’s orbit emphasised distribution mainly through the functional inequality between capitalists and workers inherited from classical political economy (cf. Hein, 2023).

The view on Keynes’s neglect of distributional issues has been most recently and emphatically put forth by Branko Milanovic in his book *Visions of Inequality* (Milanovic, 2023). In it he presents the original contributions of six authors who directly or indirectly made a decisive “integrative study of income distribution”, excluding Keynes for his ignorance that inequality could play any role in his economic analysis. This is attributed by Milanovic to a lack of intellectual interest in distributional issues as well as an aversion to them. The latter seems to be deduced from the context that the “[d]evelopment of income distribution studies” during the main part of Keynes’s professional career, that is, “between the two world wars primarily followed the vicissitudes of politics, and was influenced only secondarily by those of economics” which was Keynes’s main interest (Milanovic, 2023, p. 217). The present paper seeks to counter this viewpoint. The purpose in reviewing Keynes’s thoughts on this issue is not (primarily) to contribute to the history of economic thought, however worthwhile this is in and of itself, but rather to enlighten the path to overcome muddled thinking that persists in linking economic inequality to macroeconomic performance from a theoretical and empirical perspective.

Digging into Keynes’s writings, one finds a concern for and a relevance of economic distribution in the development of his macroeconomics, from his early commentary on inequality in pre-war Europe in the *Economic Consequences of the Peace*, to later discussions of redistribution through higher wages, the implications of his *General Theory* for redistribution more generally, and his later policy-oriented papers and pamphlets that dealt with macroeconomic management in times of war. The latter is particularly useful amid the climate-induced supply constraints at the “end of the age of abundance” (Michell, 2023), and for a macroeconomics of distribution that centres on the “content of employment” (Robinson, 1972) and the “economics of enough” (Chick and Freeman, 2018). To sum it up, economic distribution is embedded in the connection among Keynes’s key macroeconomic parameters and the policy levers that emerge from them to improve the state of a (largely) free-enterprise economy.

That inequality could have played a bigger, more central, role in his theory, in the way as it did, for instance, in Kalecki’s, this paper does not dispute. Keynes could of course have dedicated *even* more pages throughout his career to inequality’s causes and its consequences for the business cycle and policymaking. The point is that contrary to Milanovic (2023), there are *enough* ingredients present in his work to contribute invaluable insights into what we will argue are the correct macroeconomic implications of inequality that are highly relevant for the present. After presenting the arguments for dismissing Keynes in distributional analysis in section 2, we offer a re-assessment of his significant excursions into distributional affairs mainly from a theoretical perspective in section 3, following this up with a case for why Keynes is important for thinking about inequality in practice especially in the present, before concluding.

2. An Integrative Vision of Inequality Without Keynes

Branko Milanovic, a renowned scholar in income inequality research, published his latest book *Visions of Inequality* (Milanovic, 2023) in which he presents the contributions of significant authors in the study of income inequality “from the French Revolution to the end of the Cold War”. The criteria for selection of authors are threefold: narrative, theory, and empirics.

Keynes does not meet any of Milanovic’s criteria for inclusion. In a subsequent article explicitly justifying his choice of excluding Keynes, Milanovic notes that “Keynes was not interested in income distribution. And, more importantly, at one point where he clearly could have, or even should have, brought income distribution into discussion [“of its affecting the aggregate marginal propensity to consume, and hence determining the multiplier and the effect of a given increase in government spending”] he declined to do so and decided to ignore it” (Milanovic, 2024). The reason that Keynes had no narrative of income inequality was that it did not enter his macroeconomic theory, and the reason why it played no role there was that the empirical evidence that he did consider told him that inequality was not an issue. “Indeed, Keynes made the assumption of an unchanged income distribution throughout—for convenience, treating inequality and the aggregate propensity to consume as fixed or at least as parameters” (Milanovic, 2023, p. 218).

The reason that Keynes assumed an unchanged income distribution was his belief in constant factor shares of national income between wages and profits, instigated by his English compatriot Arthur Bowley through what became known as “Bowley’s law”. Therefore, “if factoral income distribution does not change, the story continued, then personal income distribution must also be close to constant” (Milanovic, 2023, p. 219). In fact, not only did Keynes seem to accept the empirical evidence on the constancy of factor shares he “very significantly contributed to this belief” (Milanovic, 2023, p. 326) in his own writing, notably in his 1939 article ‘Relative Movements of Real Wages and Output’ published in the *Economic Journal*.

According to Krämer (2011), whom Milanovic includes as a reference, “Keynes regarded the alleged stability of the wage share as another piece of evidence that counteracted his original idea of an anti-cyclical movement of the real wage. He again erroneously called the stability of the wage share “... one of the most surprising, yet best-established, facts in the whole range of economic statistics [...] I mean the stability of the proportion of the national dividend accruing to labor, irrespective apparently of the level of output as a whole and of the phase of the trade cycle””. Whereas Michał Kalecki was “the first economist who called the apparent stability of the wage share a “law” ... it was John Maynard Keynes in particular who was responsible for making this “law” well-known” (Krämer, 2011, p. 27), presumably due to his celebrity status by the late-1930s.

Milanovic in his book remarks that “[i]t was left to Hans Staehle to point out a year after the *General Theory*, in a very nice article using German data, how much wage distribution varies and how this in turn affects the marginal propensity to consume” (Milanovic, 2023, p. 218). In this article Staehle takes issue with Keynes neglecting, in the chapters dealing with the aggregate marginal propensity to consume in his *General Theory* (chapters 8 and 9), that changes to this propensity can be caused by shifts in the distribution of income between individuals, rather than by just “changes in the income-distribution as between entrepreneurs and rentiers.” It is only in chapter 22 “on the trade cycle, where the “redistribution” of incomes is spoken of as a measure by which the propensity to consume might be stimulated. However, “what type of “redistribution” Keynes here has in mind is not clear; at any rate, there is no proof that he meant a modification of incomes according to size” (Staehle, 1937, pp. 138-9). Fundamentally, Keynes’s theory “does not require that the *proportion* of income spent on consumption should be decreasing with increasing income”—it “only maintains that the *absolute* increases of

consumption expenditure are smaller than the *absolute* increases of income to which they correspond” (ibid, p. 139).

This view is recycled in Milanovic (2024) to confirm his first reason for excluding Keynes from his analysis—namely “that Keynes was not interested in income distribution.” He goes further by outlining all the “objective” and “subjective” forces that Keynes lists as affecting the aggregate propensity to consume of an economy.¹ He notes how “[i]t is rather curious that among this plethora of causes, there was no place for income distribution.” Milanovic’s second (and more important) reason for dismissing Keynes is that he seemed to be intelligent enough to recognise the relevance of income distribution for his analysis but “decided to ignore it”. This “politically-induced unwillingness to bring income distribution into *The General Theory*” (ibid) is implied in a recent article in the *New Statesman* by Keynes’s official biographer, Robert Skidelsky. He comments that “Keynes’s strategy of steering the discussion of deficient demand away from distribution was politically astute”. Thus Skidelsky’s call to supplement Keynes with Marx—who did emphasise the link between distributional imbalances and crises—for the left in Britain to organise around a new government budget narrative (Skidelsky, 2023).

In Milanovic’s view, if Keynes had been intellectually honest, he would have explicitly dealt with class dimensions in a theory that heavily leveraged the concept of the “propensity to consume”. As he notes, “[e]ven a very cursory look at the fundamental equation which is A (aggregate supply) = $C + I + G$ shows that if C (aggregate consumption) is a function of income distribution an obvious way to rebalance supply and demand is to “improve” income distribution, that is to transfer purchasing power from the rich to the poor.” Given Keynes’s lack of interest in distribution due to its constancy and/or his aversion to it for “political reasons, then the only way out is the one taken by Keynes: increased government spending” (Milanovic, 2024).

Why would Keynes have declined to pay the heed to a parameter whose change “is an easier solution and entirely within the logic of the model itself”? Milanovic in his book speculates that this may have something to do with “his careful avoidance of taking the side of under-consumptionists”—the likes of Mandeville, Malthus, Gesell and Hobson (cited in chapter 22)—to not “be consigned, together with them, to the “underworld of economics”” (Milanovic, 2023, p. 252). An uncannily similar view is exposed by Skidelsky when pitting the “overinvestment” thesis of J. A. Hobson with the “underinvestment” thesis of Keynes: “Keynes snootily charged Hobson (who was not a trained economist) that he had ignored the role of “liquidity preference” in keeping up interest rates: the correct theory of capitalist malfunction was one of underinvestment, not overinvestment.” Even so, “[t]axation of surplus wealth was central to Hobson’s remedy for underconsumption, whereas Keynes’s policies to reduce unemployment had no explicit distributional implications” (Skidelsky, 2023).

