THE HIGHLY TOUTED "KEYNESIAN REVOLUTION"
Was it Really Spawned by a Professorial Taboo!

Some Excerpts From

THE EFFECTIVE ANSWER TO COMMUNISM
and
Why You Don't Get it in College

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IN THE LAST TWO DECADES "liquidity preference" has been very much a term to conjure with. But just what does it mean and what is its significance for the understanding of economic phenomena?

The late Lord Keynes, widely regarded as the principal authority on the subject, related it closely to hoarding. "The concept of *Hoarding*," he said,[1] "may be regarded as a first approximation to the concept of *Liquidity-preference*. Indeed, if we were to substitute 'propensity to hoard' for 'hoarding,' it would come to substantially the same thing."

Keynes refers to the experience of Great Britain and the United States after the first world war as "actual examples" showing that accumulation of wealth can be great enough to reduce the marginal yield of capital—what a last increment or unit of capital can add to production—more rapidly than the rate of interest can fall[4] in view of "prevailing institutional and psychological factors." Here we must note that Keynes *defines* the rate of interest as "the reward for parting with liquidity for a limited period." The post-war events in these countries, he concludes, showed that "in conditions mainly of *laissez faire*," such a fall in the marginal yield of capital can interefere "with a reasonable level of employment" and with the standard of life that "the technical conditions of production" could otherwise provide.

But surely, so far as the United States was concerned, the sharply restrictive policy of the Federal Reserve system in 1920–21, and again in 1929 and after, must have been of dominating influence on the events and conditions that followed. How was it possible for Keynes to attribute these depressions so confidently to liquidity preference, in view of the known antecedent facts?

[1] *The General Theory of Employment, Interest and Money*, New York, Harcourt, Brace and Co., 1936, p. 174.

[4] *Op. cit.*, p. 219 and, for "definition of the rate of interest," p. 167.

For the contention seems to be that, even in the absence of any business or price level fluctuation from unwise monetary—including banking—policy, the returns on capital might possibly become so low, conceivably less than enough to cover depreciation, that many recipients of money would hold it indefinitely rather than invest in productive capital.

But such a condition, *with* wise control of the volume of circulating medium, would not tend to bring business depression. If so much money were hoarded as *really* to threaten significant reduction in the demand for goods and in the general level of prices, a wise monetary policy would provide for the issue of enough additional money (and/or bank credit) to maintain the price level. This would mean that the demand for goods in general at this level would *not* decline, for such decline would bring the price level down. A sufficiency of money to maintain the price level would, by that very fact, be a sufficiency of money to maintain the demand for goods in general. Hoarders laying aside money for future use could be permitted to do so freely, yet there need be no disrupting decrease in the demand for goods and labor.

If nevertheless some readers are *shocked* at the idea of taking care of any liquidity preference that might conceivably tend toward depression, by increasing the money supply, they may be comforted by two considerations. The first is that returns from capital do not now seem to be so low as to indicate any probable threat from liquidity preference, as such, in the immediate future. And the second is that there is available a very simple policy *completely ignored by Keynes,* by which, even if otherwise the "marginal efficiency of capital" to the owners of it could drop to near zero in (say) a generation or so, we might enjoy at least a *reprieve* for several years beyond that, maybe for a second or third generation or longer!

Before identifying this policy, it will be advantageous for us to note that "the marginal efficiency of capital" for the entire community or for the nation as a whole, is, under existing conditions, decidedly greater than for an individual owner or all private owners. A capital instrument may yield—its productivity may be—8 per cent a year over the amount necessary to cover depreciation. But the owner—or the lender—cannot keep this for himself. The community, state and/or nation will require a large proportion of it in taxation.

If taxation takes 3 per cent of the 8 per cent, the owner can have but 5 per cent. Let us suppose that investment in capital were actually so much increased in two or three decades as to bring the average yield of capital to its individual owners down to only 1 per cent. This would mean that the capital was still really yielding 4 per cent but that taxation was taking three fourths of that. On the supposition that investment

would go on only to the point of a 1 per cent return for the investor, we would say that at that point the influence of "liquidity preference" was sufficient to prevent any further investment. The total yield may be high enough to encourage investment, perhaps for many more years or even generations, but the yield after taxes is not. Or if investment would go on only to the 2½ per cent point for the investor,[11] the existence of the 3 per cent tax would make it stop at a total per cent yield of 5½ per cent.

If, however, the tax—or taxes—were repealed and the revenue lost were made up by a much higher tax on the annual rental value of land, the entire per cent yield from capital—whether 4 per cent or 5½ per cent or whatever—would thereafter go to the individual investor in capital. This decidedly larger per cent yield might well be a sufficient inducement to him to forget his desire for liquidity and continue to invest. And if so, it might still be a considerable time—whether a decade or two, or an entire generation, or far longer—before the per cent yield got to the point where increase of circulating medium was needed for the purpose of offsetting the tendency to prefer "liquidity" to investment. Maybe that point would never be reached at all!

So far as I am aware, however, *no* Keynesian has ever shown, in his writing, the *slightest* favorable interest in taking taxes off man-made capital instruments and levying, instead, heavier taxes on the value of land.

