Keynesian Depression Analysis

versus

A Money and Credit Approach

by Harry Gunnison Brown

I

THERE IS a considerable group or "school" of economists, followers of the late John Maynard (Lord) Keynes, whose view it is that very low returns on capital conduce to business depression through causing men to hold idle, waiting for a more favorable conjuncture, funds they would otherwise lend or invest. Because of such hoarding, they argue, demand for labor and for commodities is reduced, workers are subjected to unemployment and business activity is decreased.

"The concept of *Hoarding*," said Lord Keynes, "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."

It is, of course, true that few persons are willing to *borrow* at (say) 4 per cent interest when they are confident that the capital thus secured will yield only 1½ or 2 per cent. Maybe some would rather hoard for quite a while than to lend or invest for an expected return so low.

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 return on capital to so low a point as to cause such hoarding ("liquidity-preference"). But in saying this, he completely ignores the significance of taxation!

Yet the returns from investment which motivate investors are the returns they anticipate will come to *them*. It is not the per cent efficiency of capital in adding to annual output which concerns them, but the per cent which comes to them personally. In other words, they invest for what is *left* after the yield of capital has been tapped by the state or local government (and also the national government) for public expenditure.

If, therefore, we were to untax capital and draw sufficient additional revenue to make up the loss, by heavier taxes on the geologically-produced and community-produced value of land, this would *certainly* provide a greater reward to those who save and invest in capital. If it is really true as Keynes contended, that the lack of an adequate gain on investment leads to business depression and unemployment, and if by such a change in tax policy we can decidedly increase that gain, *what are the overriding arguments against our doing so?*

Why should not the followers of 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 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 Keynesian analysis?

II

Nevertheless, it does not follow that even the adoption of a perfect taxation system, involving the taking of all or practically all of the rent of land, would guarantee us against distressing depression. For a significant decrease of the volume of money and checking accounts could bring such a depression.

In 1929 the supply of "check book money" was about $22 billion. In the next few years it decreased greatly—by more than a third. The general run of citizens have no idea what such a decrease can do or how its evil consequences can be avoided. Certainly with that much less money it is *impossible* for the people to buy as many goods *unless* the prices of goods are greatly reduced. Hence there must be unemployment. And even if the prices of goods do fall greatly, there must still be unemployment unless workers are willing to take, and do take, greatly reduced wages. For if the employing companies must accept these reduced prices, they simply cannot keep their hired employees at the previous wages without quickly going bankrupt. Do *you* think the wage earners *will quickly* offer to accept wages that look to them much lower than they have been accustomed to (any more than owners of property will quickly reduce their charges to tenants)? Do *you* think that union leaders will generally *urge* their constituents to do so? Have you not heard more than once, the common idea of many labor spokesmen that when there is depression the way to get revival is to raise wages so as to increase workers' buying power and thus stimulate the economy? But where is the extra money to come from? Does it grow on trees? And do people generally spend or invest as many dollars when they actually have fewer dollars?

Will money move from buyers to sellers faster at such a time? On the contrary, when business becomes dull and prices begin to fall, money is likely to be spent more slowly. Merchants and manufacturers are afraid to buy lest they then will have to sell at a loss. When it appears that prices are going down, it may seem wiser in the minds of many persons not to purchase until they do fall further.

The fact is that to avoid the evils of periodic severe depression and to maintain a reasonably stable level of prices that is fair to both borrowers and lenders, we must have, somewhere, effective control of the volume of circulating medium.

Please note particularly that the policy here suggested is not one involving price regulation or socialistic regimentation. It does not involve government operation of any industry. In essence it is analogous to, if not practically identical with, the establishment of a standard pound, a standard quart, a standard yard. Since the dollar is a standard of value applicable to all goods and services that are subject to purchase and sale, the stability reasonably required is stability in terms of goods in general rather than in terms of any specific commodity, whether gold, platinum or silver. And just as it is conducive to the smooth and efficient operation of a private enterprise free market system that the yard should be of calculable length rather than varying unpredictably between twenty inches and fifty-three inches, so likewise does it conduce to the smooth and efficient operation of private enterprise, that the dollar should be of calculable and stable value.

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