3. Keynes’s Vision of Inequality Reconsidered

In his selection of authors that contributed significantly to the understanding of economic inequality Milanovic (2023) emphasises the necessary integration of narrative, theory and empirics in the body of work of the scholars concerned. According to his own criteria, Milanovic is probably correct to exclude Keynes from his study. His work was not centred on an overarching narrative of what “drives” income

¹ The objective forces are: (1) a change in the wage-unit; (2) a change in the difference between income and net income; (3) windfall changes in capital values not allowed for in calculated net income; (4) changes in the rate of time discounting; (5) changes in fiscal policy; (6) changes in expectations of the relation between the present and the future level of income (Keynes, 1936A, pp. 91-95). The subjective forces are: (i) to build a reserve against unforeseen contingencies; (ii) to provide for an anticipated future relation between income and the needs of an individual or his family different from that which exists at the present; (iii) to enjoy interest and appreciation, (iv) to enjoy a gradually increasing expenditure, (v) to enjoy a sense of independence and the power to do things; (vi) to secure a *masse de manoeuvre* to carry out speculative or business projects, (vii) to bequeath a fortune, (h) to satisfy pure miserliness (Keynes, 1936A, pp. 107-108).

inequality, nor was it couched on core theoretical claims to sustain it. And his mobilisation of empirical data on the subject, at least if one focuses on some of his key publications, is meagre, and apparently disconnected from his theoretical framework. With an academic career building towards a “General Theory of Employment”, and a consultancy career occupied by extraordinary global emergencies, time was of the essence. However, despite popular belief that Keynes ignored distributional issues—his work being solely about the study of macroeconomic aggregates—there is enough evidence from the trail of his contributions that shows not only an interest in inequality but an instrumentalization of its properties for theoretical and practical ends. Narrative, theory, and empirics are there, but as was known Keynes’s intellect was a moving target that changed whenever the facts and circumstances changed.

Context matters, particularly for intellectual output, as writers do not write in a vacuum. Milanovic alludes to this when stating that the “[d]evelopment of income distribution studies between the two world wars primarily followed the vicissitudes of politics, and was influenced only secondarily by those of economics” (Milanovic, 2023, p. 217). Between 1918 and 1939 tumultuous economic, political and social calamities wrought havoc among all strata of society, all book-ended by civilizational conflicts. During this period Keynes was of prime professional age (35-56 years of age), and was actively engaged across academia, journalism, business ventures, and civil service. The psychological upheaval of the period opened all sorts of new questions and political equilibria.

2.1 From the inequality of pre-war Europe to the question of high wages after the *Peace*

Psychology is an apt place to begin our assessment of Keynes’s interactions with income distribution. His economics owes as much to it as to probably any other discipline. And it is in the “Psychology of Society” that Keynes starts to question old conventional orders related to inequality (Keynes, 1919). Many authors, Milanovic included, believe *The Economic Consequences of the Peace* contains Keynes’s peak interest in economic inequality (cf. Milanovic, 2023, p. 218). The signals are clear:

“Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pressures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein, lay in fact, the main justification the Capitalist System. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a regime intolerable” (Keynes, 1919, p. 12).

Up to the Great War, Keynes was bought into the high-savers accumulation model, where savings determined accumulation independently of the economic circumstances (a point he would later flip on its head). High inequality was a necessary condition for capital accumulation, provided the sufficient condition that the rich reinvested their additional savings, and thus abstained from conspicuous consumption. The class dimensions of production and consumption are clear to see. The vast accumulations of fixed wealth were ultimately “the work of labour which was not free to consume in immediate enjoyment the full equivalent of its effort” (ibid). But it was all a psychological trick—the entire edifice of the pre-war order rested on a “double bluff or deception”—deceiving workers into accepting “a situation in which they could call their own very little of the cake that they and Nature and the capitalists were co-operating to produce”, and granting capitalists a larger share of the cake “on the tacit underlying condition that they consumed very little of it in practice ... so that the cake increased”. However, “to what end was not clearly contemplated.” The Great War called society’s bluff, disclosing the “possibility of consumption to all and the vanity of abstinence to many.” The future was no longer secure. The “principle of accumulation based on inequality [...] depended on unstable psychological conditions”. Keynes admitted “[i]t was not natural for a population of whom so few enjoyed the comforts of life, to accumulate so hugely” (Keynes, 1919, pp. 12-13).

One would be hard pressed to read a more prescient account of the justifications of the capitalist system in the work of Ricardo, Marx or Pareto. This view was somewhat echoed in Simon Kuznets's work on inequality and growth thirty-five years later, whom Milanovic (2023) includes in his account.² Keynes would maintain his psychological narrative of inequality at least until his publication of the *Tract on Monetary Reform* in 1924. Five years after the analysis of the Treaty of Versailles that made him into a household name, he fretted that “[n]o man of spirit will consent to remain poor if he believes his betters to have gained their goods by lucky gambling. To convert the business man into the profiteer is to strike a blow at capitalism, because it destroys the psychological equilibrium which permits the perpetuance of unequal rewards” (Keynes, 1924, p. 29). The *Tract* was Keynes's first general economic treatise. It is replete with a society divided into socio-economic classes —debtors and creditors, producers and consumers, savers and investors, businessmen and labourers— and the consequences of inflation and deflation for each differently-positioned class. This would mark Keynes's subsequent investigations into the class relations of economic categories.

However, Keynes would soon discard the psychological properties of relative rates of remunerations. In his article ‘The Question of High Wages’, published in *The Political Quarterly* in January 1930, he takes issue with the “psychological and theoretical validity of the orthodox theory of value” that leads one to believe in “a natural level of wages with which it is unsafe to tamper” (Keynes, 1930A, p. 111).³ He sympathises with a “Theory of Distribution” that is “the product of historical and social forces”, which he illustrates with the following veil-of-ignorance thought experiment:

“if the nature of man and the technical means at his disposal were to remain quite unchanged, but everyone was suddenly to forget what has been hitherto the usual range of salaries and remuneration for business men, workers, clerks, and so forth, so that it all had to be worked out again *de novo*, [...] We should not find that the dividends of the shareholders, the salaries of the managerial staff, and the wages of the office boy would work out just in the existing proportions [...] There are no actual physical or psychological laws which compel them to be what they are now; and if they were to be worked out again in a new situation, we should reach a different answer. Accordingly, there is a large arbitrary element in the relative rates of remuneration, and the factors of production get what they do, not because in any strict economic sense they precisely earn it, but because past events have led to these rates being customary and usual” (Keynes, 1930A, pp. 113-114).

This answers a similar thought experiment posed by Adolph Lowe whereby if “a universal amnesia were to wipe out the knowledge of all present prices, would there be a rule for reestablishing them?” (quoted in Heilbroner, 1988, p. 108). One's theory of value would need to inform how prices would be arrived at. Keynes believed “that the best working theories of the future will own these assailants as their parents.” (Keynes, 1930A, p. 114). Notwithstanding, his purpose in this article is “to express grave doubts whether an indiscriminate public opinion, reinforced by the votes of wage earners, in favour of raising wages, whenever possible, is really the best means open to us, within the existing framework of

² Kuznets also seemed to be brought up on “the long-term utility of wide income inequalities ... as a source of savings for economic growth.” However, public interventions into the determination of relative prices constitute “a re-evaluation” of this view over the course of a country's development (Kuznets, 1955, p. 9). Even the pioneering development economist Arthur Lewis accepted that “[t]he central fact of economic development is that the distribution of incomes is altered in favour of the saving class” (Lewis, 1954, p. 157). And this required a redistribution of income towards capitalist profits, which in an undeveloped economy “are low relatively to national income.” Thus, “[a]s the capitalist sector expands, profits the capitalist sector expands, profits grow relatively, and an increasing proportion of national income is re-invested” (Lewis, 1954, p. 190).

³ This article was based on a series of public academic lectures delivered in London and Manchester most likely prior to the US stock market crash of October 1929.

society, for attaining what is presumably the object, namely, the betterment of the material conditions of the working class.” (ibid, p. 115).

