

Now Will They Get the Message?

N. K. GARDNER

AT THE END of his main work, *The General Theory*, Keynes complained that: "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist." There is a rich irony in the reflection that the truth of this is more apparent today than ever it was, and the defunct economist to whom the practical men in the Treasury are enslaved is none other than John Maynard Keynes.

It will be a relief to those readers who never got round to understanding what Keynes had to say about the money supply that now they need not bother. Hardly any modern economist would now regard it as having more than historical interest. The importance of Prof. Walter's new paper*, lies not so much in its contribution to economic theory, therefore, as in the hope that it may lead to the final liberation of those practical men who are in control of the money supply in the United Kingdom. A recent speech by Lord Cromer may be taken as an indication that Britain's bankers are already shaking themselves free.

Until the early 1950s it was thought by most economists that Keynes' analysis of "liquidity preference"

in the effect of monetary policy on the economy had disposed of the quantity theory of money, which had indicated that the quantity of money was a decisive influence on the level of prices. The quantity theory had indicated that increases in the money supply, whether by the printing press or by the open market purchase of securities, would lead inevitably (other things being equal) to all round price increases. The followers of Keynes had been saying that since, in practice, other things are not equal, one cannot be sure what would be the effect upon prices of an increase in money supply. Government policy should therefore (they argued) be to use the money supply purely to regulate interest rates, and should use budgetary weapons to control inflation. The "re-instatement" of the quantity theory into respectable economic thought by Prof. Milton Friedman of Chicago in the early

1950s went unnoticed by Treasury economists, and in 1959 the Radcliffe Committee re-asserted the "money does not matter" attitude to inflation.

In 1968 a study by the Brookings Institute showed just how disastrous had been the enslavement to Keynes. Their now-famous conclusion was that the effect of the efforts of post-war British governments to "stabilise" the economy by means of fiscal policy had on balance been de-stabilising. One has only to compare the state of the British economy with those of countries whose governments appreciated the importance of controlling the money supply (as West Germany and Japan) to appreciate what this has cost Britain.

Against this background we now have a statistical study by Prof. Walters and his colleagues which demonstrates that over most of the period between 1881 and 1968 the effect of the supply of money on prices has been significant, and that it was in the direction predicted by the quantity theory. Particularly interesting is their study of the years 1967 and 1968 during which the economy experienced "a dramatic increase in the quantity of money" together with "a policy of tight budgetary constraints." The author concludes (somewhat mildly, I thought) that "the monetary stimulant was more powerful than the budgetary depressant." The main recommendation of the paper is, unsurprisingly, "that the government should stabilise the quantity of money."

I doubt whether many readers of *LAND & LIBERTY* will wish to pay seven and sixpence for an authoritative statistical demonstration that an increase in the money supply leads to inflation! Some might perhaps wish to keep a copy to show to their grandchildren so that they can say, "I remember the days when the British Government pursued a Keynesian monetary policy."

It is fairly certain, I think, that we shall be able to look back on 1969 as the year of the emancipation of Britain from the tyranny of Keynesian monetary policy. If I am right, then Prof. Walters will be entitled to a modest share of the credit.