

Chapter 2

Keynesianism

The architect of the inflation with which the world is faced was John Maynard Keynes. Those initially and currently responsible for it are the organizers of the International Monetary Fund and their successors.

Ultimate responsibility, however, belongs to the leaders and teachers of the free world who, if they did not, should have known the truth about it, and if they did, utterly failed to make it known. A short excursion into history will make this clear.

The Coinage Act of April 2, 1793 made the dollar the legal unit of currency and legal tender in payment for all debts in the United States.

The Act provided that dollars issued by the United States should be redeemable by the Treasury Department in 24.75 troy grains of fine gold or 371.25 of fine silver.

As the accompanying chart makes clear, the dollar's purchasing power at that time was equal to 100% of what this quantity of gold or silver would buy. It fluctuated between 75% and 85% of its original purchasing power until the War of 1812. During that disastrous war it dropped as low as 56%. It not only recovered but during the 1820's rose way above its original purchasing power.

The history of its purchasing power for the first one-hundred fifty years of its existence can be described as one of ups-and-downs fluctuating around its original purchasing power. But then in the 1940's something happened which completely changed its history.

What happened?

Two things happened: (1) The International Monetary Fund was organized in July, 1944 at the famous Bretton Woods Conference, and (2) Keynesianism became the dominant monetary policy of all of the nations which became members of the IMF. There was no explicit endorsement of Keynesianism by the Conference or by the IMF, but for all practical purposes the conference set the machinery to Keynesianize the West in motion.

Since then, the chart not only records what has happened to the dollar, it points to what is going to happen to the dollar since nothing has been done to change the direction in which the dollar is going. In the first place, in the more than thirty years since this double "happening" the dollar has fluctuated but always fluctuated downward in purchasing power. Today, as I write, it has less than a third of its original purchasing power. In the second place, as I have already pointed out, there is nothing in sight but more and more inflation and less and less purchasing power.

Neither of these two happenings contributed a particle to making the dollar a more stable currency unit. Had the Coinage Act of 1793 provided for a stable currency, or had any subsequent act dealing with the currency provided such a currency, the purchasing power of the dollar would have begun to fluctuate in all probability not more than one or two percent around a level—neither a rising nor falling—secular trend. It would have been neither inflated nor deflated and it would not have developed the downward secular trend which began early in the 1940's. The chart makes vividly clear the long-time trend of increased inflation and de-

creased purchasing power of the dollar. It makes it clear that since this double "happening" the money managers of the country have, for all practical purposes, been engaged in murdering the dollar.

When the history of the mis-education of mankind is finally written, few of the outstanding mis-educators will outshine John Maynard Keynes. Ironically, Keynes was knighted for both his disservice as a mis-educator and his disservice as an economic activist.

It is a tragedy that the rationalizers of economic half-truths and economic expedients (which are rarely truly expedient) should be accepted not only by the general public but also by professional economists who should have spotted their phoniness immediately. Competent economists should all have denounced Keynesianism as charlatanism—a charlatanism made worse by the moral naiveté of Keynes and his devotees who were and are still unconscious of its nature. The Keynesians, however, are sophists who have no difficulty in the present climate of economic opinion in "making the worse appear the better written." The eminence of so many of them and the influence they exercise both in Washington and in Wall Street only proves the credulity of those who should have highly developed talents for skepticism.

Will the price we will have to pay to disillusion the West about Keynesianism be as great as the price paid by those whose faith in the New Era of the 1920's was destroyed during the world-wide economic collapse of 1929?

Will the price we will have to pay be greater; will it be not only the collapse of the dollar and with it the collapse of the whole IMF, but also some form of fascism, or —

Will it mean that the price we will have to pay will also include some such revolutionary hell as Lenin and his co-

horts visited upon Russia and which the other "dictatorships of the proletariat" are now inflicting upon the rest of the totalitarian Communist world?

What the International Encyclopedia of the Social Sciences says about the Keynesian revolution is very true: "It is generally agreed that the impact of John Maynard Keynes on the development of economic theory was greater than that of any other economist in the first half of the twentieth century".

Yet everything he wrote and everything that he succeeded in doing has to be considered in the light of the fact that he was so obsessed by his fears about the problem of unemployment that he did not hesitate to rationalize and encourage unleashing the scourge of planned inflation.

