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THE VIEWS OF JOHN MAYNARD KEYNES ON THE CONCEPT OF MANAGEMENT OF PUBLIC DEBT LIABILITIES

Effective management of public debt is a major problem that has arisen in the current market conditions at the stage of economic development. This article reviews the main views of John Maynard Keynes's policy on debt management and macroeconomic factors that directly affect the economic effect of this policy. Also in the article the characteristics of Post-Keynesian theory and highlight the advantages and disadvantages of this theory because of the burden of public debt.
Keywords: management of public debt, John Maynard Keynes, GDP, Post-Keynesian theory, interest rates, macroeconomic indicators.

Босенко О.С. ПОГЛЯДИ ДЖОНА МЕЙНАРДА КЕЙНСА НА КОНЦЕПЦІЮ УПРАВЛІННЯ ДЕРЖАВНИМИ БОРГОВИМИ ЗОБОВ'ЯЗАННЯМИ
Ефективне управління державними борговими зобов'язаннями є основною проблемою, що виникла в сучасних ринкових умовах на етапі економічного розвитку держави. У статті розглянуто основні погляди Джона Мейнарда Кейнса щодо політики управління державним боргом та макроекономічні фактори, що прямо впливають на економічний ефект даної політики. Також у статті наведені характеристики Пост-Кейнсіанської теорії та висвітлено переваги та недоліки даної теорії з огляду на тягар державного боргу.
Ключові слова: управління державними борговими зобов'язаннями, Джон Мейнард Кейнс, ВВП, посткейнсіанська теорія, відсоткові ставки, макроекономічні індикатори.

Босенко А.С. ВЗГЛЯДЫ ДЖОНА МЕЙНАРДА КЕЙНСА НА КОНЦЕПЦИЮ УПРАВЛЕНИЯ ГОСУДАРСТВЕННЫМИ ДОЛГОВЫМИ ОБЯЗАТЕЛЬСТВАМИ
Эффективное управление государственными долговыми обязательствами является основной проблемой, возникшей в современных рыночных условиях на этапе экономического развития государства. В статье рассмотрены основные взгляды Джона Мейнарда Кейнса относительно политики управления государственным долгом и макроэкономические факторы, прямо влияющие на экономический эффект данной политики. Также в статье приведены характеристики Пост-кейнсианской теории и освещены преимущества и недостатки данной теории, учитывая бремя государственного долга.
Ключевые слова: управление государственными долговыми обязательствами, Джон Мейнард Кейнс, ВВП, посткейнсианская теория, процентные ставки, макроэкономические индикаторы.

Formulation of the problem. The issue of public debt in the Ukrainian legislation is considered sufficient surface, which in turn can cause many problems, ranging from forecasting the main macroeconomic indicators of socio-economic development of both regions and the whole country and ending with accounting issues in terms of public debt. Basic methods of debt management do not meet modern realities of the market economy and not able to answer the question of rational management of public liabilities by reducing their size to good. Relying on the opinions of outstanding scientist such as John Maynard Keynes can identify the key aspects of the management of public debt liabilities, implementation of which will make it possible to determine the only effective method of public debt management.

Analysis of recent of research and publications. The problem of public debt is quite explored in Western literature. Considerable attention to research of public debt and the consequences of its existence paid R. Barro, J. Buchanan, A. Lerner, R. Musgrave, John. M. Keynes, P.E. Samuelson, F. Modigliani, J. Stiglitz, etc. This issue is of particular relevance among local researchers, namely: S. Londar V. Basko, O. Vasylyk, T. Vakhnenko, V. Heytsya., V. Kozyuka, A. Kucher, V. Lisovenko, Novosad L., A. Plotnikov, V. Fedosova and others. The study features the transformation of the macroeconomic environment in which growing national debt and the issue of public debt in transition T. Vakhnenko paid attention, Y. Gaidar, E. Zaruba, Z. Lutsyshyn, B. Lissitzky. The problem of public debt management considered A. Vavilov, G. Trofimov, T. Bondaruk. Analysis of public debt in the context of national security contained in the writings of A. Baranovsky.

Setting objectives of the article. Identify the main approaches to the management of public debt liabilities given in scientific writings of John Maynard Keynes.

The main material of research. The evolution and growth public debt has been a central issue in economy. The formal analysis of public debt has focused upon concepts of sustainability and optimality of the trajectory of the stock of outstanding public debt, and the associated sustainable or optimal path of the public sector budget balance.

