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A Dilemma of Contemporary Keynesism

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JUST A FEW YEARS ago I received from a United States Senate committee an outline of a proposal for new legislation to promote "full employment," and a Senator's printed speech on the subject, together with a number of mimeographed questions and the suggestion, in a form letter, that replies would be welcomed. I endeavored to reply to the questions, as well as I could. In doing so I found myself considering the contention that government might promote employment by spending, in the hiring of labor, funds secured by borrowing from or by taxing its citizens. I tried to make the point that such borrowing—or taxing—and spending was unlikely to increase employment; that the citizens from whom the money was taken by government would in most cases spend or invest it themselves as quickly as and perhaps more quickly than it would be spent by government after its transfer to government; and that employment could be promoted, if at all, only when the individuals from whom government was drawing the funds for spending would themselves have a tendency to hoard rather than to spend or invest them. Of course even hoarding of money—or bank deposits subject to check—would have no tendency to bring dull business and unemployment, if it were not for the inertia or rigidity or "stickiness" of prices, wages, rentals, etc., which prevents quick adjustments to changes in the amount or in the velocity of circulation of money.

I did not anticipate that any great attention would be paid to my remarks by the Committee; and still less did I expect attention from anyone else. However, an enterprising reporter of an anti-administration newspaper apparently thought it worth while to seek access to this part of the Committee's files and to comment on the fact that not all of the replies to the Committee supported its original proposals one hundred per cent. And shortly after this comment was published I received a card from Chicago, signed "Dr. Thompson." The card contained only the following:

> "What kind of an (sic) educator are you who will raise your voice for Big Business against the little man's jobs for all? Were you ever out of work? Or hungry for days? Or saw your family suffer?"

The above implied sentiments seemed to me, when I received them, to indicate that the writer had no comprehension of what it was I was seeking to show. But now it looks as if many contemporary professors of economics who have been influenced by and towards the Keynesian economic philosophy, hold a view not so greatly different (even though somewhat more sophisticated in its formal expression) from that of "Dr. Thompson." Probably many of the young enthusiasts of this persuasion regard some of the rest of us as wholly out of date pre-Keynesians who have little idea of what is meant by the new terms they bandy about so fluently and no real understanding of the economic significance of "the propensity to consume," "liquidity preference" or "the propensity to hoard," etc.

The 'Transfer' of Purchasing Power

WITH SOME of these "modern" economists there has come to be special emphasis on the promoting of prosperity and employment through the "transfer" of purchasing power from the classes having larger incomes to those with smaller ones. The thought appears to be that those with smaller incomes, the comparatively poor, have greater "propensity to consume"; that the well-to-do have generally less "propensity to consume" and, much of the time, an insufficient tendency or willingness to invest; that, in consequence, money (including bank deposits subject to check) is spent too slowly and demand for goods and labor declines, thereby bringing dull business and unemployment. So these "modern" economists tend to favor one or another device for getting a considerable part of the larger incomes "transferred" for spending to the recipients of the smaller incomes, or "transferred" for spending to the government.

Thus, economists of this persuasion are likely to look with equanimity on heavy government borrowing, if the funds borrowed are to be used to hire labor or to loan to purchasers of modest homes or to subsidize, in one way or another, persons whom these economists visualize as relatively poor. Such economists may feel it unobjectionable to increase government debt, especially if they confidently hope to bring it about that future interest on the debt will be paid from taxation of the larger incomes.

But after all, government debt, if the interest is ever to be paid, does finally require taxation. So why should not taxation be used, at the very beginning, to effect the desired "transfer" of purchasing power? One would expect to find some of the "modern" economists urging this, and such an expectation would not be disappointed.

Professor H. Gordon Hayes is one of those who have developed this viewpoint most elaborately.[1] Emphasizing the supposed effect on spending

[1] See his paper, "Keynesism and Public Policy," in *Twentieth Century Economic Thought,* edited by Dr. Glenn E. Hoover, New York, The Philosophical Library, 1950, Chapter VI.

and, therefore, on business activity and employment, he expresses sympathy for free lunches to school children, relief for the aged, health services on a no-charge basis with more of the costs of such services put on the more well-to-do, minimum wage laws, etc.

