

THE REIGN of Keynesian economic theory in the political realm of counter-unemployment policy should long be over.

Experience world-wide has demonstrated that somewhere in Keynes' analysis there is a fundamental flaw. Yet, to date, there has been a lack of a concise and coherent treatment of Keynes indicating in detail the point at which he went astray and the road he should have taken to attain full employment equilibrium. Until some other answer to the problem of depression gains acceptance, the Keynesian system will prevail, in spite of its evident shortcomings. The arena of economic orthodoxy, then, is wide open to anybody with a plausible and workable alternative proposal.

This is doubtless the reason for the publication of a book by A. R. Cannon.* Mr. Cannon is, by present-day standards, commendably brief in his analysis, not through any aversion to meeting economic orthodoxy on its own ground over important detail, but rather through an avoidance of padding. Consequently the book tells the reader what he should know and is at the same time enjoyable to read.

It begins with a brief review of depressions and various theories advanced to explain them. Keynes entered the picture at the point at which it became clear that the recognised classical economists had little to offer in ironing out the periodic "hard times." He maintained that for various reasons it periodically happens that the money interest rate rises relative to the falling marginal efficiency of capital (the return from the employment of capital assets) thus making investment unattractive and leading to depression.

Keynes suggested that if the money interest rate could be induced to fall along with the marginal efficiency of capital, then investment could still remain attractive and depression be averted. He reasoned that, since the interest rate is the "price" of money, an increase in the quantity of money would automatically reduce the interest rate. He foresaw that there was a limit to the reduction of the interest rate by this means and proposed that at times when

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Depressions and the Keynesian solution

the marginal efficiency of capital continued to fall below this limit, the state would have to undertake huge public works if unemployment were to be avoided.

Cannon points out that Keynes failed to recognise the significance of the behaviour of land prices in times of boom and slump. He suggests that when land prices are rising quickly, they tend to pull the interest rate up with them, though not as steeply due to differences of liquidity. Further, speculation in land during a boom drives land prices up faster than the rent yield and the "rent rate" falls below the interest rate. At this point, says Cannon, money lenders and would-be land buyers become cautious. Land prices poise and then begin to fall. Depression and deflation have set in. Cannon gives his remedy for this phenomenon—the "nationalization of rent." He then demonstrates

that, in certain circumstances, Keynes' assumption concerning the effect of variations in the quantity of money upon the interest rate is absolutely wrong—as experience has indeed proved.

I have concentrated upon what most interested me in Cannon's work, but there is much more of interest in this little book. One might here and there be tempted to take issue with him upon less important points. And at first glance the book might appear a little pricey in terms of depreciated sterling, as limited edition works inevitably do when compared with mass-marketed products. But the author is to be congratulated upon producing a concise and readable thesis which should be compulsory reading for all who consider themselves political economists.

***Depression, Inflation and Employment,** A. R. Cannon. Available from *Land & Liberty*, £2.30 plus 12p postage.

"Alice in Blunderland" *continued from page 37*

"We have mapped out Tower Hamlets using four of Newman's categories and discovered that ten per cent. of council-owned homes in the borough have all four of his top disadvantages. One block has 576 homes which can be reached from one entrance," says Dr. Coleman.

She and her team have already decided, on the basis of Newman's findings, which blocks they expect to have the worst social problems. "Now we are going to the police and the housing and welfare people to see if they tally up. The results will be fascinating."

The ultimate solution to the housing crisis, in Dr. Coleman's opinion, is to abandon planning and return to something more resembling the free-for-all that preceded the first Town and Country Planning Act of 1947. "All we've done, with our planning departments, is create an awful, national

bottleneck of decisions. The backlog of waste land is growing and growing. The situation is going from bad to worse."

Where Tower Hamlets is concerned she believes local people should have more choice in the type of housing they can obtain. "People in the borough have little control over their lives. Their home is something that is allocated to them.

"There are plenty of alternatives to subsidised council tenancies—self-build homes where a couple buys £6,000 worth of materials and builds their own home; nuclear housing, where a very small, cheap house is built so the couple can add onto it as the children arrive. . .

"It is high time Tower Hamlets Planning Department put the ability to control their own lives back into the hands of the people."

◆ *This article is reproduced courtesy of the Evening News, London.*