KEYNES' POLITICAL PHILOSOPHY: THE GESELL CONNECTION

William Darity, Jr.
University of North Carolina at Chapel Hill

Karl Marx, [1963, 70] perhaps the most astute student of economic doctrine, once made the famous and apposite observation that in substantial passages of *The Wealth of Nations* Adam Smith "was very copiously infected with the conceptions of the Physiocrats." In parallel fashion it can be argued that in substantial portions of *The General Theory*, J.M. Keynes was a mere Gesellist, particularly but not uniquely, in his expressions of political philosophy vis-à-vis the relationship between state and economy.[1]

Keynes' political philosophy was not the sole way in which he took on Gesell's mantle. So much of Keynes' monetary outlook is closely aligned with Gesell's that the resemblance is more than uncanny. Keynes' adoption of the position that the monetary system and the rate of interest function as a barrier to prosperity is the central theme of Gesell's [1934; 1936] two volume work, *The Natural Economic Order*.[2] Gesell [1934, 217-22] used a parable involving a conversation between Robinson Crusoe and a newly marooned stranger on Crusoe's island to illustrate the absurdities of the money/interest system (and to beat a bit more on Karl Marx).

The upshot of Gesell's parable was to argue that for those seeking to undertake productive investments the interest bearing aspect of money created an unnecessary cost of production that limited the scope of their activities, thereby limiting the volume of employment. Moreover, because those persons with wealth could obtain income from lending money at interest or from leasing land for rent, they would have little incentive to engage directly in financing productive investments themselves. Nor would they seek to hold wealth in the form of goods, the production of which would require employment. Indeed, when they perceived loan rates to be excessively or temporarily low they simply could hold onto their money, waiting for the rates to rise. The demand for money and the demand for land as portfolio items is not an implicit demand for employment.

Thus, for Gesell the money/interest system constituted a structural barrier to continuous full employment. Some means of reform of the system was needed to minimize the tendency of money holders to retain their funds. Gesell was to advocate a stamped money scheme to impose a direct cost on money holders for refusing to part with their money. Keynes [1936, 356] applauded Gesell's parable, describing the "dialogue between Robinson Crusoe and a stranger" as "a most excellent economic parable —as good as anything of the kind that has been written to demonstrate the point" just before identifying what Keynes felt was the "great defect in Gesell's theory," Gesell's failure to discover the theory of liquidity preference.

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Keynes' full-blown theory of liquidity preference identified the negligible carrying cost of money as a fundamental source of difficulty, creating an undue incentive for people to flee to money rather than undertake investment in real capital. Correspondingly, he saw in Gesell's stamped money proposal a flash of brilliance that could, in principle, impose a carrying cost on money. Gesell [1936, 9] wrote explicitly, "...we must subject money to the loss to which goods are liable through the necessity of storage. Money is then no longer superior to goods; it makes no difference to anyone whether he possesses, or saves, money or goods."

The Gesell scheme would have required holders of currency to have the legal tender stamped at regular intervals to maintain its character as money. A designated fee would be charged for the periodic stamping. Keynes' attachment to liquidity-preference doctrine made the money stamping idea especially appealing. Keynes [1936, 233-34] believed that, at a certain threshold level of the rate of interest on money, the rate becomes relatively inelastic in response to changes in the quantity of money. This inelasticity of the money rate is due to money's liquidity premium, its implicit yield. For Keynes the floor on the money rate of interest was not set by expectations of a future rise in the rate of interest as proponents of the "liquidity trap" would have it; rather it was set by an intrinsic property of money, its characteristic of being, by definition, the most liquid asset.