Indeed, Professor Hayes even recommends, by implication, or so it appears, the system of providing support prices for farm crops. For he says:[2]

> We are likewise extending the propensity to consume by aid to farmers. The whole array of support prices and payments for conserving soil fertility are directly in line with the broad recommendations of Keynes, and are apparently a fixed part of our public policy.

Here, surely, is a philosophy greatly different from that which supports consistently the principles of a free private enterprise system and free markets. Here is no confidence that freedom of entrance into and exit from any line of production protects those in each line from having to suffer, permanently, incomes far below those received for equal skill and efficiency in other lines. Here is essentially a philosophy of regimentation and socialization, superficially disguised as a theory of unemployment and its cure.

In practice, when such a system of "transfer" is established, the purchasing power is not always transferred from the rich to the poor. Some of it is transferred from the poor to the rich,—for example, from workers in the cities, where the cost of living is relatively high, and who, because of this "transfer," find it more difficult to feed, clothe and comfortably house their children, to such persons as bonanza farmers and other well-to-do farmers enjoying crop loans, support prices and subsidies.

A System of Compulsion

WITH SUPPORT PRICES, our government has instituted a system of *compelling* consumers to buy what they do not want to buy and would not buy except under *compulsion.* It is true that the citizen is not *personally driven to market* by the lash or by a policeman's club and he does not personally do the buying. The federal government both acts as his *agent* in buying the unwanted goods (unwanted, certainly, at the price paid) and *compels* him to provide it with the funds for this buying, under the guise of paying taxes. *But it is nevertheless compulsory buying.* The policy is certainly, in essence, one of telling the citizen he *must* purchase goods he doesn't want and, often, cannot properly afford. These things our leaders do to us, in addition to telling many farmers what they *must not produce* (when quotas are fixed), while all the time insisting that they are

[2] *Ibid.*, p. 228.

opposed to socialistic regimentation and the "police state."

Just how far, indeed, can our purchases be made a matter of compulsion (and the lives of some producers ordered and regimented) for the benefit of pressure groups, before we can be said to have completely abandoned the principles of Jefferson—and under the direction, in part, of men who represent themselves as followers of Jefferson!—for the principles of Marx, Lenin and Stalin?

These are the results of the attempts of our representatives, under the influence of pressure groups, to help members of these groups take vast sums of money from other citizens, which they could not take as individuals without violating the laws against theft. For, as I have elsewhere expressed it:[3]

When individuals or small groups succeed by burglary, picking pockets or holdups, in abstracting wealth from others, those who are robbed at least have law on their side. But what if a larger and politically powerful selfishly interested group succeeds, by . . . sophistical arguments . . . or by legislative bargaining with other groups seeking privileges at the expense of the general public, or merely by gaining the support of legislators who are more afraid of losing the votes of an active and well organized privilege-seeking minority than of an unorganized and comparatively unaware and inert majority,—what if such a group thus succeeds in using the tax system and the legislative appropriation machinery to abstract wealth from the rest of the people! In such a case, those from whom the wealth is being abstracted find that even the law is against them and that, if they refuse to make the required tax contribution, it is they, and not those profiting at their expense, who are considered the criminals.

What if there should be a continued and progressive extension of governmental interference, regimentation and control in the interest of such privilege-seeking groups! Might we not finally discover, as we approached the end of this unhappy journey, that men's incomes depended mostly on their skill in political bargaining, threats and chicanery, and scarcely at all on their productive efficiency? And would it not then be widely argued that the voluntary price system ('Capitalism') had failed, and that the state must henceforth control all those economic activities which were previously guided, in a régime of economic freedom, by the market and by the lure of price?

The much touted Brannan plan was, of course, merely another scheme to enable one class of our citizens—and not just poverty-stricken ones but some of great wealth—to milk other citizens, as well as each other. Any significant political strength this plan may have had stems from the fact that politicians who still feel they want to or must vote for some scheme

[3] "Basic Principles of Economics," 2nd edition. Columbia, Mo., Lucas Bros., 1947, pp. 171–2.

that enables groups of Americans to milk fellow Americans, and who see that the current methods of making this possible are more and more arousing revulsion among the victims (and even among a few of the beneficiaries) of this exploitation, hope to find a new method the scandalous nature of which is not so immediately obvious and of which some present victims may be persuaded that they, too, are beneficiaries.