Noting the significant influence of scientists in the development of scientific theories on public debt management, today in Ukraine there are not scientific and practical research designed to provide theoretical and practical base decisions on debt management at such a high debt load established. Debt policy of our country at the present stage is characterized by a lack of systematic, planned character and the process of adjustment of public debt – the lack of efficiency in the use of various elements of the existing administrative mechanism. In the planned study will be studied ways to improve the various components of the mechanism of debt management and are reasonable measures to stabilize and reduce the debt burden on the budget and economy of Ukraine while increasing the efficiency of using borrowed funds.

Public debt management is accompanied by a number of problems ranging from the understanding of this notion of government debt in Ukrainian legislation that does not contribute to a realistic prediction of key macroeconomic indicators of socio-economic development, structuring debt problems, problems of accounting and reporting of public debt. Public debt management should be understood as a set of government measures related to the issuance and repayment of public debt, the definition of interest rates and the payment of interest on government securities, setting limits debt, maintaining the course of government obligations, determining the conditions of issue of new government securities.

The policy of debt management a mandatory component of ongoing financial policy and an important component of macroeconomic regulation. The strategic objective of debt management – to ensure the necessary volume of liquid funds and general government to minimize the costs associated with risk management, repayment and servicing of public debt; creating conditions of macroeconomic stability in the short and the long term. Basic principles of public debt management – is to optimize the structure of public debt; minimizing the cost of servicing the public debt; minimizing the risks associated with this debt; promotion of domestic government borrowing.

Among the negative effects associated with the increase in state debt, it is worth noting the following:

- instability of exchange rates, which may affect the enforceability of obligations in due time;
- discrepancy currency borrowings and currency of the main assets of the entity;
- increase public expenditure without a corresponding increase in revenues;
- low liquidity in global financial markets, which may reduce opportunities for restructuring;
- tax cuts to stimulate the economy without appropriate adjustment (reduction) of public spending [1].

Deep research on the formation and management of public debt outstanding scientists engaged in the twentieth century, namely John Maynard Keynes.

The question of sustainable or desirable public debt trajectories has long been a motif of debate and controversy around Keynes's economics; and the financial crises of 2007 forward have naturally revived Interest in the issue – partly due to a consequent revival of interest in Keynes's thought in general, partly due to deterioration in public sector balance sheets in the course of those financial and wider economic crises. The purpose of what follows to explore Keynes's views on public debt, in relation to the novel and unorthodox theory of aggregate economic activity levels that he embraced from about 1932.

Keynes of course was very considerably engaged in policy debates prior to the 1930s, including public debt issues. Indeed, The Economic Consequences of the Peace (1919) – the book that first made Keynes a major public figure in policy debates – was about sustainability of public or national debt, albeit of a very special kind. But the public debt views of the pre-1930s Keynes might be misleading to the extent that they are conditioned by his then classic theoretical views. It is public debt in relation to the theory of 1936 that is of interest here.

Therefore consideration of Keynes's views is limited to the later period, though even this material will not be exhaustively examined. Indeed, the focus will be particularly upon one strand of his deliberations on public debt in the 1940s: his responses to Abba Lerner's Keynesian-inspired views on the issue [1].

The reason for that focus is that this strand seems to offer particular insight into Keynes's conception of how recourse to public debt should be understood in relation to his new theory. As to how Keynes's novel theory properly is to be understood, we assert without argument here that, at core, it is the principle that planned saving and investment are equilibrated by the level of aggregate economic activity (the principle of effective demand); or equivalently, investment determines saving via the multiplier, with demand-side determination of activity levels, as against the supply-side doctrine of marginalize orthodoxy. Following from this, the general level of interest rates is no longer understood to be determined by underlying «real» forces, in the orthodox manner, but rather, as a creature of the interaction between money market sentiment and monetary policy.

The key negative theoretical implications that Keynes draws are that a competitive economy has no automatic tendency towards zero involuntary unemployment, and further, that mature capitalism exhibits a general, persistent tendency to insufficiency of effective demand. This is the «worst-case» point of theoretical departure from which to consider deficits and debt. For the purpose of aggregate demand management aimed at full employment, if the efficacy of monetary policy, or of monetary policy alone, is rejected, as it is by Keynes, then the pursuit of full employment must be by fiscal means. And if further, these fiscal means require deficit spending, then a chronic underemployment problem might require permanent deficits and indefinitely growing public debt [2].

It is implausible that these were the only objective difficulties Keynes perceived. Evidence for the following possible problems that he may have had in mind can be inferred from other Keynes commentaries on public debt in the 1930s and 1940s:

- The possibility of debt growth placing upward pressure on interest rates may be due to false consciousness. But it may also be grounded in objective potential difficulties; in particular, a rising debt/GDP ratio that implies the private sector holding more public debt relative to its income and other assets. A rapid growth of debt relative to private sector aggregate income and other assets might meet resistance on the demand side of the debt market.