His main reason for doubting the wisdom of this course of action is the “the mobility of lending which exists between countries having the same monetary standard” (ibid, p. 116). This puts pressure on exchange rates, and subsequently on interest rates, causing a downturn in economic activity that would be sufficient to bring real wages back down at least to their previous level. The practical implication of this position is that rising wages must come with foreign capital controls —a policy Keynes would develop more formally in his *Treatise on Money* later in the same year. However, the inverse policy of “reducing wages” is “impracticable and undesirable” particularly in “the existing disequilibrium” (likely a reference to the coming economic downturn) (ibid, p. 119).

With the “High-Wage Party” —i.e. the Trade Unions— as his target audience, Keynes tries to sketch out a superior alternative for the future that seeks to squeeze capitalists in the “right place” and offer the working class a different route to increasing their share of the national product, “[u]nless, therefore, we make radical changes in the internal structure and external relations of our economic system [the entrepreneur system]” (ibid). Keynes is fully conscious of the social implications of squeezing capitalist profits at the point of production, which bears a striking similarity to the later prophetic article of Kalecki from 1943 on the ‘Political Aspects of Full Employment’ that would define the limits of the post-war social-democratic settlement (Kalecki, 1943).

Keynes’s proposal to workers and their representatives by 1930 is to pursue a greater decommodification of economic activities to increase their share of national income, and use progressive income taxation to equitably “spread the cost of bettering the material condition of the working class over a much wider area”.⁴ Taxes on incomes and profits, in particular, have the feature that they do “not discriminate against the use of a particular factor of production” (Keynes, 1930A, p. 120). This of course goes against the “*raison d’être*” of the Trade Unions, but it is a more coherent way in his view of avoiding profit-wage-price spirals than a policy of an increase in nominal wages.

Keynes would double down on this “futile” zero-sum thinking ten years later —in extraordinary macroeconomic circumstances— when presenting his plan to finance the war: “Like the dog in the fable, [the Trade Unions] lose the substance in gazing at the shadow. It is true that the better organized sections might benefit at the expense of other consumers. But except as an effort at group selfishness, as a means of hustling someone else out of the queue, it is a mug’s game to play. In their minds and hearts the leaders of the Trade Unions know this as well as anyone else” (Keynes, 1940, pp. 6-7). This argument is effectively recycled by Skott (2024) whereby “Keynesian path dependency” in pay norms is modelled to be a strong determinant of “conflict inflation”, thus justifying a similar pursuit of economic decommodification for the working class. Post-war history arguably vindicated Keynes’s (and Kalecki’s) prognosis of the boundaries of an entrepreneur economy.

2.2 Distributional macroeconomics in the *Treatise* and the *General Theory*

According to Nicholas Kaldor, the seeds of a “Keynesian” theory of distribution can be deduced from a brief excursion in his next major economic treatise after the *Tract, A Treatise on Money* from 1930 (Kaldor, 1955). Specifically, it can be found in the passage where Keynes refers to entrepreneurial profits as being like an “widow’s cruse which remains un-depleted” —when entrepreneurs spend their earnings— and a “Danaid jar which can never be filled up” —when they save to try to recoup losses (Keynes, 1930B, p. 125).⁵ Kaldor points “to the fact that here Keynes regards entrepreneurial incomes

⁴ Keynes cites the examples of social insurance, pensions, health, recreation, education and transport, affordable housing, and family allowances (Keynes, 1930B, pp. 121-22).

⁵ According to Richard Kahn —Keynes’s closest collaborator— the “Cambridge Circus” discussion group, led by Keynes and frequented by other young economists including Kahn, James Meade, Joan and Austin Robinson and

as being the resultant of their expenditure decisions, rather than the other way round— which is perhaps the most important difference between “Keynesian” and “pre-Keynesian” habits of thought” (Kaldor, 1955, p. 94). The class-based determinants of economic flows continued to persist in Keynes’s economic analysis.

Immediately dissatisfied with his 1930 *Treatise*, Keynes began working on notes for a new one that would crystalize his new theory. *The General Theory of Employment, Interest and Money* centres attention because of the depth of its conceptual framework separating his vision of the economy from his predecessors. As outlined above, Milanovic (2023) attributes “almost no role to inequality in his 1936 *General Theory*”, which contained plenty of relevant discussions of the multiplier and the propensity to consume (p. 218). This can be contested. An overview of his record until the early 1930s would not confirm the notion that he thought inequality to be an irrelevant factor in economic analysis.

This can be further appreciated from his draft notes for the *General Theory*. In the first surviving draft of the table of contents from 1933 there are two chapters in Book III that explicitly deal with distributional matters: “Chapter 12: The Influences of Changes in the Distribution of Income between Rentiers and Earners”. “Chapter 14: The Influence of Changes in the Distribution of Aggregate Quasi-rent” (Keynes, 1933, p. 63). Keynes would substitute the term “quasi-rent” for “effective demand”, which would become the cornerstone of the final draft.⁶ More revealingly is the famous second chapter from the last 1933 draft on “The Distinction between a Co-operative Economy and an Entrepreneur Economy”. The former is the bedrock of “Classical Economics” in which the factors of production each receive “a predetermined share of aggregate output”, whereas the latter refers to actually-existing “money-wage” capitalism in which the factors of production are hired for money wages by entrepreneurs without any mechanism ensuring that the exchange-value of money equals a predetermined share of output. This view is coherent with what he was writing in 1930.

Keynes further distils the distinction of the two types of economies and economics as between C—M—C’ on the one hand and M—C—M’ on the other in an explicit allusion to the “pregnant observation made by Karl Marx”.⁷ Changes in the distribution of aggregate effective demand (or quasi-rent) is what explains the inequality between M’ and M, and this is what for Keynes determines the volume of employment, not any assumption of Say’s Law, i.e. that “the rewards of the factors of production, must, directly or indirectly, create in the aggregate an effective demand exactly equal to the costs of the current supply” (ibid, p. 80).

A major insight of *A Treatise on Money* from a few years back was the centrality of the “mechanism of money” to “discussing problems of distribution” (Keynes, 1930B, p. 7). Keynes developed this insight in preparation for his *General Theory* by identifying “the use of money” as “a necessary condition for fluctuations in effective demand” (Keynes, 1933, p. 86). The reason for effective demand tending to be more in deficiency than in excess (thus pushing M to be greater than M’) is “the fact that the money in terms of which the factors of production are remunerated will ‘keep’ more readily than the output which they are being remunerated to produce, so that the need of entrepreneurs to sell, if they are to avoid running loss, is more pressing than the need of the recipients of income to spend” (ibid). Herein lies the emergence of “liquidity preference” as a core concept in Keynes’s theory.

Keynes is assembling the building blocks of a theory to properly understand distribution in an entrepreneur economy in which profit is the engine of production and growth but not the source of ultimate wellbeing, this being spending. Understanding money first and foremost, hence liquidity

Piero Sraffa, was dominated by discussions of the “widow’s cruse” and the “Danaid jar” during the academic year 1930-1931 (Kahn, 1984, p. 106).

⁶ Keynes defines quasi-rent as “the excess of the sale proceeds of output over its variable cost” (Keynes, 1933, p. 108).

⁷ C refers to “Commodity”, M to “Money” with C’ being greater than C, and M’ being greater than M (ibid, p. 81).

preference, and then propensities to consume and save across individuals is paramount to aptly describe and analysis this type of economy, which is why Keynes's original title for his magnum opus was "The Monetary Theory of Production" (ibid, p. 49).