As a consequence a stamped money scheme would impose a carrying cost on money that could offset the liquidity premium and diffuse the attractiveness of holding money:

> Thus, those reformers, who look for a remedy by creating artificial carrying costs for money through the device of requiring legal-tender currency to be periodically stamped at a prescribed cost in order to retain its quality as money, or in analogous ways, have been on the right track; and the practical value of their proposals deserves consideration. [Keynes, 1936, 234]

Stamped money was, in Keynes' [1936, 357-8] estimation an "idea" that "is sound." However, Keynes argued, Gesell's failure to unearth liquidity-preference led him to overlook the fact "that money was not unique in having a liquidity-premium attached to it, but differed only in degree from many other articles, deriving its importance from having a *greater* liquidity-premium than any other article." Stamping the prevailing money stuff would not stamp out the escape route to liquidity, according to Keynes. For example, applying the stamping system to currency notes simply would result in "a long series of substitutes...step[ping] into their shoes — bank money, debts at call, foreign money, jewelry and the precious metals generally."

It is at this stage that Keynes [1936, 358] makes the peculiar but intriguing observation that "...there have been times when it was probably the craving for the ownership of land independently of its yield, which served to keep up the rate of interest....," i.e. even land functioned as money at some previous point in time. The very thrust of Gesell's [1936] second volume of *The Natural Economic Order* is to

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suggest the same idea, that land rent can have similar inhibiting effects on prosperity as the money rate of interest, and to call for nationalization of land. Keynes [1936, 358] recognized that Gesell's call for nationalization would mitigate the role of land in keeping up the rate of interest.

Gesell, [1936, 9] following Pierre-Joseph Proudhon in the spirit of an anti-Marxist socialist (given Gesell's somewhat idiosyncratic reading of Marx), advocated the destruction of capitalism and capital as a class not by revolution but by prosperity.[3] If real capital were to become so abundant that its return fell to zero, that would spell the end of capitalism. Therefore, high employment and production, rather than economic depression and labor unrest, were perceived as the superior roads to socialism. How different is this from the implications of the following passage from *The General Theory*?

> Interest to-day rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital. An intrinsic reason for such scarcity, in the sense of a genuine sacrifice which could only be called forth by the offer of a reward in the shape of interest, would not exist, in the long run, except in the event of the individual propensity to consume proving to be of such a character that net saving in conditions of full employment comes to an end before capital has become sufficiently abundant. But even so, it will still be possible for communal saving through the agency of the State to be maintained at a level which will allow the growth of capital up to the point where it ceases to be scarce.
>
> I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution. [Keynes, 1936, 375-6]

Both Keynes and Gesell called for the regime of low-to-zero interest on money. For Keynes [1936, 356] there was no valid reason to subscribe to the view that interest should be high within the terms of his theoretical vision of the economy where investment drove saving rather than vice versa:

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> The justification for a moderately high rate of interest has been found hitherto in the necessity of providing a sufficient inducement to save. But we have shown that the extent of effective saving is necessarily determined by the scale of investment and that the scale of investment is promoted by a *low* rate of interest, provided that we do not attempt to stimulate it in this way beyond the point which corresponds to full employment. Thus it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment.

The close correspondence in views between Keynes and Gesell has been obscured by two failures in the modern development of our understanding of Keynes' thought. First, little if no attempt has been made to follow the lead of the late Dudley Dillard who, a few short years after the publication of *The General Theory*, had closely traced the lineage that runs from Proudhon to Gesell to Keynes [Dillard, 1942a; 1942b]. An exceptionally careful reader of *The General Theory*, Dillard was not misled by Keynes' witty inclusion of Gesell among a small group of eccentric theorists who had not, unlike the mainstream theorists of their time, overlooked the importance of effective demand. Keynes wrote the following early (Chapter 3) in *The General Theory*:

> The great puzzle of Effective Demand with which Malthus had wrestled vanished from economic literature. You will not find it mentioned even once in the whole works of Marshall, Edgeworth and Professor Pigou, from whose hands the classical theory has received its most mature embodiment. It could only live on furtively, below the surface, in the underworlds of Karl Marx, Silvio Gesell, and Major Douglas. [1936, 32]

Many readers of *The General Theory* probably took this passage as an indication that Keynes situated Gesell among those idiosyncratic, peculiar, quirky non-academics who more by accident than purpose had captured something essential. But much later, in Chapter 23 of *The General Theory*, Keynes provides a far more enthusiastic assessment of Gesell's contributions. So much so that Joseph Schumpeter [1954, 1118, note 2] described Gesell's endeavor to treat the rate of interest as a monetary phenomenon as being "rescued from oblivion by Lord Keynes...."