Conceivably, this kind of pressure group politics could do more toward causing us to lose the "cold war"—or a hot war—with Russia than all the conspiracies of all the communists and communist sympathizers in the United States. For certainly the present program is expensive. And the money is not being spent for national defense but is being given as "handouts" to privileged groups. Are we changing from the slogan of our Revolutionary days, "Millions for defense but not one cent for tribute," to a new farm bloc slogan, "Billions for tribute, even if this leaves too little for defense"?

How About the Evidence?

As A MINIMUM PREREQUISITE to seeking the serious attention of others for their views, it would seem that the sponsors of the "transfer" of purchasing power might be expected to present cogent inductive evidence that money is actually spent more quickly after its receipt by those to whom it is thus "transferred" (presumably the comparatively poor!) than it is spent and invested by those from whom these economists contemplate having it taken, *viz.*, the recipients of the larger incomes. This may indeed be the case, but one would like to see convincing data on the matter if it is available.

Nevertheless, even if this point were absolutely and completely demonstrated, it would still not at all prove that inequality of money income is the cause or even a cause of business depression and unemployment. What if it should turn out to be demonstrably the fact that the higher income classes hold their money (including too, of course, bank checking accounts) a longer time than those of lower income! If perchance this is the case, it probably has been the case for a very long time. And if so, money has circulated less rapidly (lower velocity) for all that time than if the higher income classes habitually passed on their money (whether by spending or investing—which may mean merely buying brick, structural steel, lumber, trucks, etc., instead of personal apparel, cut flowers and the like—or both) as quickly as the comparatively poor. But this does not necessarily mean that the velocity of circulation of money is continually declining. Conceivably, some of the transfer-sponsoring economists visualize a steady in-

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crease in the proportion of the income of the rich to that of the poor, with a progressive decrease in the average velocity of circulation of money. Indeed, the velocity of circulation of money might gradually decrease—or increase—for some other reason. But such a decline of average velocity of circulation—even with wages, rentals and some prices comparatively rigid or "sticky"—need not occasion depression and unemployment if only there goes with it a monetary policy (including, of course, central banking policy) calculated to offset such decreasing velocity of circulation of money by a sufficient increase of the total volume of money.[4]

In fact this entire "stagnation" philosophy is shot through with half truths and outright fallacies. It is, in its main emphases, the doctrine of Rodbertus and Marx, more than a century old, that industrial breakdowns in the form of business depression are the result of capital's exploitation of the workers who, therefore, do not have the means to "buy back the goods they have produced." (Do "capitalists" *never* buy anything? And does buying trucks or structural steel involve less demand for labor than buying "cokes" and motion picture tickets?) This dogma of Rodbertus and Marx is the basis of the communist propaganda that, under "capitalism," periodic breakdowns are "inevitable." Our modern "transfer" economists have, indeed, elaborated the doctrine a bit, by introducing references to "propensity to consume," "liquidity preference," etc., but what they have proffered us is essentially the same old symphony with the addition of a few Keynesian overtones. Can it be that the principal cause of the rapid growth of the "stagnation" philosophy is that, although not ostensibly "communistic" and, therefore, not subject to sharp social disapprobation, it has found a fertile soil in minds made receptive to it by years of exposure to communist propaganda?