In one of his most inspired passages of this period Keynes draws out implications more far reaching than those Kaldor identified as coming closest to formulating a theory of distribution. He remarks that:

"It is a curiosity in the history of economic theory that the heretics of the past hundred years who have, in one shape or another, opposed the formula $M—C—M'$ to the classical formula $C—M—C'$, have tended to believe *either* that M' must always and necessarily exceed M or that M must always and necessarily exceed M' , according as they were living in a period in which one or the other predominated in actual experience. Marx, and those who believe in the necessarily exploitative character of the capitalist system, assert the inevitable excess of M' ; whilst Hobson, or Foster and Catchings, or Major Douglas who believe in its inherent tendency towards deflation and under-employment, assert the inevitable excess of M . Marx, however, was approaching the intermediate truth when he added that the continuous excess of M' would be inevitably interrupted by a series of crises, gradually increasing in intensity, or entrepreneur bankruptcy and underemployment, during which, presumably, M must be in excess. My own argument, if it is accepted, should at least serve to effect a reconciliation between the followers of Marx, and those of Major Douglas, leaving the classical economists still high and dry in the belief that M and M' are always equal!" (ibid, pp. 81-82).⁸

The fundamental inequality that Keynes builds his analysis up from between "aggregate expenditure and aggregate costs" can be overcome from a menu of "practical [means] to keep an entrepreneur economy in a neutral condition"—i.e. in a state of sufficient effective demand for full employment. Keynes lists "loan expenditure by the government" (i.e. public deficit spending), "a lowering of the rate of interest", and the option that "[i]ncome might be redistributed so as to fall, increasingly or decreasingly, into the hands of individuals more likely to expend it" (ibid, p. 95). The references to both J. A. Hobson and income redistribution in the above passages are particularly noteworthy. The conventional view seems to be that Keynes was hostile to Hobson's theory or was actively seeking to politically distance himself from likes of him (Milanovic, 2023, p. 252), and that his theory of unemployment had "no explicit distributional implications" contrary to Hobson's (Skidelsky, 2023). There are at least two reasons to counter this belief.

First, it is not correct from the written evidence that Keynes avoided taking the side of under-consumptionists when he explicitly acknowledged their correct (even if obscure and imperfect) diagnosis in chapter 23 of the *General Theory* where he deals with "theories of under-consumption" (Keynes, 1936A, p. 371). This is also evident from the quote reproduced above referring to Marx and Hobson. Moreover, in a written correspondence with Hobson in February 1936 after having sent him a copy of the *General Theory*, Keynes admits: "I am ashamed how blind I was for many years to your essential contention as to the insufficiency of effective demand" (Keynes, 1936B, p. 211). This was a week after having received a letter from Hobson in which he states that "I hope that my mind is not closed to the acceptance of new reasoning such as you have put in a volume which may, I hope, revolutionise economic science" (ibid, p. 209).

Second, that Keynes could have opted for income redistribution but instead chose "the easier and better option" of government spending (Milanovic, 2024) can be appreciated to be false. And it is not only in

⁸ It is perhaps this passage that gives the necessary context to Keynes's belief, expressed in a letter to George Bernard Shaw in January 1935, that "[w]hen my new theory has been duly assimilated and mixed with politics and feelings and passions, I cannot predict what the final upshot will be in its effect on actions and affairs, but there will be a great change and in particular the Ricardian Foundations of Marxism will be knocked away" (quoted in Davidson, 2007, p. 18).

the early drafts of the *General Theory* from which this can be concluded. In the final published draft of his book, in the chapter dealing with how his theory can explain the “trade cycle”, Keynes clearly accepted that “even if we were to suppose that contemporary booms are apt to be associated with a momentary condition of full investment or over-investment in the strict sense, it would still be absurd to regard a higher rate of interest as the appropriate remedy. For in this event the case of those who attribute the disease to under-consumption would be wholly established. *The remedy would lie in various measures designed to increase the propensity to consume by the redistribution of incomes or otherwise*; so that a given level of employment would require a smaller volume of current investment to support it” (Keynes, 1936A, p. 324, emphasis added).

What is notable in the above citation is his *contextual* reasoning. In a situation where resources are fully employed and there is a lack of investment opportunities from capital abundance, consumption would need to be promoted by the redistribution of income to those with higher consumption propensities. He judged that the “important schools of thought” that universally identify a “chronic tendency” to “under-employment” from “under-consumption” “may lay a little too much emphasis on increased consumption at a time when there is still much social advantage to be obtained from increased investment” (ibid, pp. 324-325). Hence his belief in his theory “serving to effect a reconciliation” between the likes of Marx and Hobson (Keynes, 1933, p. 82). This flexibility allows him to accept that “it is unlikely that full employment can be maintained, whatever we may do about investment, with the existing propensity to consume”, such that policies to increase the propensity to consume, like the redistribution of incomes, should be supported (Keynes, 1936A, p. 325).

Against this evidence, why Keynes would think advocating for income redistribution is politically risky and unacceptable in 1936 compared to increasing government spending, as Milanovic contends, is not clear. We are in the years of the US New Deal, European Popular Front, social-democratic, and national socialist governments. In the UK, the Labour Party was on an upward trajectory. Was Keynes concerned about the “academic acceptance of his theories” if he were to push for redistribution? This seems unlikely from a reading of his written correspondences with economists. But as we saw, Keynes does not hide his view that the intuitions of heretics like Hobson were on the right track, differing in the emphasis put on overinvestment and in the underestimation of the excess of M’ over M.

According to Milanovic in his article, the passages just highlighted from chapter 22 on the trade cycle are “the furthest that Keynes has come in the entire book to acknowledging a role for income distribution” (Milanovic, 2024). A critical detail is that “the chapter is not in the main part of the book, but in “Short Notes Suggested by the *General Theory*”, rather sundry reflections stimulated by Keynes’s writing of the main text” (ibid). As noted in the previous section, this demotion of income distribution was first observed by Hans Staehle in his article from 1937, whom Milanovic cites to back up his claim on the redundancy of chapter 22. Staehle’s accusation of Keynes’s neglect of income distribution in the section of the *General Theory* on the propensity to consume is inaccurate. As listed in section 2 above, Keynes considers six objective factors that influence the aggregate propensity to consume in chapter 8 of his book, among which the distribution of income is highly relevant and explicit.

For example, the first factor listed is “a change in the wage-unit” which impacts the factor income distribution as recognised by Keynes’s detractors. Consumption is a function of an individual’s real income, which varies “with the amount of his command over labour-unit [employment], *i.e.* with the amount of his income measured in wage-units” (Keynes, 1936A, p. 91).⁹ Here we have a direct impact of an increase in the wage rate on consumption, but there is also the indirect impact on consumption of

⁹ Wray (1999) argues, based on Keynes’s “Chapter 4. The Choice of Units”, that this “labour-unit” is Keynes’s objective standard of value, bringing him close to Marx’s theory of value. Specifically, “taking an hour’s employment of ordinary labour as our unit and weighting an hour’s employment of special labour in proportion to its remuneration; *i.e.* an hour of special labour remunerated at double ordinary rates will count as two units” (Keynes, 1936A, p. 41).

a change in wages on “the change in distribution of real income between entrepreneurs and rentiers” (ibid, p. 92) —the distributional change that Staehle (1937) cites in his critique.¹⁰ A change in the factorial distribution of income is also present in the factor “windfall changes in capital-values” which affect “the consumption of the wealth-owning class” (Keynes, 1936A, pp. 92-93). Inter-personal distribution (or size-distribution) is certainly implied in the factor “changes in fiscal policy”. Such changes are deemed more important than changes in the rate of interest, particularly concerning “income taxes, especially when they discriminate against ‘unearned’ income, taxes on capital-profits, death-duties and the like”. Crucially, he states that “[i]f fiscal policy is used as a deliberate instrument for the more equal distribution of incomes, its effect in increasing the propensity to consume is, of course, all the greater” (ibid, pp. 94-95).

In the subsequent chapter on the subjective factors determining the propensity to consume, the eight motives presented have large cross-sectional variation according to “institutions ... education, convention, religion and current morals, according to present hopes and past experience, according to the scale and technique of capital equipment, and according to the prevailing distribution of wealth...” (ibid, p. 109). These are slow-moving, long-run, path-dependent secular characteristics of an economic society. At any given time, therefore, economic inequality is based on what it was in the immediately preceding period. For someone interested in fixes to short-run dynamics this is in keeping with a view of relative short-term stability of inequality. Thus, “[i]n so far as the distribution of wealth is determined by the more or less permanent social structure of the community, this also can be reckoned a factor, subject only to slow change and over a long period, which we can take as given in our present context” (ibid, p. 110).