Second, the editors' judgment about which correspondence to include and exclude from Keynes' *Collected Writings* also has contributed to scholars' failure to trace the full scope of similarity. In Volume 30 of the *Collected Writings*, the volume entitled *Biography and Index*, Donald Moggridge and Austin Robinson [1989, xi-xii, emphasis added] made the following comment by way of justification for the exclusion of the materials that would have given scholars a richer sense of Keynes' engagement with the Gesellists:

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> Once they moved beyond Keynes's previously published work, the editors faced the problem of selecting which items of Keynes's unpublished writings they would publish, rather than that of choosing amongst various versions. In making their selection they began with one overriding principle, common in editions of economists' papers but less common elsewhere: the focus of the edition was on Keynes as a working economist and participant in public affairs. This principle meant that except for occasional extracts from letters which they used to set the stage for a particular document, the editors left aside Keynes's extensive surviving personal correspondence, which for some individuals runs to hundreds of letters in each direction. Some parts of this, such as his correspondence with Lydia, are expected to be the subject of editions by others. Even excluding on this basic principle a large amount of material, the editors still had major problems of selection —unless they were prepared to contemplate an edition of two or three times the size of the present one. *Some volumes of any such complete publication might consist solely of such materials as rejection letters for submissions to* The Economic Journal, *courtesy replies to the innumerable letters he received from monetary cranks, or marginal annotations or comments on the letters, minutes or papers of civil servants or ministers.*

I presume that the correspondence involving Gesell's disciples, who alerted Keynes to the existence of *The Natural Economic Order*, is counted by Moggridge and Robinson among "the innumerable letters he received from monetary cranks...." Keynes [1936, 353] described himself as having been "bombarded...with copies of his works" by Gesell's "devotees." Indeed, Keynes characterized Gesell's "devotees" as possessing a near-fanatical attachment to the teachings of their mentor:

> The last decade of [Gesell's] life was spent in Berlin and Switzerland and devoted to propaganda. Gesell, drawing to himself the semi-religious fervour which had formerly centred around Henry George, became the revered prophet of a cult with many thousand disciples throughout the world. The first international convention of the Swiss and German Freiland-Freigeld Bund and similar organisations from many countries was held in Basle in 1923. Since his death in 1930 much of the peculiar type of fervour which doctrines such as his are capable of exciting has been diverted to other (in my opinion less eminent) prophets. Dr. Buchi is the leader of the movement in England, but the literature seems to be distributed from San Antonio, Texas, its main strength lying to-day in the United States, where Professor Irving Fisher, alone amongst academic economists, has recognised its significance. [1936, 354-5]

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San Antonio, Texas was the location of the Free-Economy Publishing Company, the publisher of the English language translation of Gesell's *Natural Economic Order*. The Free-Economy Publishing Company also issued a periodical entitled *The Way Out* which included a variety of paeans to Gesell's greatness as well as pieces that elaborated on his ideas, especially the stamped currency scheme, as a basis for exit from the Great Depression. One of Gesell's most impassioned followers, Hugo R. Fack [1931, 7-10] set out in the pages of *The Way Out* the actual steps that should be taken in the United States to introduce stamped currency.