Keynes was very much alive to the need for the debt trajectory to be managed so as to engender confidence in the debt markets that the authorities are not conducting policy in a manner that will impose upward pressure on yields, particularly for longer maturities (steepening the yield curve). This is notably evident in a long sequence of documents from 1931 forward, in which he argues for public debt management by way of engineering persistently lower interest rates: there is a large conventional or psychological element in the market rate of interest which needs firm and skillful management; the psychology of the investor must be made accustomed to a new (lower) level of interest; policy needs to promote a sense of confidence in what the future borrowing policy of the Treasury is going to be. In short, policy must be measured, steady, consistently pursued over time, and thereby, credible in the markets. The Keynes argument, noted above, is a distillation of this position.

- In the 1943 and 1944 versions of functional finance, Lerner supposes that inflation is only due to excess aggregate demand, and that inflationary pressures only arise when aggregate demand exceeds full-employment supply capacity. If excess-demand inflation can occur simultaneously with involuntary unemployment, due to structural imbalances, the financing issue becomes more complex, since the policy-maker may then face a need to simultaneously expand and contract spending. Recall that structural unemployment was acknowledged in Lerner's 1944 New York Times letter. He later turned his attention to a wider set of inflation possibilities but after Keynes's death – although already intimated at the conclusion of Lerner. Keynes himself had a very active policy interest in structural unemployment.
- Public debt which is either foreign-owned (especially if foreign-currency-denominated), or a potential liability to make payment in something else other than fiat domestic currency (notably, a gold-convertible domestic currency), raises additional difficulties and constraints, primarily because involving assets that government cannot change anything. As indicated above (this section), Lerner allows that foreign-held public debt compromises functional finance.[2]

The theory of liquidity preference provided an alternative to the classical theory. As I have emphasized, I believe liquidity preference should be seen primarily as a theory of money as a store of value: with wealth held as money – or rather, and this is critical – in more liquid form, because of uncertainty about the future rate of interest. Much of the terrain is familiar. A liquidity preference curve can be drawn up on the basis of speculators' views of the long-term rate of interest versus a «safe» or «normal» rate.

For post-Keynesians, the curve can shift with changing views of the normal rate. But what has been overlooked is that:

- One, the safe or normal rate can be manipulated by a monetary authority determined to bring the long-term rate of interest under control.
- And, two, the means to do so is debt-management policy [4].

Debt-management policy was developed gradually, beginning with the conversion of the war debt in 1932, hinted at in the General Theory, built substantially in the war and then formalized at the April/May 1945. An enquiry formally set up to examine how to reduce burden of post-war debt, but that fully addressed the cheap money policy.

In theoretical terms the rate of interest on illiquid assets, bonds, was set against the quantity of liquid assets, bills. As Keynes put it in his notes authorities make rate what they like by allowing the public to be as liquid as they wish.

Policies to do so were:

- The tap issue, under which rates of interest on bonds of varying maturities were announced, but no limits were set to the cash amount of any issue.
- On the bill side, policy required an extension of the issue and range of the floating debt and hence the rejection of the funding complex. Involving the introduction of Treasury Deposit Receipts, of six month maturity, but not receivable against cash at the central bank.
- Bank rate redundant as an instrument of policy.
- It was pointed too that these policies were set against a backdrop of capital control [2].

While there exists a substantial literature concerning sustainable public debt and associated fiscal balance, the concept lacks a unique meaning. This reflects the way that literature has evolved, with practical indicator of sustainability being developed independently of theoretical models. Empirical studies have assessed sustainability using non-increasing public debt as a benchmark. In contrast, theoretical studies have associated sustainability with the capacity for a set of policies to continue indefinitely, allowing the public debt to take a range of sustainable values. The government intertemporal budget constraint is a useful starting point. Assuming a closed economy and abstracting from monetary considerations, this can be expressed as:

$$\boldsymbol{B_{t+1} = D_{t+1} + (1+i)\,B_t},$$

where $\mathbf{B}_{t+1}$ is the book value of public debt at time $\mathbf{t+1}$ and $\mathbf{D}_{t+1}$ is the primary budget deficit (i.e. exclusive of interest payments) at time $\mathbf{t+1}$. This budget constraint may be rewritten in terms of gross domestic product (GDP) as:

$$\mathbf{b_{t+1} = d_{t+1} + \left(\frac{1+i}{1+\eta}\right) b^t},$$

where lower case letter denote ratios to GDP.