This stability in the distribution of wealth should not be confused with a fixed and irrelevant distribution of income. Particularly as the latter relates to the fundamental concepts of the propensity to consume and the multiplier. According to Milanovic: “[a]s the most obvious place for [inequality] in the Keynesian system, there could have been a discussion of its affecting the aggregate marginal propensity to consume, and hence determining the multiplier” (Milanovic, 2023, p. 218). Yet, in chapter 10 of the book, Keynes is explicit about the role of income distribution in working with the multiplier to produce key new insights. If “aggregate income in terms of wage-units is increasing”, the public’s “effort to consume a part of their increased incomes will stimulate output until the new level (*and distribution*) of incomes provides a margin of saving sufficient to correspond to the increased investment” (Keynes, 1936A, p. 117, emphasis added). The “Keynesian system” precisely says that all changes to the consumption of income influences the distribution, and all changes to the distribution of income influences consumption. This insight is further illustrated in the example given of a hypothetical redistribution of employment in favour of capital-goods industries from an increase in aggregate investment, causing increased incomes there to be consumed, driving up prices of consumption-goods until a new equilibrium is reached “partly by a redistribution of income in favour of the saving classes as an effect of the increased profits resulting from the higher prices”, which leads to a “reduction of the marginal propensity to consume, *i.e.* of the multiplier itself” (ibid, p. 123-124). One does not have to overly read into Keynes’s mind to ascertain that the “saving classes” are indeed those with higher total incomes. The size-distribution of income thus matters for Keynes.

2.3 ‘Concluding Notes’ to the *General Theory*: a coherent policy programme related to inequality

It may still be tempting to argue that Keynes’s treatment of inequality is predominantly factorial, as in between the profits of capitalists (high-savers) and the wages of workers (high-consumers). While this is important in his theory, the size-distribution of income matters given the (greater) correlation between the personal distribution of income and its factorial distribution. Perhaps the clearest statement of the importance of inequality in the *General Theory* is the final chapter ‘Concluding Notes on the Social

¹⁰ Keynes does not elaborate how this channel could affect consumption, but one could speculate that it would be through entrepreneurial investment being spurred with increases to the wage-unit.

Philosophy towards which the General Theory might Lead’, which in the words of the pioneering under-consumptionist J. A. Hobson, “are exceedingly impressive indicators of a social economic policy” (quoted in Keynes, 1936B, p. 209). The three opening lines are crystal clear on the propose, but many seem to have not read beyond the famous first line:

“The outstanding faults of the economic society in which we live are its failure to provide for full employment and *its arbitrary and inequitable distribution of wealth and incomes*” (Keynes, 1936A, p. 372, emphasis added).

Keynes subsequently admits that “the bearing of the foregoing theory on the first of these is obvious. But there are also two important respects in which it is relevant to the second” (ibid). What Keynes offers here should be itself sufficient to prove the relevance of inequality in his system. His theory relates to the distribution of wealth and incomes in that the existing economic society —the capitalist entrepreneur economy— is prone to under-employment, that is, it fails to satisfy the condition of a neutral economy as the level of aggregate demand tends to lag the costs of current supply. The first of the important respects Keynes explains is precisely a re-statement of the need to redistribute income to increase the propensity to consume and foment the growth of societal wealth, particularly when the level of employment is below the level of full employment. In a passage that shows the distance he had travelled since the *Economic Consequences of the Peace* seventeen years earlier he comments that:

“[s]ince the end of the nineteenth century significant progress towards the removal of very great disparities of wealth and income has been achieved through the instrument of direct taxation [...] Many people would wish to see this process carried much further, but they are deterred by two considerations; partly by the fear of making skilful evasions too much worth while and also of diminishing unduly the motive towards risk-taking, but mainly, I think, by the belief that the growth of capital depends upon the strength of the motive towards individual saving and that for a large proportion of this growth we are dependent on the savings of the rich out of their superfluity. Our argument does not affect the first of these considerations. But it may considerably modify our attitude towards the second. For we have seen that, up to the point where full employment prevails, the growth of capital depends not at all on a low propensity to consume but is, on the contrary, held back by it; and only in conditions of full employment is a low propensity to consume conducive to the growth of capital. Moreover, experience suggests that in existing conditions saving by institutions and through sinking funds is more than adequate, and that *measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital.*” (ibid, pp. 372-73, emphasis added).

The conventional wisdom instructed that the growth of wealth was dependent on the savings of the rich, as Keynes (1919) outlined. But now the enrichment of a society “is more likely to be impeded by it.” Looking ahead, this means that “[o]ne of the chief social justifications of great inequality of wealth is, therefore, removed” (Keynes, 1936A, p. 373). Inequalities may be justified on some social and psychological grounds, but —and this is crucial— economically, “such large disparities as exist today” are not (ibid, p. 374).

The second implication Keynes offers for thinking about distribution is his theory of the rate of interest and what it means for “future inequalities of wealth”. It builds on the relationship between investment and savings and from the under-employment tendency of capitalist economies. Under these conditions there will be downward pressure on the interest rate such that it will fall below the “marginal efficiency of capital” (i.e. the return to capital investment). With greater capital accumulation, returns will fall, dragging the interest rate down, also to stimulate the aggregate propensity to consume. This would mean the “euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital” (ibid, p. 376). As Keynes recognizes, there is nothing “intrinsic” about “the scarcity of capital”. In the private sector, capital may be made scarce if

under full employment there is no decrease in the propensity to consume and increase in the propensity to save to make room for new investment without prices rising to absorb the increased expenditure. However, the state can always maintain an adequate level of investment (and changes to the propensity to consume using fiscal policy) to eliminate the scarcity-value of capital, a point re-emphasised by Minsky (1975) in his influential interpretation of Keynes.

The implications for fiscal policy expressed through the trade-off between “the propensity to consume” and “the inducement to invest” (the titles of two core sections of the *General Theory*), that is, “how far the common will, embodied in the policy of the State, ought to be directed to increasing and supplementing the inducement to invest; and how far it is safe to stimulate the average propensity to consume, without foregoing our aim of depriving capital of its scarcity-value within one or two generations” (Keynes, 1936A, p. 377) The means for doing both are in the state’s “central controls”—government spending and taxation. Keynes envisages a “large extension of the traditional functions of government” towards a generalized decommodification of economic activities when arguing that:

“[t]he State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat *comprehensive socialisation of investment* will prove the only means of securing an approximation to full employment” (ibid, p. 378, emphasis added).

In step with his theory, the type of redistribution central to Keynes’s vision of the future is extended to the international economy. In the same chapter he argues for re-balancing the propensity to consume and the inducement to invest at the global level through the functions of an international public institution that would overcome the arbitrary scarcity of capital, i.e. international currency reserves (ibid, pp. 380-83). This is a vision Keynes would carry forward into his plan for Bretton Woods (Keynes, 1943A). More importantly for our purposes is the coherence between national and international visions of inequality, which can only really be connected if one has an integrated theory of economic aggregates and distribution.

Keynes is effectively pushing a functional theory of distribution. Here ‘functional’ should not be understood as source types of income, but rather as the results of distributional changes on the economy.¹¹ This differs from an idealistic theory of distribution, where the state of the economy serves *a priori* optimal distributional ends.¹² Such *a priori* levels of inequality, Keynes would argue, cannot be known without points of reference, and these are determined by “historical influences as gradually modified by contemporary social and political forces.” (Keynes, 1930A, p. 113). Rather his approach is one that sets targets for key aggregate variables of the economy, whose inter-relations in the monetary system of production reveal the implied distributional changes needed to reach or maintain them.

2.4 The conundrum of stable factor shares to be explained

Milanovic expresses “little doubt that Keynes, under the best and the most favorable interpretation, had no interest in income distribution because he believed that—at least analytically—it can be taken as fixed in its functional and interpersonal aspects” (Milanovic, 2024). This is a reference both to Keynes’s apparent omissions in the *General Theory*, which we have argued are incorrect, and to his 1939 article on the ‘Relative Movements of Real Wages and Output’. As highlighted in section 2, Krämer (2011) attributes Keynes prime responsibility for the widespread belief in constant factor shares, that is the relative share of labour (and thus capital) in national income, a view Milanovic uses as proof of there

¹¹ This resembles Abba Lerner’s theory of “functional finance” related to fiscal policy (Lerner, 1943). The fact that Lerner was heavily influenced by Keynes’s theory is not a minor point.

¹² This view can be found, for example, in Piketty (2014).

being no place for inequality in Keynes's economics. However, a careful reading of both Krämer's article and Keynes's reveals important nuances, and in the case of the latter, a consistency with *The General Theory* and earlier writings.