The publications of the Free-Economy Publishing Company maintained a consistent hostility toward Marx but an enthusiasm for socialists with apparently more anarchistic leanings. For example, on the front page of the February 1934 issue of *The Way Out* a sidebar for an article by the pseudonomynous "Economicus" [1934, 1] (perhaps Hugo Fack himself) provides quotations from Karl Kautsky on the fundamental goals of true socialism. Kautsky is quoted as saying that if the aim of socialism —"the elimination of every possible form of exploitation and oppression, against whatever class, sex, faction or race it be directed" —could be better achieved "on the basis of private ownership" then, by all means, "throw this socialism overboard without however renouncing one iota of our final goals." Socialism, presumably meaning the elimination of private ownership of property, was not the end in and of itself for Kautsky; this position resonated quite favorably with the Gesellists.

Although the two schools of thought are ideologically at odds, the propagandistic, repetitive and predictable tone of the outpourings of the Free-Economy Publishing Company resembles the contemporary pamphlet activity of various outlets of the Austrian school of Economics. On the other hand, there is an admirable consistency characteristic of both the Gesellists and the Austrians, a consistency that certainly is not evident in orthodox economics. Indeed, it was the tone of the Free-Economy Publishing Company's various publications that apparently led Keynes to "....like other academic economists, [treat Gesell's] profoundly original strivings as being no better than those of a crank" [1936, 353]. Keynes says that he only changed his view of Gesell later, when he came, on his own terms, to similar conclusions. After reading *The Natural Economic Order* Keynes was able to separate Gesell from the Gesellists, just as many contemporary scholars have had to separate Keynes from the Keynesians:

> It is convenient to mention at this point the strange, unduly neglected prophet Silvio Gesell (1862-1930), whose work contains flashes of deep insight and who only failed to reach down to the essence of the matter. In the post-war years his devotees bombarded me with copies of his work; yet owing to certain palpable defects in the argument, I entirely failed to discover their merit. As is often the case with imperfectly analysed intuitions, their significance only became apparent after I had reached my own conclusions in my own way...

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> In spite of the prophetic trappings with which his devotees have decorated him, Gesell's main book is written in cool, scientific language; though it is suffused throughout by a more passionate, a more emotional devotion to social justice than some think decent in a scientist. The purpose of the book as a whole may be described as the establishment of an anti-Marxian socialism, a reaction against *laissez-faire* built on theoretical foundations totally unlike those of Marx in being based on a repudiation instead of on an acceptance of the classical hypotheses, and on an unfettering of competition instead of its abolition. I believe that the future will learn more from the spirit of Gesell than from that of Marx. The preface to *The Natural Economic Order* will indicate to the reader...the moral quality of Gesell. The answer to Marxism is, I think to be found along the lines of this preface. [1936, 353, 355]

The Gesellist brand of "anti-Marxian socialism" received a heated response from the Cambridge Marxist, Maurice Dobb [1936, 7-10] in a pamphlet entitled *Social Credit Discredited* published in the same year as the *General Theory*. While Dobb's pamphlet is a direct attack on another intuitively correct, but the least profound, of Keynes' heretics, Major Douglas, Dobb also mentions "the Gesell Scheme," of which much propaganda-use is made by reactionary circles.[4] The phrase "money power" which figures prominently in the rhetoric of the social credit advocates also was a coded reference to a "Jewish cabal of international bankers." This was considerably less evident in the writings of Gesell's followers, several of whom were Jewish themselves, but it was a connection made explicitly by the fascist Oswald Mosely in Britain.[5]

I had speculated, given the timing of its publication, that Dobb's pamphlet also was a veiled critique of Keynes' *General Theory*. But Dobb's biographer, Brian Pollitt of the University of Glasgow, has disabused me of that notion in correspondence dated October 29, 1993:

> ...I would think it advisable that you root your view of Dobb on Social Credit in a much earlier context than 1936 and *The General Theory*. In 1922, when Dobb was completing his undergraduate studies in economics at Cambridge, he was attacking Major Douglas in the "Communist Review" in an article entitled "Does the World Need More Money? A Reply to Major Douglas" (May 1922, pp. 29-41). This was appraised in "Public Welfare", the organ of the Social Credit Movement, in June [sic?] 1992. Dobb's assault on Social Credit thus have a lineage that is quite independent of Keynes's work of the 1930s, being generally focused upon earlier, more simplistic notions suggesting an easy "more money" route out of capitalism's difficulties. In the context of 1935/36, I suspect that the economic policies espoused by Oswald Moseley, leader of the British Union of Fascists,