For Keynes, providing prosperity and full employment justified deficit spending and payment for it with inflation. The tactics he recommended can be likened to that of a doctor who is confronted with a man shivering in bitter wintry weather and infects him with typhoid so as to make certain that he has a high fever. The fever will certainly make him feel warm, but consider the price his patient will have to pay for that short period of warmth!

Keynes was too intelligent a man not to realize that he was monkeying with fire. He himself once said:

Lenin...declared that the best way to destroy the Capitalist system was to debauch the currency...Lenin was certainly right. There is no subtler, no surer way of overturning the existing basis of society.

Yet I can think of no man who, with the best intentions in the world, has done more to "debauch the currency."

Like most economists, Keynes labored under the delusive notion that ethics and economics have nothing to do with one another. He was perfectly willing, therefore, to prescribe legalized robbery by the government of every person who had a savings account, who held a life insurance policy, who had savings invested in bonds, or who lived on

a pension. Debasing the value of money and reducing the purchasing power of people's salaries and savings is a very subtle way in which the government quite legally either appropriates what the people lose or transfers it into the pockets of those the government wishes to favor. True, Keynes wanted this done with restraint, and only when needed to stimulate employment, but he ought to have known that no government in any way beholden to the masses of people would exercise such self-control.

Keynes, like most economists, had not the remotest notion of what was the correct solution of the problem of unemployment. He took it for granted that anyone who was unemployed had the right to demand of the government, "You furnish me a job!" If he ever read Henry George, the fact made no impression upon his thinking. He did not realize that involuntary unemployment was impossible in a society in which the system of land tenure gave everybody equal access to land. Even Marx admitted that there could be no surplus of labor until land had been first preempted by private owners.

Men are not born with any natural right to employment by others. The only natural right they are born with is the right to extract a living from the cultivation of the earth. Resorting to an expedient like inflation to provide employment is no substitute for justice—and justice is denied to everybody under a system of land-tenure which makes it possible for a few to preempt land and resources which should be accessible to everybody who is willing to pay ground rental for it.

Keynes cannot be said to have belonged to a school of economic charlatanism such as that represented by W. H. (Coin) Harvey, whose book, "Coin's Financial School" was sold by the hundreds of thousands during the panic of 1893. Nor to a school such as that represented by "General" Jacob S. Coxey who organized a march on Washington to demand the printing of an unlimited quantity of greenbacks so as to

put the country "back on the tracks" to prosperity. The constantly increasing numbers of marchers in Coxey's army when they finally reached Washington scared the living daylights out of Congress and the Administration.

It is more correct to say the Keynes created a school of economics such as that created by Major C. H. Douglas with his scheme for Social Credit. But he was much more clever and therefore more dangerous.

This is not a history. No historical account of the Bretton Woods Conference is needed for this study. But there are a number of things for which the Conference was responsible and a number of facts about the Conference which are germane.

The first is that it was important. It dealt with a problem of first rate importance. Secondly, it set up an organization, the International Monetary Fund (IMF), which used the dollar as a reserve currency. With splendid unrealism it assumed that the United States would always redeem its dollars in gold at \$35 an ounce. Thirdly, it made an agreement, presumably to be a permanent agreement, about the rate at which the various currencies belonging to the Fund would be exchanged. No matter how many times since then this agreement has broken down because of the revaluation of the pound, or the franc, or the mark, or the yen, it kept on making the same kind of "permanent" agreements. After all these years, it has still not learned that agreements for fixed exchange rates will not last. Fourthly, it implicitly, if not explicitly, accepted Keynesianism—the issue of money by its members to ensure full development and full employment.

Since that time, as Jacques Rueff points out with biting irony, it has learned nothing from its previous failures and so repeated them at the Smithsonian Institute Conference in Washington when the dollar was devalued.

The IMF has really only done one thing new—it created “paper” gold to use as a reserve when it discovered that the United States simply could not redeem its promise to redeem dollars in gold. That economists today, in the twentieth century, could take the concept of paper gold seriously shows that they have forgotten all about what they used to say about fiat money during the nineteenth century.

On the whole the record proves that the members of the IMF are all champions of expediency and not champions of what is economically sound and morally right.

That there are economists who try to escape from pseudo-economics is demonstrated by Irving Fisher.* His interest in macro-economics dominated his life; his interest in micro-economics was minimal. An activist as well as a theorist, he organized the Life Extension Institute, which became a great success, and the Stable Money League, which did not. He tried to persuade the whole fraternity of the importance of stable money. I had the pleasure of trying to help him a little during the Great Depression in the 1930's when he was trying to create a workable scrip when money was almost unobtainable. But it was his work on index numbers which I consider outstanding. I believe him to be as greatly underestimated as Keynes has been overestimated.

