Keynes Comments on Money

THE GENERAL THEORY OF UNEMPLOYMENT, INTEREST AND MONEY. *By John Maynard Keynes. Harcourt, Brace & Company, $2.00.*

THE PUBLICATION of a general treatise on money by the most famous economist of our time is, of course, an important event. Mr. G. D. H. Cole has announced—as promptly and as injudiciously as did Sir Josiah Stamp in reviewing Mr. Keynes' earlier "Treatise on Money"—that it marks a new era in the progress of economic thought; and the book has received serious and respectful attention in circles where its contents must be about as palatable as the communist manifesto. Mr. Keynes is popularly accepted as one of the authentic geniuses of his generation; and, in spite of his warning that he is writing for specialists, the book will enjoy a wide circulation outside, as well as within, academic circles. It is thus a choice item for laymen who cultivate reputations for serious reading and brilliant conversation.

The book is largely in the nature of a revision (if not a repudiation) of the first volume of the "Treatise on Money" and, like that work, is full of brilliant insights and occasionally devastating criticism of other writers. As a general treatise on money, however, it lacks form and structure and represents simply a collection of interesting propositions, expounded awkwardly and presented with little or no indication of the special assumptions and postulates within which they might be valid or meaningful. Strange and novel terms of the analysis are seldom explicitly defined; and those necessary assumptions which the author does recognize (e.g., the assumption of fixity of wage-rates) are insinuated obscurely. Nowhere, moreover, can one discover, even from insinuation, the nature of the monetary system which the argument presupposes. Thus the author gives us a theory of unemployment, interest and money which attains generality by being about nothing at all.

Mr. Keynes' main point is that our economic system has been excessively exposed and subjected to deflationary pressures—that individual savings are likely to get dammed up in hoards, instead of flowing on to finance the production of investment-assets. With this judgment, the reviewer is inclined definitely to agree. Indeed, if the whole book could be interpreted simply as a critical appraisal of the traditional gold standard, implemented through central-bank operations, one's judgment of its main ideas might be extremely favorable. The author, however, does not invite such interpretation. Moreover, if the book is good as criticism of monetary arrangements of the past, it certainly is not to be commended for its suggestions and implications regarding the desirable arrangements for the future.

Announcing a general theory, Mr. Keynes delivers merely a collection of generalizations and practical judgments which have substantial validity with reference to the particular conditions of post-war England, and of other countries since 1930. The nominal eschewing of practical proposals serves only to keep them in an obscure and ambiguous form. Clearly, however, his notions of solution run now in terms of a great and curious variety of expedients—in terms of a highly diffuse kind of political interference. The analytical passages indicate, often illuminatingly, how monetary disturbances are manifested in different aspects of economic behavior and in different phases of the economic process; and they seem intended to demonstrate that wise governmental policy must deal directly with many particular relationships. Thus, the state should use taxation to curtail private saving; it should supplement private consumption and investment with its own spending; and it should force down and keep down the rate of interest to promote new enterprise. At times the author seems to suggest outright fixing of the volume of investment and of the rate of interest by the government.

Mr. Keynes nowhere suggests the need for economy in the kinds of governmental interference; and he seems to disregard, or grossly to underestimate, the possibilities of controlling all the variables which his analysis emphasizes merely by controlling the quantity of money—i.e., by ordering fiscal practice (spending, taxing, borrowing and currency issue) in terms of deliberate monetary policy. He overlooks the need (clearly suggested by his own analysis) for the minimizing of monetary uncertainties and the achievement of a monetary system based on definite and stable rules. Thus, while expressing decided preference for an economic system of free enterprise, he does not seriously consider what monetary arrangements or what implementations of monetary policy are most and least compatible with that system.

Mr. Keynes submits his treatise as a frontal attack upon traditional economic theory. Orthodox economists are rather defenselessly exposed to the charge of making bad applications of their relative-price analysis—of applying carelessly an analysis which abstracts from monetary disturbances in the discussion of practical questions for which monetary problems are crucially important. (The usual academic lecture or textbook chapter on foreign trade and tariff policy is the striking case in point.) But the author attacks, not the bad applications of traditional theory, but the theory itself—with results which will impress only the incompetent.

If the attack upon orthodoxy is misdirected, it is also indiscreet. Not content to point out the shortcomings of traditional views, Mr. Keynes proceeds to espouse the cause of an army of cranks and heretics simply on the grounds that their schemes or ideas would incidentally have involved or suggested mitigation of the deflationary tendencies in the economy. The fondness for a labor theory of value may be pardoned as mere intellectual dilettantism; but the author might adequately have criticized economists for their neglect of monetary problems without endorsing mercantilism, *autarchie,* social credit, stamped money, fantastic governmental spending, the single tax, underconsumption theories and usury laws. The reviewer is not inclined to be more generous toward monetary orthodoxy than is Mr. Keynes. But the sophistical academic leg-pulling which he perpetrates in this volume, however delightful and entertaining in its proper place, should not be done publicly in times like these, least of all by persons of Mr. Keynes' repute.

Readers should be warned against the presumption that the author has eschewed advocacy of practical expedients in favor of objective analytical inquiry, and cautioned against hasty or credulous acceptance of analysis, arguments and critical judgments which are always highly sophisticated and often merely sophistical. Critical readers will find grounds for suspicion either that Mr. Keynes has become overly susceptible to his own clever persuadings or that, having few more laurels to win as an economist, he now aspires to be remembered also as a great wit. Attempting mischievous and salutary irritation of his peers, however, he may only succeed in becoming the academic idol of our worst cranks and charlatans—not to mention the possibilities of the book as the economic bible of a fascist movement.

Many economists, including the reviewer, will welcome opportunity to defend Mr. Keynes against all advocates of reactionary monetary policies, and against those who think they can talk sense about our urgent economic problems while abstracting them from monetary disturbances. But only a kind fate can spare him the approbation which he has invited from fools.

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