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> which in some respects seem akin to those of the Social Credit movement, may be a more likely target for Dobb than is Keynes. Fascist Italy and Nazi Germany, of course, were two close, clear cases where "Keynesian-style" deficit-financed public expenditure for employment creation, (allied with rearmament programmes), was State policy. It was for this reason, inter alia, that some Marxist writers, such as Jurgen Kuczynsky —but not Dobb— labelled Keynes and even Joan Robinson as 'neo-fascists.'

So what is the substance of Gesell's commentary in the preface to *The Natural Economic Order*? What is the "moral quality" to which Keynes refers? What are the outlines of "an anti-Marxian socialism"?

Gesell [1934, xii-xiv] initiated his preface by combining a vigorous defense of an economic system based upon individual gratification and self-interest ("The religious precepts of Christianity must not...be transferred to economic life, where their only effect is to produce hypocrisy.") with identification of the central error of those most unbending advocates of economic individualism, the Manchester economists. While Gesell plainly was enthused about Manchesterism —"[t]he Natural Economic Order might also be called the 'Manchester System', the economic order which has been the ideal of all true lovers of freedom— an order standing by itself without intervention from outside, an order in which the free play of economic forces would rectify the blunders of State-Socialism and short-sighted official meddling" [ibid.] —he was far from an anarcho-libertarian.[6] Instead, he viewed the state as having an appropriate role in the maintenance of the context in which individual initiative could have sufficient scope to generate sustained prosperity. The state must act to "[establish] a really free play of forces" rather than, as it had in the past, "[disturb] the free play of economic forces" [ibid.].

Gesell [1934, xiv-xvi] broke with the Manchester School on four dimensions. The "free play of economic forces" would not, in his estimation, lead to four desirable outcomes predicted by Manchesterism. An environment of pure *laissez-faire* would not (1) drive the rate of interest to zero, (2) lead to a far more equitable distribution of wealth, (3) eliminate commercial crises, or (4) produce a taxable capacity in the population sufficient to eliminate indebtedness everywhere. At bottom the salutary effects of Manchesterism would not come to pass because "...the Manchester economists, through ignorance of monetary theory, adopted without criticism the traditional monetary system which simply breaks down when the development foretold by the Manchester economists sets in." As Gesell concluded, "They did not know that money makes interest the condition of its services, that commercial crisis, the deficit in the budget of the earning classes and unemployment are simply effects of the traditional form of money..." [ibid.]

To overcome the limitations on the effectiveness of the Manchester system imposed by a faulty monetary system, the state would have to act to make both money and land free—to take the steps necessary to eliminate interest on money and rent on land. Then, and only then, would circumstances come into existence that

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allow "a truly free play of the economic forces." Under such conditions —"private control" within the boundaries on the monetary system established by, for example, a stamped currency scheme— would permit unfettered "natural selection" (or competition) to cast up a pure meritocracy. Pure meritocracy was Gesell's social ideal: "In the Natural Economic Order selection under free competition untrammeled by privileges will be determined by personal achievement, and will therefore result in the development of the qualities of the individual..." [1934, xviii].

What was the alternative to the Manchester system with Gesell's amendments to the monetary system? Nothing less than the dreaded beast of communism, a social system antithetical, in Gesell's eyes, to individualism:

> We must either repair the defects of construction in the old economic structure or accept communism, community of property. There is no other possibility.
>
> This is indeed recognized as the Golden Age —except by those excluded from this freedom by defects of construction in our otherwise fundamentally sound economic system— except, that is, by the proletariat. But are the wrongs of the proletariat, the defects of construction in our economic system, any reason for rejecting the system itself and introducing in its stead, a new system bound to deprive all men of their freedom, and to plunge the world into slavery? Would it not be more reasonable to repair the faults of construction, to liberate the discontented workers, and in this way to make all men sharers in the priceless freedom of the present system? [ibid., xvii, xix]

