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.