If perchance the economic philosophy we have been discussing stems in any degree from sympathy for the comparatively poor, why is not attention given to pointing out the unfair elements in our system—but not at all essential to it or even consistent with the principles commonly appealed to in its defense—through which many of these poor are really *exploited?* In particular, why do the writers in question consistently and persistently ignore the fact that some have to pay others for permission to work on and live on the earth in those locations where work is reasonably effective

[4] See Clark Warburton, "Monetary Velocity and Monetary Policy," in *The Review of Economics and Statistics,* Vol. XXX, No. 4 (November, 1948); "Bank Reserves and Business Fluctuations," in *Journal of the American Statistical Association,* Vol. XLIII (December, 1948); and "The Monetary Disequilibrium Hypothesis," in *The American Journal of Economics and Sociology,* Vol. 10, No. 1 (October, 1950).

and life reasonably tolerable? Why do these writers consistently and persistently ignore the proposal that the privately unearned rental value of land, arising from geological forces and community development, be used as a first source of government revenue? Why do they always or practically always turn their attention to heavy taxation of incomes that are not at all exploitative but are fairly earned by service given? Why do they thus, while stressing *compulsory charity*, insist on overlooking the fundamental requirements of *justice?* Why must they forever stress taxation that tends to *weaken* capitalist *incentive* or motivation and so make the free private enterprise system work less effectively, even if such taxation does not so far interfere with its successful operation as to completely discredit it and cause its ultimate abandonment?

Those supporters of the Rodbertus-Marx-Lenin-Stalin doctrine of business depression who definitely favor a regimented socialist economy seem to be more logical than the Keynesian advocates of "transfer," since, while urging policies that tend to destroy—or greatly weaken—the incentives of private enterprise, they do not simultaneously pretend that they want to maintain private enterprise!

The Problem of Idle Money

ALTHOUGH, IN THE KEYNESIAN economic philosophy, an increase in the average "propensity to consume" tends to promote business activity, so does an increase in the tendency to invest. We have been, herein, considering particularly the transfer-of-purchasing-power proposals of Keynesians who emphasize the assumed difference in the "propensity to consume" of the higher and lower income classes, and who seek such a redistribution of money incomes as will promote the "propensity to consume." But others who have been influenced by Keynes stress especially "liquidity preference" among potential investors. This "liquidity preference" they would explain, following the analysis of Keynes, by pointing out that yields on invested funds may sometimes be a very low per cent, and by insisting that, with only a low per cent in prospect, many potential investors will prefer to keep their resources "liquid," *i.e.*, will prefer to hold their money idle rather than invest it.

Those professed admirers of Keynes who insist on "transferring" purchasing power, through heavy taxes, from the recipients of large to the recipients of smaller incomes, in order to promote prosperity by increasing the "propensity to consume," seem, therefore, to be ignoring the "liquidity preference" aspect of Keynesian theory. For the taxation required would

—and must—if levied at all on capital or the income from capital, lower the percent of income on their capital received by investors. Hence, by the very essence of Keynesian theory, such taxation must tend to accentuate "liquidity preference," *i.e.*, it must weaken any remaining desire or "propensity" to invest and strengthen the "propensity to hoard." In so far as it does this it must tend, according to Keynesian theory, towards dull business and unemployment.

So here we come face to face with a seeming antithesis or contradiction in the Keynesian economic philosophy. For since by that philosophy the willingness or "propensity" to invest must be *decreased* by the very increase of taxes for "transferring" purchasing power, which is supposed to *increase* the average "propensity to consume," the specific cure recommended for depression and unemployment may have no stimulating effect at all! And indeed, on the basis of the Keynesian assumptions themselves regarding "liquidity preference," the proposed remedy might, under some circumstances, have actually a net depressing effect! Here, then, we have what may be appropriately termed *the dilemma of Keynesism!*

But even if economists of the Keynesian philosophy cannot be persuaded either by theoretical considerations or by the significant data assembled by Dr. Clark Warburton, that low or declining velocity of circulation of money is not the principal effective cause of business depression, and even if they will not admit that a sufficient and properly timed increase in the volume of money could adequately offset any untoward decline in its velocity, there is still a way of escape from the dilemma with which they are confronted. Indeed, it is so obviously an escape—at the very least a partial and temporary escape—and has such clear advantages even apart from this fact, that the refusal to consider it at all appears amazing. The way of escape from the dilemma would be to urge the substitution of land value taxation, to the extent of substantially all the revenue it can be made to yield, for taxation that tends to lessen the motivation of capitalism and, perhaps especially in the Keynesian philosophy, for taxation of capital and the income from capital, which, Keynesians must logically believe, promotes or accentuates "liquidity preference."