And, of course, philosophical individualism lay at the base of Gesell's judgment about the best "way out":

> ...Capitalism must be modified, that even capitalists admit. Bolshevism or Communism may be possible in a primitive state of society, such as is still found in parts of Russia, but it cannot be applied to a highly developed economic system founded on the division of labor. The European has outgrown the tutelage inseparable from Communism. He must be free, not alone from capitalistic exploitation, but also from meddling official intervention, which is an integral part of social life based on Communism. [ibid., xxii, xxiii]

Nationalization of industry and central planning were highways to be avoided. Nationalization of land and a stamped currency scheme could produce the conditions under which the individual could flourish and general economic prosperity could prevail. "Capitalistic exploitation" could be eliminated by making capitalism more successful, i.e. sufficiently prosperous to lead to the economy of abundance, through modification.

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How does this compare with the "social philosophy" espoused by Keynes in *The General Theory*? Having presented his "general theory" as an alternative to the "classical theory," Keynes made the following lengthy observations about the implications for social policy at the close of the volume, observations that suggest that Keynes would press further than Gesell in expanding the role of the state in the economy while maintaining substantial scope for individualism:

> In some other respects the foregoing theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain central controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected. The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment, though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augment the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society.
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> Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world. But if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point onwards. If we suppose the volume of output to be given, i.e. to be determined by forces outside the classical scheme of thought, then there is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them. Again, if we have

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> dealt otherwise with the problem of thrift, there is no objection to be raised against the modern classical theory as to the degree of consilience between private and public advantage in conditions of perfect and imperfect competition respectively. Thus, apart from the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialise economic life than there was before.
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> To put the point concisely, I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use. There are, of course, errors of foresight; but these would not be avoided by centralising decisions. When 9,000,000 men are employed out of 10,000,000 willing and able to work there is no evidence that the labour of these 9,000,000 men is misdirected. The complaint against the present system is not that these 9,000,000 men ought to be employed on different tasks, but that tasks should be available for the remaining 1,000,000 men. It is in determining the volume, not the direction, of actual employment that the existing system has broken down.
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> ...I agree with Gesell that the result of filling in the gaps in the classical theory is not to dispose of the "Manchester System", but to indicate the nature of the environment which the free play of economic forces requires if it is to realise the full potentialities of production. The central controls necessary to ensure full employment will, of course, involve a large extension of the traditional functions of government. Furthermore, the modern classical theory has itself called attention to various conditions in which the free play of economic forces may need to be curbed or guided. But there will still remain a wide field for the exercise of private initiative and responsibility. Within this field the traditional advantages of individualism will still hold good. [1936, 378-80]

Indeed, in the passage immediately following the foregoing Keynes insisted upon the primacy of the liberal ethos as the guidepost for social organization:

> Let us stop for a moment to remind ourselves what these [traditional] advantages [of individualism] are. They are partly advantages of efficiency —the advantages of decentralisation and the play of self-interest. The advantage to efficiency of the decentralisation of decisions and of individual responsibility is even greater, perhaps, than the nineteenth century supposed; and the reaction against the appeal of self-interest may have gone too far. But, above all, individualism, if it can be purged of its defects and its abuses, is the best safeguard of personal liberty in the sense that, compared with any

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> other system, it greatly widens the field for the exercise of personal choice. It is also the best safeguard of the variety of life, which emerges precisely from this extended field of personal choice, and the loss of which is the greatest of all the losses of the homogeneous or totalitarian state... [1936, 380]

Keynes evidently shared Gesell's desire for a modification of capitalism that would render it immune to "Bolshevism". The basis for Keynes' willingness to countenance a "somewhat comprehensive socialization of investment," or what he earlier called "liberal socialism", follows directly from his criticism of Gesell's stamped currency proposal —that it simply will not be sufficient to insure full employment.[7] Other stuffs —besides currency and besides land, for that matter— would come to serve the investment inhibiting function of money with its associated rate of interest.