Ever since Stanley Jevons in England published a paper

*Irving Fisher's main works dealing with money included *Mathematical Investigations in the Theory of Value and Prices*, Yale University Press, 1961; *The Nature of Capital and Income*, Macmillan, 1927; *The Purchasing Power of Money: Its Determination and Relation to Credit, Interest and Crises*, Macmillan, 1920; *Why Is the Dollar Shrinking?: A Study in the High Cost of Living*, Macmillan, 1914; *Stabilizing the Dollar: A Plan to Stabilize the General Price Level Without Fixing Individual Prices*, Macmillan, 1920; *The Making of Index Numbers: A Study of Their Varieties, Tests, and Reliability*, Houghton Mifflin, 1927; "Our Unstable Dollar and the So-Called Business Cycle," *Journal of the American Statistical Association*, 20:179-202; *The Money Illusion*, Adelphi, 1932; *Inflation?* Adelphi, 1933; *Stamp Scrip*, Adelphi, 1933; *After Reflection, What?*, Adelphi, 1933; with Hans R.L. Cohnsen, *Stable Money: A History of the Movement*, Adelphi, 1934; *100% Money: Designed to Keep Checking Banks 100% Liquid, to Prevent Inflation and Deflation, Largely to Cure or Prevent Depressions, and to Wipe Out the National Debt*, New Haven Printing, 1935.

which he called "A Serious Fall in the Value of Gold" and began to use index numbers to measure changes in prices, there has been no excuse for the failure of economists to use them as a means of establishing a stable unit for monetary measurement. Since Fisher's exhaustive work in this field, there is not a single technical problem which cannot be solved in connection with establishing a stable dollar, a stable pound, a stable mark, or a stable franc. The problem which is insoluble is how to get politicians to give up the political leverage inflation provides for keeping them in office, and how to get investment bankers to give up the leverage it provides for launching securities when prices are going up. In a way this is only saying that not only does the quest of power corrupt but that the quest of greed is equally corrupting.

So far as economists are concerned, they already know how to establish a stable currency unit—for *statistical purposes*. Don't they already distinguish between what they say in constant dollars from what they say in current, variable and inflatable dollars? Index numbers make it possible to do this, but they make it possible to do much more—they make it possible to issue a stable money. If constant dollars are ever to be moved from the charts and statistics and from the books and papers which abound in the abstract world in which economists live into the real world in which people earn and spend and buy and sell, economists must give up expedients and palliatives like Keynesianism and accept the fact that nothing short of replacing our rubber monetary units with stable monetary units which have a constant purchasing power, will do.

Among the cynics of today there is a saying: "statistics do not lie, but statisticians do". In the preparation of the chart describing the history of the dollar, I discovered that what used to merely irritate me was in fact a means of misrepre-

sentation, of concealing the truth, of—to use a short and ugly word—lying. I have always been irritated by the frequency and the variety of the “base years” used in statistical tables and charts. When I wanted to prepare a single graphic chart to show what had happened to the dollar since it came officially into existence, I was faced with four sets of base numbers. The only available data consisted of four sets of Wholesale Price Indexes with four different base years: 1910-1914=100; 1926=100; 1947-1949=100, and 1957-1959=100. To convert them into a single table was a tedious, tricky and irritating job.

The current issue of the “Survey of Current Business” uses still another base year to show the movement of prices, 1967=100. Why all these changes? To mystify? Why do statisticians and economists change these base years for the indexes which purport to show the cost of living and the purchasing power of the dollar? Why do they change them more and more frequently since inflation has become a part of the American Way of Life?

The fact is, their changes make it easier to misrepresent the facts, to avoid the truth, to lie in the meanest way—by telling a half-truth. The truth about the matter is that if the increase in wholesale prices which was shown as 115 on a 1967 basis had been shown on a 1926 base, the figure which would have had to be used would have had to be around three times as much, 445—a figure so startling as to focus attention upon the real magnitude of the inflation with which the Country is cursed.

The base year I am using in my chart is 1793—the year the dollar came legally into existence. The chart makes a graphic presentation of the fact that since Keynesianism took over, Washington has been murdering the dollar. No wonder there is an undercurrent of unease even in Washington. Unconsciously Washington knows that we are sitting on a time-bomb and that the moment something happens so that confidence in the dollar is threatened, something like 1929 will repeat itself. They talked about a “New Era” before the

Great Depression. They are not calling the present period a New Era today. But the psychological climate is the same—everybody has been conditioned to feel that the laws now regulating money and banking make a repetition of anything like 1929 impossible.