The Advantages of Land Value Taxation

LAND VALUE TAXATION, as such, draws only from the geologically produced and community produced annual rental value of land (including sites, tracts and subsoil deposits). It is in no sense a tax on the necessities of the poor. It does not penalize the efficient worker and thereby lessen the incentive to efficiency. It does not penalize saving and the construction of capital. It does not involve any burden or penalty on so-called "venture capital." It does not discourage—but encourages—the flow of savings and of capital from other areas to the land-value-tax areas. It does not, through lowering the net return on capital, discourage investment in new capital construction and conduce to the hoarding of money rather than the investing of it. That is to say, it does not bring about or accentuate any "propensity to hoard" or "liquidity preference." It does make unprofitable the speculative holding ("hoarding"?) of good land from use, with consequent reduced effectiveness of both capital and labor. A comparative study of areas in Australia where land values are taxed rather than other property, appears to indicate that the amount of good land held out of use is definitely less in the first, that the amount of building is greater in proportion to available land, that the number of residences constructed is greater per 100 marriages, that the incomes of persons deriving their incomes wholly from labor average higher, that the movement of population is away from the other jurisdictions and into the land-value tax jurisdictions, etc.[5] The evidence, factual and theoretical, appears to indicate that, within the limits of the amount of revenue it is capable of yielding, a land-value tax system is more advantageous even to workers of low incomes than a steeply graduated income tax, and that this is true even though these workers are completely exempt from such income tax.

Furthermore, it can be argued most plausibly that the land-value tax proposal is especially adapted to meeting the Keynesian dilemma. And yet I have seen not the slightest evidence that it appeals at all to any Keynesian. Why?

It must be said, however, that teachers of economics almost never mention land value taxation in their professional papers on taxation or tax reform or (except for a few words, ending on a derogatory note) in economics textbooks prepared for the use of college—or high school—students, or in their class lectures and discussions. Land value taxation is *the subject of the great silence.* And so one hardly expects any of the Keynes-Hansen-Hayes group to take it up favorably, even if it does seem as if made especially for them.

[5] In "The Challenge of Australian Tax Policy," published in this *Journal*, July, 1949 (Vol. VIII, No. 4), I summarized the significant studies of the Land Values Research Group of Melbourne, of which Mr. A. R. Hutchinson is Director of Research. In doing so, I referred to a series of articles by Mr. Hutchinson in the Australian magazine, *Progress*, and to a partial republication of these in a thirty-two page booklet entitled "Public Charges upon Land Values," Melbourne (published by the Henry George Foundation of Australia), 1945.

On the contrary, my guess is that if I could pin advocacy of land value taxation on them as the only way they could avoid inconsistency and self stultification, and could *make it stick*, I would thereby do more to get contemporary Keynesians to scurry apologetically away from Keynesism than by the most cogent and convincing argument from monetary theory and statistics!

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Confusion Over Property Rights

A GREAT MISTAKE is the primary cause of the social maladjustments and sufferings of modern times. That error consists in the confusion regarding property rights, as is shown in the French Declaration of Rights and the American Bill of Rights. In effect, property is a *natural right* whose only justification resides originally in the unquestionable right of the individual over his own body and, therefore, to the things produced by his labor. But the case is different with land and the other natural resources, over which no individual could claim similar rights. Of course, purchase or gift cannot create property; it can only transfer it.

Absolute private property titles to land are *mere privileges* granted by the State over areas originally acquired by the violence of conquest or by eventual settlement, and must be done away with, just as property over human beings has been suppressed. This done, land would come to be regarded as "social property," as in times past it was regarded as "Crown property." At present, the people is the sovereign.

In very few treatises or essays on social sciences can one find the notion, or even the supposition that such distinction can be made. That is why this issue remains totally unknown in current political discussions and, with very rare exceptions, in governmental measures.

Those who regard these two kinds of things, whose economic nature is essentially different, as equally appropriable, or equally unappropriable, will lack the necessary starting point for an effort to achieve an effective solution of the problem of economic justice.

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