A result of the 1939 investigation is his rejection of the "first classical postulate" based on the economy not being at full employment. The inverse relationship between real wages and output he inherited from his classical professors no longer held in an economy below capacity. This meant, theoretically at least, that there would be changes in the distribution between wages and profits in the economy. Keynes cites empirical work that shows a great variety of experience in the relationship of real wages and output/employment during recoveries, which confirms his belief that institutions affecting the distribution vary according to "historical and social forces" and produce different results across countries and over time (Keynes, 1930A, and 1936A, chapter 9). What concerned him was figuring out the factors responsible for the decline in employment empirically. Was it due to higher real wages or lower prices from lower demand? The new conclusions from the empirical literature suggested that there was no falling tendency of real wages in periods of rising demand and prices, which was a result that cohered better with his *General Theory*. He claimed, therefore, that "the warnings of the anti-expansionists need cause us less anxiety" when advancing on the road towards full employment (Keynes, 1939, p. 41).

However, these results are not sufficient evidence in themselves. Keynes requested "if the statisticians could show in detail in what way gross profit per unit of output changes in different industries with a changing ratio between actual and capacity output. Such an investigation should distinguish, if possible, between the effect of increasing output on unit-profit and that of higher costs in the shape of higher money wages and other expenses. If it should appear that increasing output as such has a tendency to decrease unit-profit, it would follow that the policy suggested above [planned expansionist policy] is actual as well as professed" (ibid, p. 47). Keynes was ultimately interested in affecting the quantities of real resources employed and so needed to know in what way prices reacted. The stability of relative prices from offsetting forces operating in different directions could be a reason for the "statistical phenomenon which [...] confirms the probability of constant or diminishing, rather than increasing, profit per unit of output when output increases." This phenomenon is the stability of the share of wages in national income, apparently independent of the level of total output, which Keynes reproduces from Kalecki's estimates, judged to be the best available at the time. He also adopts Kalecki's explanations for this stability, sourced in a combination of imperfect market competition, prices of foreign raw materials, and wage costs, which when taken together "for reasons which are not yet clear [...] have no significant influence on the distribution between labour and capital of the income resulting from the output" (ibid, p. 50).

The fact that Keynes called for "further statistical enquiry [...] before we have a firm foundation of fact on which to reconstruct our theory of the short period" (ibid, p. 51) is a testament to his scepticism surrounding fixed distributions. Moreover, Milanovic's charge that Keynes's belief in a fixed factor share distribution meant that he must have believed the inter-personal distribution to be fixed also does not logically follow, as he himself makes out: "the factoral income distribution can be stable while changes occur in the distributions of both wage incomes and incomes from property" (Milanovic, 2023, p. 217). In any case, Keynes's 1939 article does not invalidate the role that he gave inequality in his prior work. If anything, it is asking the necessary empirical questions to inform his functional theory of distributional macroeconomics.

4. Why Keynes? Towards an "Economics of Enough"

Inequality is best analysed when embedded in a holistic functional theory that begins with the role of money, liquidity, profit, and effective demand in a capitalist entrepreneur economy with double-entry

bookkeeping. Keynes offers us this framework from which to build on. What is interesting is that he himself does so in the final five years of his life when called to the fore to advise on how to manage the British war economy and its aftermath. His excursions at this stage of his personal development offer us invaluable lessons for thinking about economic policy within ecological limits for the twenty-first century, or what Chick and Freeman (2018) call an “economics of enough”.

In *How to Pay for the War* the economy that Keynes had spent so long analysing is suddenly facing an extreme version of the propensity-to-consume—inducement-to-invest trade-off that he exposed in his *General Theory*. The constraints of the war are clear, and Keynes is candid about them from the outset. “Every use of our resources is at the expense of an alternative use. And when we have decided how much can be made available for civilian consumption, we have still to settle the thorniest question of all, how to distribute it most wisely” (Keynes, 1940, p. 2). “This is a great change from peace-time experience” —where growth can lead to increased output for consumption— a reference to the fact that this is not the context for which Keynes developed his theory originally (ibid, p. 4). The character of this challenge arises in a “free community”, not in a “totalitarian state” where “the problem of the distribution of the sacrifice does not exist” (ibid, p. 7). It is to a democratic society that Keynes is addressing his proposals. But what first needs to be presented is an analysis of the conceptual framework that he developed in the *General Theory* applied to binding physical constraints in the short run. Otherwise “prices must rise until the available goods are selling at figures which absorb the increased quantity of expenditure” (ibid, p. 8). Given the inflationary risk, a central motivating question is to calculate whether the volume of “voluntary savings can be sufficient” to offset the pressure on consumption-resources from the war effort (ibid, p. 9). The result is a pioneering “analysis of the national potential and of the distribution of the national income” (ibid, p. 9), using the best data available assembled with the aid of his contemporaries.

How to Pay for the War is not only one of the first applications of modern national accounting¹³, but also arguably the first modern exercise in *distributional* national accounting. This accolade has commonly been attributed to Simon Kuznets’s monumental *Shares of Upper Income Groups in Income and Savings* from 1953 (Kuznets, 1953; see Piketty, Saez and Zucman, 2018). Kuznets’s study focused on the United States and on computing top income shares using data from federal income tax records combined with newly estimated national accounts series (Kuznets, 1941). However, his approach only distributed taxable income, leaving any tax-exempt income out of the numerator. Keynes, on the other hand, exploits Colin Clark’s estimates of national income for Britain to compute new figures for total national output measured at money cost of private consumption, government expenditure, and private investment, as well as estimates of the distribution of private incomes and expenditures across individual income groups, from the work of E. Rothbarth of the Statistical Department at Cambridge University. Notably, the income distribution includes undistributed income (private savings) accumulated through “Building Societies, Life Offices, Superannuation Funds, the undistributed profits of companies...and other institutional channels” (Keynes, 1940, p. 24), which “are included as part of the income of the individuals owning them” (ibid, p. 82).¹⁴

In Chapter IV of the book Keynes presents estimates of “how the national income is distributed between different income-groups”, including the pre-war distribution of incomes and taxes, and the distribution

¹³ Skidelsky (2000) explains how the British Treasury’s budget of 1941 was the first “Keynesian” budget in that it was based on the adoption of the national accounting framework that some of Keynes’s students and close acquaintances —notably James Meade and Richard Stone— were instrumental in developing from his ideas. As Philipp Lепенies notes: “After reading *How to Pay for the War*, [Austin] Robinson pushed the War Cabinet to commission an estimate of national income, using the new Keynesian method, so as to plan the war activities. The Treasury appointed two employees to the task: James Meade and Richard Stone.” (Lепенies, 2016, p. 50).

¹⁴ This is a remarkable antecedent of the distributional national accounts (“DINA”) project led by the *World Inequality Database* (WIL, 2024), in which the undistributed profits of corporations are imputed in the same way. Note that this is contrary to the approach of the OECD who only account for the distributed income received by households (OECD, 2024).

of the increase during the war, across three income groups. These figures are reproduced in Table 1. Keynes comments how the class receiving less than £250 per year “accounts for about 88 per cent of the population, for more than 60 per cent of the total personal incomes of the country after allowing for war increases (due to greater output but allowing nothing for higher wage-rates) and deducting pre-war rates and taxes, and for about two-thirds of current consumption” (ibid, p. 26). This implies, alongside other population statistics offered, that the class receiving £250-£500 per year account for 8 per cent of the population and the class above £500 per year make up 4 per cent. Their income growth increased by 15 per cent, 16 per cent, and 18 per cent respectively, meaning that the first year of the war increased inequality.¹⁵ Taxes, on the contrary, are estimated to be broadly progressive, counteracting the inequality in favour of the richer class by deducting proportionally more income than for the other classes. Savings meanwhile are highly concentrated among the richer class (58% of all personal savings coming from the top 4% of the population).

[Table 1 here]

The reason why this knowledge is “a matter of the first importance” (ibid, p. 22) is that the demands for war production will lead to product shortages due to competition for resources at full employment, and, with increased quantity of expenditure, to inflation. As Keynes reminds readers: “it is physically impossible for the community as a whole to consume *now* the equivalent of their increased war effort. That is obvious. The war effort is to pay for the war; it cannot also supply increased consumption” (ibid, p. 30). Hence, something must be done to “restrict spending power” (ibid, p. vi) if these outcomes are to be avoided. Keynes estimates that for this end “altogether £1,000 million of private income must be withdrawn from consumption” (ibid, p. 20).