Keynes was consistently dismissive of Marx. Typical of his voiced opinions were his comments to Joan Robinson in 1942 when Keynes told her that Marx "had a penetrating and original flair but was a very poor thinker, indeed...." [Moggridge, 1992, 470]. Donald Moggridge goes on to observe that Keynes, in addition to "...being 'notoriously tone deaf' to Marx...disliked Soviet Communism in the 1930s —more so than in the 1920s" [ibid.]. Moggridge finds Keynes describing Soviet Communism as "'the worst example which the world, perhaps, has ever seen of administrative incompetence and the sacrifice of almost everything that makes life worth living to wooden heads'," and also pictures Keynes watching "Stalin's purges and show trials with a horrified fascination" [ibid.].

But Keynes' animosity toward communism, or at least toward the British advocates of communism, bent more softly than Gesell's. While his public pronouncements consistently were negative toward both the Soviet experiment and Karl Marx, Keynes stayed close to the younger generation of Apostles, the secret Cambridge University society, although many of them were open enthusiasts for communism and several eventually served as Soviet agents. These included Anthony Blunt, Guy Burgess, and Michael Straight. Keynes was an unabashed enthusiast for "the young amateur Communists" but not "the professional Communists" [ibid., 1992].[8]

Nevertheless, the true limits to Keynes' consideration of the communist alternative may not have been set primarily by his philosophical liberalism. Keynes' intrinsic elitism had to have been disturbed, in principle, by the levelling effects of communism. Keynes could not contemplate the benefits of a world where, again in principle, the working class was empowered:

> ...[I]t is easy to imagine Keynes [the Liberal] at home, or as at home as he would ever be, in the Conservative Party of Macmillan and Butler —both of whom became close personal friends, unlike any Labour leaders. He admired Conservatism's elitism: "the inner ring of the party can almost dictate the details and technique of policy", he remarked admiringly. It was only to stupid elitism he objected. Keynes believed that ability was innate, and deplored only the fact

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> remarked admiringly. It was only to stupid elitism he objected. Keynes believed that ability was innate, and deplored only the fact that, in its attachment to the hereditary principle, Conservatism prevented natural ability from rising to the top. A Conservative Party led by Oxford and Cambridge men would not have been so objectionable to him as one which still stuffed Cabinets with dukes. And, as he became older and started his own ascent to the peerage, the stupidity and class prejudice associated with the hereditary principle came to seem less noxious to him than parallel manifestations of these tendencies in the Labour Party...
>
> Keynes emphatically rejected the class basis of socialist ideology ad politics. "It [the Labour Party] is a class party, and the class is not my class. If I am going to pursue sectional interests at all, I shall pursue my own...." [Skidelsky, 1992, 232-3]

In pursuing his own interests, Keynes was pushed to discover Gesell, another voice for a "middle way" between Bolshevism and Manchesterism. It was a voice that resonated so strongly with Keynes' own vision that he was prompted, momentarily, to try to lift Gesell above entrapment in the propagandistic activities of the Gesellists. And, in so doing, we find in Keynes' *General Theory* passages that are "very copiously infected" with the spirit of Gesell's "anti-Marxian socialism" —what Keynes called more positively "liberal socialism."

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NOTES

I am especially grateful to Louisa Dillard for recovering and sharing with me the extensive materials collected by her late husband, Dudley Dillard, from Silvio Gesell's American disciples. Dudley Dillard explored the Keynes-Gesell connection mediated by Gesell's understanding of the "anti-Marxist socialist" Proudhon fifty years before I contemplated the issues examined in this paper. I am also grateful to Michael Lawlor and Rod O'Donnell for suggestions. A version of the current paper was presented at the Eastern Economic Association meetings, March 17-19, 1994, Boston, Massachusetts.

