

THE KEYNESIAN REMEDY

by Arthur Gannon

Whenever financial stagnation has permeated an economy, the tendency has been for the government, banks and general public to button their pockets to save themselves from financial disaster. This increased a general deflationary trend which often resulted in depression, as it did in 1930.

Those who still possessed money were not disposed to invest it in industry, as returns above costs were too low, or non-existent. Land titles, or land mortgages did not provide an outlet, because the boom had burst, and title prices were collapsing. Money holders were placing their money in current account 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 spender – to borrow from the public, or the banks, and use the money on public works and amenities. This would create^{5,4} employment.

It may be argued that borrowing would plunge the state into 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^{5,5} which resulted from state spending, would produce incomes that would be subject to tax. When the economy became stimulated, some of the new tax revenue could be used to redeem debts caused by the borrowing. Nor would the rate of tax have to be increased, because 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, called the employment multiplier, would go on and on, becoming feebler with each round, owing to the time lag between receiving money and either spending or investing it. Consequently, several injections of the Keynesian remedy would be required before full employment was reached.

Keynesism would have pulled the world economy out of the Depression 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 until the depression of all depressions, which would cause a permanent break-down of society. Keynesism was only a band aid.

^{5,4} I have followed the usual jargon here. Instead of 'create', I would rather use 'remove the barrier against'.

^{5,5} Employment in the Keynesian sense does not necessarily mean economic employment, which is specifically directed towards production of goods and services. It means work that may or may not be productive – a sort of social occupational therapy.