Even if, in the end, it were to turn out that we must still reckon with the threat of depression from liquidity preference, it would nevertheless be an advantage to have the large amount of capital that this tax reform would bring to the communities adopting it. As long, indeed, as the total "marginal efficiency of capital" (including the part now going to government at various levels) is above *zero, i.e.,* as long as an additional increment of capital will produce an excess over its cost of production, it is certainly an advantage to have it. Labor is better equipped with buildings, machinery, etc., and output per worker is larger. If, too, because of a higher land value tax, less land is held speculatively out of use, so that labor is *also* better supplied with good land, output per worker will be further increased. If, as Keynes seems to have believed,[12] at 2 or 2½ per cent above zero return additional investment is likely to be brought to a halt by liquidity preference, then it *has* to be true that tax relief for capital at that point or sooner, would be favorable to prosperity. And cogent theory as well as significant statistical data indicate that to make up the revenue lost, largely or entirely by a heavier land value tax would give a further fillip to prosperity.

[11] Keynes, *op. cit.*, pp. 218–9.
[12] *Ibid.*

On the theory that it could, just conceivably, come about in some later decade or generation or century, that the return on capital to investors—even though untaxed—would be so low as to greatly increase liquidity preference and thereby initiate depression, such depression would still not be inevitable. An appropriate monetary policy could both satisfy—satiate, if necessary—liquidity preference, and provide enough additional purchasing medium to maintain the demand for goods and labor.

The change in tax policy here suggested would yield definite and substantial benefits, even though not needed at all to give us a reprieve from any depression generated in the way or ways Hansen and Keynes describe. The heavier tax on community-produced land values would lessen the waste of holding good land out of use for speculation, as it has lessened such waste in parts of Australia where such a tax system is employed. Labor would be better supplied with land, the productivity of labor would be greater and real wages would be higher. With lower land rent, the cost of housing to tenants would be lower.

Both cogent theory and available statistical data from Australia indicate that the larger percentage of gain to investors in new capital would bring about more capital construction in the communities, states and nations where this tax policy was followed. Thus, labor in them would be better provided with capital as well as better provided with land. For this reason too, then, the productivity of labor would be greater and wages would be higher.

Why should not followers of Hansen and Keynes join in urging this reform? On the basis of *their explanations* of how business depressions are or may be brought about, such a tax policy would be a definite help in preventing them—or, at worst, delaying them. On the basis of *their own hypotheses,* it would offer threatened humanity at least a reprieve and perhaps a long—even an indefinitely long!—reprieve. *Why* do they ignore it? Do some of them fear, perhaps, that to express approval of a land-value-tax policy might make them professionally déclassé? Or has it really never occurred to any of them that the possibility of land-value taxation has any bearing whatever on the adequacy or the correctness of the Keynes-Hansen analysis?

THOUGH KEYNES BETRAYS no interest in increased taxation of community-produced land values, he does contemplate with equanimity and seeming approval[14] "the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital." This would come about, he suggests, via a State policy aimed at increasing the volume of capital "until it ceases to be scarce, so that the functional investor will no longer receive a bonus."

[14] Keynes, *op. cit.* p. 376.

Keynesism is, obviously, closely related to—though not absolutely identical with—the economic philosophy of the Communist-dominated States, in its explanation of business depression and, to a degree, in other ways. The view of Rodbertus, Mummery and Hobson, accepted by Lenin and his followers,[17] that business depression results from inequality—that the workers, exploited by their capitalist employers, do not receive enough to buy what they have produced—appears in Keynes with liquidity preference overtones. What the low-income groups lack the means to buy, the higher-income groups *could* buy—and here we include "investing" in buying—and sometimes, for a decade or more, do buy. But when capital becomes plentiful and its "marginal efficiency" becomes relatively low, their buying (especially in the form of *investing*) is, in the Keynesian view, so greatly reduced by liquidity preference, as to bring about vast unemployment of the workers and even loss for themselves.

Like the Communist-Socialist leaders who have followed the Marxist-Leninist philosophy, Keynesians feel that the evil is fundamental to a free private enterprise system. Like these, they think of it as inherent in the general nature of the system and not to be explained by anything so "superficial" as monetary instability. Like these, they seem to believe that periodic breakdowns are "inevitable" unless and until there is substantially increased collectivism. And like these, they appear to have no interest in distinguishing between private income from capital brought into existence through individual saving and investment, and, on the other hand, income from being in a strategic position to charge others for *permission* to work on, to live on, and to draw subsoil deposits from, those parts of the earth which have become desirable because of geological forces and community development. Or, if they do have any such interest at all, they seem to be—at any rate Keynes seemed to be—*more* critical of private enjoyment of income from capital than of private enjoyment of the rent of land!

Could it be that the interest and support—often the enthusiastic support—of "the Keynesian revolution" in economics is to be explained (1) by its having avoided any admission that land-value taxation is in any way desirable, and (2) by its having coincided with a substantial, and world-wide, trend towards collectivism?

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[17] Robert L. Heilbroner says the view was "embroidered into the royal cloak of Marxist doctrine" by Lenin. See *The Worldly Philosophers*, New York, Simon and Schuster, 1953, pp. 186–91.