1. The scholar to plumb the relationship between Keynes and Gesell most systematically was the late Dudley Dillard [1942a; 1942b]. Note that both of Dillard's papers on Gesell were published a mere six years after the appearance of *The General Theory*. Dillard [1942a] argues convincingly in one of the two papers that Gesell had the stamped money proposal in hand *before* he developed his theoretical justification.

   Rod O'Donnell [1989, 273-330] has examined Keynes' political philosophy, stressing the continuity in Keynes' embrace of G.E. Moore's consequentialist view of ethics and Keynes' social vision across the course of his lifetime. Of particular note is Keynes' dismissal of *laissez-faire* as an organizing (or disorganizing) principle for the economy and his enthusiasm for British liberalism of the early twentieth century variety. Also see O'Donnell [1991].
2. Both volumes were translated from the sixth German edition by Philip M. Pye. Both volumes were first published in German in 1920. Keynes [1936, 355], himself, described Gesell as "distinguish[ing] clearly between the rate of interest and the marginal efficiency of capital, and...argu[ing] that it is the rate of interest which sets a limit to the rate of growth of real capital."
3. Proudhon (1809-1865) was the leading French socialist intellectual, possessing a deep anarchistic impulse. A prolific writer and pamphleteer, the most comprehensive exposition of his ideas is contained in his 1846 work, *The Philosophy of Poverty* [Proudhon, 1923], which prompted Marx to write a scathing critique over the period 1846-1847 which Marx called *The Poverty of Philosophy* [Marx, 1936]. This exchange took place on the eve of the 1848 Revolutions, events which contributed to Marx's exile from the continent. Although the two men were friendly they apparently engaged in many heated discussions and the differences in their perspectives were fundamental despite their shared radicalism.

   Marx [1936, 25] even opened *The Poverty of Philosophy* with the following savage display of his wit, "M. Proudhon has the misfortune of being peculiarly misunderstood in Europe. In France, he has the right to be a bad economist because he is reputed to be a good German philosopher. In Germany he has the right to be a bad philosopher, because he is reputed to be one of the ablest of French economists. Being both German and economist at the same time, we desire to protest against this double error." The substance of their disagreement involved Marx's rejection of Proudhon's anarchism, and Marx's perception that Proudhon's theoretical apparatus suffered from the latter's failure to construct a sound critique of preexisting doctrine in political economy. The libertarian flavor of Proudhon's anarchistic views probably appealed to Gesell as well.
4. Keynes [1936, 371] did distinguish between his beloved "heretics." Major Douglas, according to Keynes, had "scarcely established an equal claim to rank with his A+B theorem —a private, perhaps, but not a major in the brave army of heretics— with Mandeville, Malthus, Gesell and Hobson, who following their intuitions, have preferred to see the truth obscurely and imperfectly rather than to maintain error...." While Mandeville, Malthus, Douglas and Hobson legitimately can be classed as underconsumptionists, Keynes' emphasis was on *underinvestment*. Gesell, again, was closer to Keynes in that respect.
5. Hugo Fack wrote a letter dated April 10, 1939 to Dudley Dillard, while Dillard was still a graduate student at the University of California at Berkeley. Dillard apparently was in the process of gathering biographical information on Gesell. Fack suggests that Dillard communicate with, among others, Mrs. Heimberg whom Fack describes as "a Jewess, in whose favor I recently tried to secure an affidavit, but could not, so far [and who] has been in close contact with Gesell during the last 10 years of his life...." He also urges Dillard to set up a lecture for Werner Zimmermann, a Swiss enthusiast for Gesell's views, during Zimmermann's visit to the United States.

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6. "Manchesterism" was the set of doctrines, promoting an unfettered free market system propounded by economists centered at Britain's University of Manchester.
7. On Keynes' brand of "liberal socialism" again see R.M. O'Donnell [1989, 322-24; 1991, especially 18-23].
8. See also O'Donnell [1989, 288].

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