The central question is how large the relative sacrifice of different income classes should be given their contribution to overall consumption and the principle of “social justice” (ibid, p. 22). The purpose of the analysis is to show that the current levels of taxes and voluntary savings are insufficient for the effort required to pay for the war. But it is also to illustrate that it is impractical and unrealistic to expect the relative sacrifice of limiting consumption to only come from the top 4%, or even top 12 %, given the income and consumption patterns across the full population. As Keynes rhetorically queries: “Is it seriously expected that those with less than £5 a week [less than £250 a year] will be allowed to increase their average consumption by 15 per cent, while all those with more than £5 a week [more than £250 a year] will be left on the average with only a quarter of their incomes to consume? The only question is, therefore, how large the contribution of this class must be, and how it can be obtained with least sacrifice and most justice” (ibid, p. 26). Keynes’s plan is to roughly withdraw half of the needed sacrifice through income and “Excess Profits” taxes (concentrated “on the income groups of £250 or more” through which consumption is foregone) and half through saving (the main part of the contribution of the lower income groups through which consumption is postponed). The central novel aspect of the plan is the compulsory component of the savings channel, what he refers to as “deferred pay” —in which a part of each person’s income is deferred, and thus their consumption postponed, until after the war, when production for consumption rather than for military reasons can increase.¹⁶

¹⁵ Percentage shares of income bear this out: pre-war the bottom 88% accounted for 55.4% of income, the middle 8% for 12.2% and the top 4% for 32.4%, while after the first year of the war the figures are 54.9%, 12.2% and 32.9% respectively. These are in line with Anthony Atkinson’s estimates for the top 10% and top 5% in 1937 (see Atkinson, 2007, p. 93). Note that Atkinson’s baseline estimates are also for gross personal incomes, without adjusting for undistributed income in institutional funds or corporations. Accounting for retained company profits increases the share of the top 1% by some four percentage points (Atkinson, 2007, pp. 100-1).

¹⁶ The portion of earnings deferred under the plan “would be placed to the credit of its owner as a blocked deposit in the friendly society or the approved institution selected by him, as proposed above, or, failing such choice, in the Post Office Savings Bank carrying interest at 2½ per cent compound interest” (ibid, p. 44). Keynes proposes that it could even be timed to be released at a point where additional purchasing power is needed —i.e. during “the first post-war slump” (ibid, p. 46)— a period of insufficient demand for produced supply.

There are two important distributional functions of this policy. One is that “rights to deferred consumption after the war, which is another name for the National Debt, will be widely distributed amongst all those who are foregoing immediate consumption, instead of being mainly concentrated, as they were last time, in the hands of the capitalist class” (ibid, pp. 10-11). Here, Keynes is referring to the inegalitarian concentration of war savings during the First World War, which would be avoided in this war. The second distributional function is that the rate of deferment will be fixed in proportion to income, to not depress the real consumption of anyone making less than £250 per year. A sharply progressive scale of deferment will be accompanied by a minimum exemption limit on deferred income (at 35s per week, or £91 per year, for the unmarried, and 45s per week, or £117 per year, for the married), partly fed by a lump sum family allowance of 5s per week (or £13 per year) for each child up to the age of 15. The distributional results of these provisions are shown in Table 2, dividing the distribution into the income class below £250 per year (i.e. the bottom 88%) and the class above £250 (i.e. the top 12%).

[Table 2 here]

In the presentation of the finer details of the plan, Keynes describes how the consumption of the lowest estimated income group (those with less than 75s a week, or £195 a year) would experience an increase in consumption, while those between £195 and £250 a week would experience a maintenance of aggregate consumption (with rights to deferred consumption after the war), while those with more than £250 a year would experience a reduction in their aggregate consumption by one third on average.¹⁷ Aiding the lowest income groups is a further provision of a cheap “iron ration”, a basket of a limited quantity of necessary consumption goods whose fixed price the authorities would explicitly target to ease cost of living pressures and thus Trade Unions’ demands for counterproductive wage increases. Overall, the average effective withdrawal rates of income and hence purchasing power (through taxes and deferred pay) are highly progressive, varying as Keynes shows in chapter V, from 0 per cent of for up to 45s weekly to 85 per cent for those receiving over £50,000 annually (that is, ten times the minimum income of the top 4%).¹⁸ An additional advised measure is “a general capital levy” introduced after the war to “to discharge the liability in respect of Deferred Pay” and to redistribute further the fruits of the war effort, for example a “veteran’s bonus” or “dealing with excess profits” (ibid, pp. 48-50). Keynes even suggests “that it might pave the way administratively for a permanent capital tax which would be a valuable addition to our fiscal machinery and has certain important advantages over income tax” (ibid, p. 49). These steeply progressive income tax rates and capital levy, as well as the “Excess Profits Tax”, are echoed at the very frontier of contemporary calls for tax reform as a means of promoting greater distributive justice (Landais, Piketty, and Saez, 2011; Piketty, 2014; Weber and Wasner, 2023).

Keynes is, therefore, very current in twenty-first century inequality debates. However, his vision is also current for thinking about the “economics of enough” (Chick and Freeman, 2018), particularly, as we argue, his vision of inequality.¹⁹ His analysis of how best to finance (make real resource space for) the war effort is testament to this. In a short-to-medium-run emergency, defining “enough” is dependent on supply constraints in the face of large-scale resource mobilization. Over a longer time horizon, such considerations rely on the nature of human needs. These are intermingled with the distribution of income and wealth. This was already brought out in Keynes’s 1930 article ‘Economic Possibilities for Our Grandchildren’ in which the fulfilment of absolute human needs, rather than relative needs, underlined the belief that capital could cease to be scarce. Attaining the full investment needed for capital to be

¹⁷ No population statistics are provided for the income class below 75s a week (or £195 a year), but we can speculate that they probably correspond to incomes within the poorest half of the population.

¹⁸ See Table A1 in the Appendix for the full reproduced table. According to estimates by Atkinson (2007), in 1940 the top 0.1% (some 25,000 individuals) had an average income of around £10,800 pounds, the top 0.05% (12,000 individuals) had an average income of £15,700 and the top 0.01% (2,500 individuals) had an average income of £35,300. For reference, “in 1944 the Duke of Wellington is reported to have had a gross income of £40,000 a year” (Atkinson, 2007, p. 97).

¹⁹ Chick and Freeman (2018) define the basic goal of an “economics of enough” as “to provide for enjoying the good things of life by ensuring needs are met”.

abundant requires both full employment —premised on a sufficient propensity to consume and a less inegalitarian distribution— and human wants limited around absolute needs.

Hyman Minsky critiqued Keynes’s prediction for the future as “a generalization of his own preferences”, which were formed by an Edwardian enlightenment that professed “non-economic purposes” as the highest civilized standard (Minsky, 1975, pp. 150-1). Because the consumption pattern of relative needs turned out to be more capital-intensive than assumed, the resulting competition for resources has brought about a scarcity of capital and an associated income distribution that promotes a conspicuous form of consumption that further exacerbates capital shortage (ibid, p. 152). Thus, there is a need to constrain the growth of relative needs —which requires “an income distribution based on low or no income from capital ownership” (ibid, pp. 152-53)— but also to ensure a stable population and lift the burdens of war. Keynes acknowledges that once this realisation is made, “[a]ll kinds of social customs and economic practices, affecting the distribution of wealth and of economic rewards and penalties, which we now maintain at all costs, however distasteful and unjust they may be in themselves, because they are tremendously useful in promoting the accumulation of capital, we shall then be free, at last, to discard” (Keynes, 1930C, p. 329). Keynes doubles down on this view in 1943 when commenting on a Treasury draft on the maintenance of investment after the war:

“I share the view, and I think [the Treasury] would, that, sooner or later, we shall be faced, if not with saturation of investment, at any rate with increasing difficulties in finding satisfactory outlets for new investment. It is very difficult to predict when this will come about. When it does come about, we shall then have to start on very important social changes, aimed at the discouragement of saving and a redistribution of the national wealth and a tax system which encourages consumption and discourages saving” (Keynes, 1943B, p. 360).

Chick and Freeman (2018) frame the “economics of enough” around the problem of “satiety” in line with ecological limits. This is pursued further in Michell (2023) who scrutinizes the implications that “the end of the age of abundance” has for macroeconomic policy in material terms. There is a familiarity to the nature of the current problem:

“The implication of the need to raise investment in the presence of supply constraints is that resources will need to be redeployed from the production of other goods and services. Some kinds of consumption (and potentially investment) will have to be prevented from increasing or even reduced in absolute terms to enable available productive capacity, commodities and carbon budgets to be directed towards necessary investment” (Michell, 2023, p. 377).

