

## LORD KEYNES

THE LATE Lord Keynes was a man of attractive, versatile and ingenious personality, and his writings on economic matters have gained wide attention and exerted great influence upon public policies. Some of those who have written of him put him in the same class as Adam Smith, while others still more extravagantly have claimed that all previous work in economics became obsolete and invalid because of his theories. Time will show that not all who preceded him were lacking either in intelligence or insight.

Mr. Keynes (as he then was) first came into public notice, after he had been principal economic adviser to the British delegation at the peace conference after the war of 1914-18, by his book, *The Economic Consequences of the Peace*. It was a strenuous denunciation of the economic provisions of the treaty, enlivened with somewhat vitriolic sketches of the principal actors. The book had an extremely wide circulation, and it appealed to the innate sense of justice and fair play of the British people who had soon recovered from the momentary attack of hatred that led to the return of the Coalition Government in 1918 and all the disastrous consequences which flowed from that. Keynes's reputation was made.

His subsequent economic thought, which some have regarded as revolutionary, was largely centred round a simple and not novel idea. This was, that in our existing society certain "rigidities" existed which prevented the rapid adjustment of prices to changes in the economic situation, and that it was on this account that factors of production became unemployed. In particular, it was argued that the resistance of wage-earners to reduction of wages, strengthened both by trade union organisation and by unemployment insurance and other means of preventing destitution, was the main cause of unemployment. It was impossible to break down this resistance by a frontal attack except at the cost of great suffering and social discord. Hence some way round must be found.

The way is to reduce real wages without reducing money wages. In other words, let the price of commodities increase, and wages remain stationary. One of Keynes's earlier suggestions on that line was his proposal at the time of the economic crisis in 1931 of a general tariff on imported goods. This would, no doubt, have caused an increase in prices without an increase in wages, and so might have induced employers to employ more labour for a time.

Subsequently his thought travelled mainly on the lines of monetary theory, but still with the same result. Depressions and unemployment could be cured or prevented by means of increased monetary circulation. A sufficient dose of inflation would raise prices more quickly than wages and would cause full employment. It is this idea which dominates Sir William Beveridge's *Full Employment in a Free Society*, except that there it is coupled with the notion that the Government must not only provide more money for people to spend, but must also compel them to spend it in the way which it thinks best. This variant of the Keynes idea results in anything but a free society. Other writers, such as Professor M. Polanyi, repudiate it and in effect declare that inflation is enough.

There is nothing novel in the basic idea. What Keynes contributed to it was a wealth of elaboration and a quasi-mathematical analysis which purported to prove some rather questionable propositions. The basic idea has, in fact, had many exponents and many tests. The world has not lacked theorists who were prepared to demonstrate the advantages of increasing the quantity of money in circulation and the ease of providing it by the printing press; nor has it lacked governments who, whether they knew the theories or not,

have put the printing press into operation. The results are not too encouraging. The instrument is apt to get out of control, and when that happens the ultimate beneficiaries of the experiment are usually the owners of land and fixed capital, while those who have lent money either to the State or to industrial concerns, find themselves expropriated; nor does the worker fare well in such violent turmoils.

Nevertheless, there is an element of truth in the idea that more men might be employed if the real wages each earned were reduced. There is, however, an underlying assumption that the wage-worker will not see the trick. Once the policy becomes known and understood, it will be no easier to compel men to accept a cut in wages by the indirect means of increase of prices than by the direct means of reduction in wage rates.

In the same way the manufacturer and trader when he understands what is in view will discount the possible benefits to himself of increased prices by the knowledge that the price of wages and of everything else will increase.

Thus the policy of monetary manipulation, once it becomes known and understood as a policy being pursued by a Government, immediately leads to economic measures to avert the consequences and to counter-speculation. The whole conduct of economic affairs then becomes obscured and impeded by guesses about the future policy of the Government and how it will affect prices, and instead of greater stability being introduced into the economic system, greater uncertainty is injected.

This also is verified by past experience. Whenever any country has suffered from a paroxysm of inflation, the first and essential step taken to get its trade and production going again satisfactorily has always been to establish a new monetary system which appears to be fortified and buttressed against any interference by the State.

On further examination we think that those who believe that Lord Keynes effected a revolution in economic thought will discover that his ideas fall into a pattern which was already known.

So far as we recollect he never mentioned land in any of his writings. It would not be fair to assume that he did not realise that nothing can be produced without land. For the sake of record it may be added that in reply to a correspondent who wrote to him asking whether the essential thing was not to get unemployed labour to work on unemployed land, he replied that this was exactly what he was after!

Indeed, in practical affairs he seemed to be well acquainted with the economics of the land question. It seems that many of the investments of the college of which he was bursar and of other institutions he was associated with were in land. Nothing could have been wiser from their point of view, so long as we continue to have periodic periods of inflation and so long as we refrain from taxing land values.

## FOLLOWING KEYNES

PROFESSOR POLANYI is not a professional economist but a chemist. His writings on economic subjects display a clarity and logic which are all too rare. This quality is well exemplified in his latest book.\* Once the premise of his argument is granted, the rest follows by inevitable reasoning.

This premise is the Keynes theory that unemployment is due to insufficient spending, and that the insufficiency is due to savings being made which are not compensated by an equal amount of spending. Professor Polanyi does not attempt to prove this premise. He assumes it. We do not

\* *Full Employment and Free Trade*, by Michael Polanyi, F.R.S. (Cambridge University Press), 8s. 6d.

intend to discuss it here. What we prefer is to draw attention to the consequences which Professor Polanyi deduces from it.