I wonder. The nature of technology changes; we now use atomic bombs instead of bows-and-arrows. But the nature of the human animal does not—or changes so slowly that for all practical purposes it does not change at all.

There is another “lie” to which I think it worth calling attention—an inadvertent rather than a deliberate lie. This is the lie represented by the use of the word inflation. The word suggests something getting bigger—when a balloon is inflated, it becomes bigger. But they are not inflating the dollar in Washington, they are degrading and debasing it. They are increasing the quantity, but they are debasing its quality.

It would be a very healthy thing if we substituted the word *debasement* for the word *inflation* whenever we talk about what Washington is doing to the dollar. If the politicians in both parties were to start accusing each other of responsibility for debasing the dollar, politicking would be much more realistic.

I have referred to what is being done in Washington as murdering the dollar. But murdering of the same kind is taking place all around the world—from Washington to Tokyo, on the other side of the world. In 1971, prices in the United States went up 6.2% but in Sweden they went up 6.3%, in Japan 8.3%, in Brazil 21.7%, and in Chile 29.3%. Said a Swiss economist:

The greatest trouble for the world now is American inflation. If the United States, with its powerful economy and the world's leading currency cannot hold its rate of inflation below 5 to 6 percent annually, what hope is there for the rest of the world to restore stable conditions?

For nearly 200 years the farmers, the businessmen, the manufacturers, and the rank and file in America have labored under an incubus which alternately inflicted upon

them the miseries of "hard times" and then spasms of wild speculative prosperity. The record constitutes a blistering indictment of bankers, politicians, businessmen, economists, statisticians and everybody who has had anything to do with the issuance of money. It is no exaggeration to say that the free economy, which the founders of the Republic considered essential to the building of a free society, is foundering.

The vision of a world composed of free nations may finally fade out because of the mishandling of their monetary systems. Among the principal culprits responsible for this will be those in power in the Wall Streets and the Washingtons of each free nation—the bankers and the politicians who have issued and managed their currencies. It is they who should be held responsible for the sorry record to date and they who should be pilloried for what they are continuing to do at present.

The United States Treasury Department produces detriments and not goods by issuing money and inflating the quantity of it with the assistance of the Federal Reserve Board and all its member banks throughout the country.

It alternately expands and contracts the supply not in accordance with the needs of the economy but in accordance with the needs of Washington at best, and in accordance with the needs of Wall Street at worst. So intimate is the tie between Washington and Wall Street that it is difficult to decide to whom to assign the major responsibility for the debasement and murdering of the dollar. But that these two centers do bear the major responsibility is incontestable: Wall Street by printing insecurities and the Treasury Department in Washington by printing dollars. Wall Street issues pseudo-securities and Washington pseudo-money. Similar centers exist in all the large industrial nations of the world. England, with the appearance of the Industrial Revolution, pioneered in pseudo-production. Japan is the latest present-day industrial nation to join in the game of pseudo-production. No doubt others will arise until the last of the free

economies disappear, and the verdict of the Inquest of History upon what Lincoln called "the last great hope of mankind" will be death by monetary suicide.

I will throughout this study stress the fact that neither Wall Street nor Washington should have any part in or control over the issuance of money. To make clear what I mean when I speak of Wall Street and Washington, it is necessary to distinguish between what they in theory are supposed to be and what they in fact are.

Wall Street, in theory, is the center of the financial system which provides properly and effectively for the capital needs of the nation. But Wall Street is in fact a speculation center organized and operated for the purpose of enabling a self-selected minority of men and of boundless greed to become millionaires and billionaires. Whatever Wall Street does to provide for the capital needs of the nation is incidental to, and misshaped and distorted by, what it in fact is.

Washington, in theory, is the establishment which governs the nation for the purpose of providing for the protection and for the welfare of the people it governs. Washington in fact is an establishment misshaped and distorted for the purpose enabling men of boundless ambition to gratify their desire to exercise power and to exploit it as long as they can.

In theory the functions which the two perform are entirely different. In practice, however, both the men of greed and the men of power have found that they can gratify their desires far more effectively if they work together. In practice, Wall Street and Washington operate as if they were siamese-twins. And this is the way they are both operating in dealing with Keynesianism.