We would make the case that the relevance of *How to Pay for the War* is precisely to overcome the blind spots of a traditional progressive policy programme that Michell outlines emerge with tighter supply constraints imposed from the environment. These blind spots include growth driven by consumption-led and/or investment-led demand expansion, an endogenous supply side, an outdated meaning of full employment, the “hindrance” of the concept of the multiplier and associated redistributive policies. Then as now “it is physically impossible” for the global community to consume during the investment-transition “the equivalent of their increased war effort” (Keynes, 1940, p. 30). The temporal dilemma is that ecological tipping points may be breached before the needed investment yields a sufficient energy-saving and emissions-reducing return. Therefore, progressively applied restrictions on purchasing power like those Keynes proposed will likely be necessary.

This forces us to rethink the function of taxes and savings instruments from their traditional role in preventing “unsustainable growth in public debt and interest payments” through the mobilization of the multiplier (Michell, 2023, p. 380). In line with Keynes’s framework, taxes should be “paying for” a coordinated withdrawal of consumption during a transition period entailing a large redeployment of

resources across sectors. Focusing on the required task this also means, echoing Keynes, that it is not *only* the rich within countries that should pay, given the distribution of global greenhouse gas emissions that Michell (2023) presents.²⁰ Taxes should be used to influence behaviours indirectly by making certain goods or services more expensive (e.g. carbon-intensive) or less expensive (carbon-free), or directly, such as higher income and wealth taxes that remove purchasing power from individuals and windfall profit taxes removing it from firms, as well as tax deductions for long-maturity savings instruments that freeze purchasing power (Assa and Morgan, 2025).

The particularity of the supply constraints imposed by ecological limits is a distinct temporality of the threat as alluded to above. This makes proposals of deferred pay and progressive relative sacrifice less politically feasible as purchasing power may have to be constrained indefinitely, or for a considerably longer time horizon than the five years of WWII, at least in high-income countries. Thus, a more appropriate solution for the trade-offs involved than a “postponement” of consumption through “deferred pay” may be a socialisation of consumption through “decommodified pay” that expands citizenship rights to public services, which is advocated in Keynes (1930A, 1936A). Table 3 summarises distinct policy paradigms for thinking about macroeconomic variables in this context. Keynes (1940) updated Keynes (1936A) for the context of a fully employed war economy. This paper suggests that our task is to update Keynes for an “economics of enough” bound by ecological constraints.

[Table 3 here]

5. Conclusion

This paper has argued that scholars of both inequality (Milanovic, 2023) and of Keynes’s life (Skidelsky, 2023) have underestimated the extent to which Keynes’s vision of inequality matters. First, dismissing Keynes for not having an “integrative vision of inequality” is based on a very superficial reading of his contributions, particularly after the *Economic Consequences of the Peace*. These supposedly show that Keynes had no interest (thus narrative) nor conscience (thus theory) in integrating distributional concerns into his work, and hence politically avoided policies of redistribution for fear of being branded in the same category as the J. A. Hobson’s of the world (thus no empirics). Even when Keynes did indulge with empirical evidence on the distribution of income in his 1939 article, it is argued, he simply heeded to the “one of the best-established [facts]” in economic science, this being the stability of factor income shares, which he actively contributed to promote.

Our assessment of these claims produced an overview of his contributions to the great social question, an evolution of his thought from the psychological role of inequality in the *Economic Consequences of the Peace* to its weakening when considering the ‘Question of High Wages’, and subsequent inversion to an economic principle by the *Treatise on Money* and especially the preparation of the *General Theory*. Keynes had a narrative of how inequality is produced —out of past historical, social and political (thus conventional institutional) forces— but was more concerned with its impact on the economic path to full employment and afterwards. The latter is magisterially exposed in his pamphlet *How to Pay for the War* under circumstances —and these always matter in his thinking— radically different to those prevailing during the development of his theory, and yet fundamentally congruent to it. We argue that Keynes’s “functional theory of distribution” —in which inequality is instrumentalised for other ends— can be appreciated in the bridge he effectively made between the *General Theory* and *How to Pay for the War*. Excursions such as the empirical investigation of real wages and shares in-between both

²⁰ The middle-class in high-income countries are considerably above the carbon budget established by the Paris Agreement 2030 targets, but not by as much as the top 10% in these countries. On the other hand, the bottom 50% are at the limit of the carbon budget.

publications reinforce, rather than detract from, his quest to think about the macroeconomy distributionally.

Keynes's inequality critics are symptomatic of a tradition in economics that has been accustomed to view distribution as separate from macroeconomic aggregates. It has been especially pervasive in the empirical inequality literature, following in the footsteps of Pareto (1896) and Atkinson (1970). This tradition has been less influential in the post-Keynesian literature, where distribution has played a critical role. But as Kaldor reveals, hardly any dues are paid to Keynes himself. The point of this paper is not to underscore the important contributions of his followers, it is simply to reconsider Keynes's work as being integrative of distributional concerns, as well as being prescient for the present context. With tightening supply constraints induced by climate change, increasing geopolitical tensions, and binding decarbonisation, Keynes's integrative vision of inequality and macroeconomics he offers by the 1940s is both a sufficient and necessary blueprint for an "economics of enough".

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Tables

Table 1. Distribution of personal incomes, taxes and savings in Britain c. 1940, in million £

Income group	Below £250 (Bottom 88%)	£250-£500 (Middle 8%)	Above £500 (Top 4%)	Total (100%)
Pre-war income	2,910	640	1,700	5,250
War increase	425	100	300	825
Total war incomes	3,335	740	2,000	6,075
Pre-war rates and taxes	390	50	780	1,220
War incomes less taxes	2,945	690	1,220	4,855
Minimum voluntary savings	50	75	175	300
War incomes less taxes and savings	2,895	615	1,045	4,555

Source: Authors' adaptation from Keynes (1940), pp. 22-26.

Table 2. Distribution of the war burden, in million £

Income Group	Below £250 (Bottom 88%)	Above £250 (Top 12%)	Total (100%)
Increased Taxes	150	350	500
Deferment of Earnings	250	350	600
Loss through relative rise in the cost of living	125	50	175
Total war burden	525	750	1275
Less increase in war incomes	425	400	825
Total war burden, net of increased war incomes	100	350	450
Less family allowances	100	—	100
Decrease in real consumption	0	350	350

Notes: author's reproduction from Keynes (1940), p. 37, with the addition of the percentile groups to which each income class corresponds.

Table 3. A taxonomy of policy paradigms and distributional implications

(Neo)Classical	Keynes (1936) + post-Keynesian	Keynes (1940)	Keynes for an "economics of enough"
Exogenous money	Endogenous money	”	”
D → L	L → D	”	”
S → I	I → S	”	”
T → G	G → T	”	”
X → M	M → X	”	”
Fixed employment	Variable employment	”	”
Fixed capacity (Say's law)	Fixed capacity (prone to excess)	Constrained capacity (physical limits)	”
Absolute fiscal space (government revenues)	Relative fiscal space (demand)	Relative fiscal space (demand and supply)	”
No distributional conflict (marginal productivity theory)	Distributional conflict addressed with incomes policy to ensure sufficient effective demand	Distributional conflict addressed with deferred pay, taxation, rationing, price controls to ensure equity in the war effort	Distributional conflict addressed with decommodified pay, taxation, rationing, price controls to ensure abundance of absolute needs within planetary boundaries

Source: author's elaboration, using elements from Michell (2023) and Assa and Morgan (2025). D refers to Deposits; L to Loans; S to Savings; I to Investment; T to Taxation; G to Government expenditures; X to Exports; M to Imports.

Appendix

Table A.1. Average effective withholding rates for deferred income and taxes

Income Level	Tax Rate	Approximate Income Class
Up to 45/- weekly	0%	
At 50/- weekly	3.5%	
55/- weekly	6%	Bottom 88%
60/- weekly	8.75%	
80/- weekly	15.33%	
100/- weekly	19.25%	
£300 annually	21%	Middle 8%
£400 annually	25%	
£500 annually	27%	
£700 annually	29%	
£1,000 annually	35%	
£2,000 annually	37.5%	
£5,000 annually	53.5%	Top 4%
£10,000 annually	60%	
£20,000 annually	64%	
£50,000 annually	75%	
Over £50,000 annually	85%	

Note: “/-” refers to shillings (s). “£” refers to pounds. £1 = 20s. The first two columns are reproduced from Keynes (1940), p. 40. The numbers refer to the case of a married man with no young children. The final column has been added by the author based on Keynes’s figures in the text.