Subtracting by from both sides gives:

$$\mathbf{b_{t+1} - b_t = d_{t+1} \left(\frac{i-\eta}{1+\eta}\right) b_t}.$$

Equation shows the evolution of the debt to GDP ratio (b) as governed by two factors: current fiscal policy, expressed as the primary deficit GDP ratio and the cost of servicing existing debt, approximated by the difference between the interest rate (**i**) and the growth rate (**η**) multiplied by **b** [3].

While one intuitive definition of sustainable public debt is clear – any level of public debt is sustainable if the public is willing to hold a sufficient quantity of government securities – deriving a convincing analytical definition of sustainability is not straightforward. If government could increase its liabilities without limit – and without any adverse trade-off – any magnitude of budget deficit would be feasible, even in long run.

According to John M. Keynes for expansion effective demand must increase investment. With increased investment is also rising public debt. That is the basic idea is to increase the proportion of its investments. To determine the relationship between the amount of investment and the growth of national income growth J. M. Keynes used the concept of multiplier, which shows how fluctuations in investments which constitute a relatively small share of national income can be subject to fluctuations in aggregate employment in the state and to change other macroeconomic indicators [6].

The increase in investment achieved by lowering interest rates on loans and an increase in government spending for goods and services as well as public investments. The important role in this, increase the efficiency investments. To achieve this goal, according to John M. Keynes, you must use the full monetary and particularly fiscal policy. On the one hand, such a policy would increase public debt, both external and in general. But while the national income, and in particular GDP of the country will be increasing that displayed on the positive economic effect.

Based on the investigations by John Maynard Keynes was defined main criteria and factors effective growth of economy, both in the context of public debt and in the resource management features that actually affect economic growth. Further investigation led economists to develop a model that reflects the problems of the economy based on macroeconomic indicators influencing the change in GDP, and therefore should be reflected in size and components of public debt.

They believe SFC (stock-flow consistent) models are useful tools to economists (especially post-Keynesians) who are not convinced by neoclassical (or classical) parables about the long run and, at the same time, do not accept to limit themselves to short-period analyses. Of course, peering over the edge of the short period is difficult and required another kind of compromise. The economist must always keep in mind that the future is uncertain in the Keynes sense of the term and that, in these conditions, modesty seems to be a sensible attitude. Given the obviously unrealistic simplifying hypotheses that are assumed in SFC models, the latter are admittedly modest attempts to shed light on aspects of dynamic trajectories of capitalist economies in historical time [5].

But modest tools are certainly much better than no tools at all and hence our enthusiasm with the potential of the SFC line of research. It should not be difficult, in particular, to convince the reader that the post-Keynesian research programme will have a much better chance of turning into a real alternative to the dominant paradigm if it encourages its practitioners to go beyond short-run analyses. And that is precisely what the SFC approach attempts to do.

If one believes in the importance of micro foundation, PK-SFC-ABM (Post Keynesian stock-flow-consistent and agent-based modeling) model represents and is more solid since it does not include fallacies of composition:

- PK-SFC models can provide a useful tool in the consensus-making attempt within the post-Keynesian tradition, since the theoretical discussion and the comparisons are based on a coherent, structured and at the same time adaptable framework;
- Empirical and policy indication models, combined, can lead to an economy-specific analysis, which is more useful at the policy level. We have read a few articles, still very preliminary that seem to go in that direction;
- The possibility of modeling the financial side of the economy has represented an incentive in developing models including complex financial sector. This has its counterpart in the real side, which we feel has been a bit overlooked and could be further investigated. Among other, a direct benefit would be a more complete understanding of the interdependences between the two sides of the economy [4].

On the other hand, the depressing influence on entrepreneurs of their greater burden of debt may partly offset any cheerful reactions from the reduction of wages. Indeed if the fall of wages and prices goes far, the embarrassment of those entrepreneurs who are heavily indebted may soon reach the point of insolvency, – with severely adverse effects on investment. Moreover the effect of the lower price-level on the real burden of the national debt and hence on taxation is likely to prove very adverse to business confidence.

Conclusion of the research. Analysis of research of John Maynard Keynes, we can conclude an essential contribution to the development of scientist economic thought. This article examines the basic research of John Maynard Keynes application of which in practice will lead to the effective development of the economy, and therefore to the effective management of public debt that play a key role in the stabilization of the economy.

The use of debt management concepts proposed by John Maynard Keynes will make it possible for the working out of an effective system of macroeconomic indicators that fully will reflect the situation and the reasons for changing the public debt.

Definitions in this paper, the key factors on which depends the change in macroeconomic indicators allow further research to move to the formation of optimal methodological approaches to determining the vector of changes in government debt, the choice of specific tools for management and the possibilities of use specified approaches in a modern market economy.

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