If the amount of employment depends upon the quantity of money in circulation, then the remedy is simply to put more money into circulation. How is this to be done? The most obvious way is to reduce taxation, leave a gap in the national budget between expenditure and revenue, and fill this gap by issuing sufficient money, or credit.

Professor Polanyi advocates this course because it maintains what he calls the principle of neutrality, that is to say it does not involve direction or control or interference with the economic life of individuals. He points out that most of those who adhere to the Keynes theories wish them put into operation by the Government embarking upon vast constructional projects and borrowing money to finance them. For the Government to undertake large constructional tasks for the sole purpose of carrying money into circulation is "squandering the resources of the nation," and is far from neutral in its effects.

In like fashion he condemns the idea which dominates Sir William Beveridge's *Full Employment in a Free Society* that the State (to quote Sir William), "if it undertakes the responsibility for ensuring sufficient total outlay for full employment, must also concern itself with the direction of the outlay." On this, Professor Polanyi says: "It is no exaggeration to say that it has become almost universally accepted by the British public to-day that the increased public expenditure, the greater equalisation of incomes and the more effective supervision of private investment and private consumption, etc., advocated by Beveridge form part of the conditions required to establish full employment. Few people realise that these merely represent measures which Beveridge (and others) have taken an opportunity to urge, even although they have essentially nothing to do with the establishment of Full Employment. That Full Employment could in fact be attained also, for example, in conjunction with a reduced quota of public expenditure, an increased inequality of incomes and a relaxation of public responsibility for consumption."

If the Government intervenes in order to keep businesses in operation which otherwise would cease, "any insolvent enterprise would have as good a claim as another to demand public support, and no Government authority could equitably withhold aid from one such enterprise if it had previously given it to another. Support for individual enterprises has . . . never been put into effect without causing justifiable resentment for sheltering inefficiency, bolstering monopolies and inviting wire-pulling by interested groups." Hence the principle of neutrality is a variant of the separation of economics from politics. "The latter maxim has recently fallen into discredit: partly on account of its abuse by those who upheld it to bar the State from fulfilling its humanitarian obligations: and partly through the influence of Marxist Socialism which has weakened the sense for the ordered division of powers which alone can preserve society from arbitrariness, corruption and oppression. We must restore respect for this maxim once more."

As, in this theory, unemployment is caused by insufficient monetary circulation, tariffs can be no cure for it. On the other hand, Professor Polanyi sees no hope of getting rid of tariffs while unemployment is rife. "Free Trade through Full Employment must be the aim. The purpose of Free Trade remains, as Adam Smith saw it, to secure the best division of labour between nations, regions, and individual producers. The ideal of Free Trade cannot be fully realised in practice; but even so, individual commercial competition in the market remains the only mechanism by which any acceptable division of labour can be adjusted. Price agreements and restrictions on entry to industry are, in general,

clumsy and lawless methods of governing industry. They can be operated only by arbitrary decisions which open the door to intimidation and corruption. Such lawless methods are particularly pernicious when practised between nations as partners to them. They embitter and poison international life more than any other."

Professor Polanyi is well aware that the course which he advocates has the effect of increasing prices when the monetary circulation is increased and reducing them when the circulation diminishes. This also affects wages, but wage adjustments "will never quite catch up with these changes. Thus the real wage rate will inevitably move in a direction opposite to changes in circulation and the price level; expansion will cause [real] wage rates to decline and contraction will cause them to rise." Professor Polanyi thinks that this would be largely compensated by the increase in total wages through full employment. He admits that those who were already working full time might suffer loss. "Compensation would have to be sought in additional redistributive taxation for which the swelling profits of industry would offer the obvious source." Here, he exhibits less than his usual logic. Is it possible to conceive of taxation being levied upon men in such a fashion as would take account of whether their real wages had risen or fallen, or of the benefits of public expenditure being distributed according to such a measure? The thing is inherently impossible.

In his passage dealing with real wages, Professor Polanyi has brought into relief what some students of Lord Keynes' various writings have long recognised, namely, that the essential feature of every proposal which he has ever put forward for dealing with unemployment is by some means or other to reduce real wages and hence to bring about a larger demand for labour. The logic of this is not in question. What is in question is whether it is the only means of curing unemployment.

Professor Polanyi nowhere mentions that land is required for every kind of employment. We must, therefore, assume that he is quite unaware that land is ever held out of use for speculation and that his proposals would stimulate speculation. Perhaps he will yet discover this. Meanwhile, we must thank him for pushing the Keynes theory to its logical conclusion and demonstrating that the Beveridge proposals are useless excrescences upon the streamlined structure of monetary expansion.

## LOOK AROUND EUROPE

LET GENTLEMEN look around Europe and they will find that the civil power was from time to time drawn in by pretended exigencies to allow and maintain an armed force in peace; which, as they at first thought, and were instructed to believe, was intended to add strength to their authority, to secure them in the possession of their religious and political rights; to watch the ambitious designs of their neighbour nations; and to preserve the balance of power. Glorious intentions, if they had proved real! But though they used all possible precautions, though they made it the condition of their establishment that the forces should be disbanded when the extraordinary occasion for which they were raised ceased; yet they perceived too late that their condition was not binding; that they had erected a power superior to themselves; that the soldiery, when they had tasted the sweets of authority, would not part with it, and that even their princes, after these temporary concessions made to them, began to think that ruling by an army was a more easy, a more compendious way of government than acting under the restraints and limitations of the laws of their country. And now they wear the chains which they put round their own necks, and lament the loss of that freedom which they unhappily consented to destroy, and which could never have been destroyed without their consent.—William Shippen, M.P. for Newton, Lancashire: In the debate on the Number of the Land Forces, December 4, 1717.