

KEYNESIAN ECONOMICS

by Arthur Cannon

Keynes wrote his famous work, *The General Theory of Employment, Interest and Money*, during the Great Depression. The latter was the most important and immediate problem of his day, and the whole purpose of Keynesian economics was to find a remedy for depression.

Keynes considered monopoly society (mis-called capitalism) was far from perfect but better than the alternative offering at the time, namely Marxian socialism.

If the problem of depression could be solved, monopoly society would be able to struggle along with a gradual and long-term improvement in the conditions of the socially disadvantaged. Therefore he was not interested in the deeper issues that affect society. In other words, to discuss Keynesism, is to discuss depressions.

In contrast, George and Marx were more concerned with the residual poverty that existed in their day. Depression served to aggravate the problem and demonstrate the over-ripe condition of monopoly society.

During the past, whenever financial stagnation permeated an economy, the tendency was for everyone, government, banks and general public, to button their pockets and save themselves from possible financial disaster. This enhanced the predicament, which often resulted in depression, as it did in 1930.

At the time, those who still possessed money were not disposed to invest it in industry, as returns above costs were too low, or non-existent, nor did land titles or land mortgages provide an outlet, because the boom had burst, and title prices were collapsing or had collapsed. Money holders were placing their money in current accounts or on fixed deposit where, even though the rate of interest was low, they received some return. Therefore the banks had money to invest and were searching for some relatively safe place.

The Keynesian remedy was for the state itself to become a large investor – to borrow from the public, or the banks, and use the money on public works and amenities, and this would create employment.

It may be argued that borrowing would increase state debt, involving interest payments and redemption. But

before the borrowing, much labour and capital were unemployed and producing nothing. Unemployed labour was an encumbrance upon the state. Revival of industry, and hence employment (in the Keynesian sense which resulted from state spending, would produce incomes that would be subject to tax, and when the economy became stimulated, some of the tax revenue could be used to redeem debts caused by the borrowing. Nor would the rate of tax have to be increased, because the extra income engendered by the increased employment would, itself, produce a greater volume of revenue.

Impetus given to employment would not cease with the first round. The workers would spend their pay on goods and services, thereby giving further employment. The impulse would go on and on, becoming feebler with each round, owing to the time lag between receiving money and spending it. The impulse was called the 'employment multiplier'.

Of course, there is much more to Keynesism, but that is the gist and enough to digest in one bite.

Keynesism would have pulled the world economy out of the Depression but only temporarily. It disregarded land speculation and collapse, which lies at the root of the problem. The stage would have been set for another collapse and then another, which, owing to the increasing capacity of industry to produce, and despite retarding factors, would become closer and closer, until there was a terrific blow-up, the depression of all depressions, which would cause a permanent breakdown of society. Keynesism was only a bandaid.

Yet there was a good side. After the Second World War, when there was a strong movement towards socialism or state ownership of industry, Keynesism, which controlled the financial side of the economy, leaving private industry to carry on, became the main economic influence in western society. Without it, socialism, as experienced in Russia and China, would have taken such a hold over the whole of humanity that it would have been almost impossible to break.

After seventy years the whole socialist deception has been revealed along with its persecutions and inefficiencies, and those who have suffered under

it clamour for change. The revelation has come just in time, because western society *itself* is about to collapse, and this should leave the field open for a third philosophy such as Georgism.