The General Theory of Employment, Interest, and Money

J.M.Keynes

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The title is a bit dry, and so is the book, aimed at the authors professional colleagues whom he wants to cure of their misunderstandings. Thus the book is technical and only intermittently leavened by the authors famous wit. It is a technical prose with all its obvious pitfalls without its concomitant virtues. There are formulas in the book but none of them are pursued mathematically, in fact they seem to be there mainly for ornamentation less for clarification, and in fact the author repeatedly apologizes for their presence and encourage the reader to ignore them. The book is supposed to be an argument, but the argument seems circular, not necessarily in the technical sense of assuming what is supposed to be proven, but in the sense of going around in circles not really gaining any ground. It is hard to avoid the suspicion that one can indeed start to read at any page of the book, and continue as if the first page follows the last (i.e. making the book literally circular) without losing anything. As a result one suspects that the presentation is not very well thought out, that much of it is in the nature of a stream of consciousness. What does he want to prove? What is his mission? The presentation does not invite a deeper careful study, one skims through the pages more through duty than pleasure. The economical concepts involved do not jog the imagination, on the contrary they inspire more repulsion than curiosity. They are vague and although some effort is spent trying to clarify them, success, at least with this reader, is hardly resounding. Of course this verdict may say much more of the reader than the author, namely that the first is simply in deep water unable to appreciate what is happening over his head.

The problem with economics is to form clear ideas. Secondly to be able to make meaningful quantifications as to be able to set up useful mathematical models. The first who did this seriously seems to have been Ricardo, but at the price of simplifying matters to such an extent that his models seems to have had very little to do with empirical reality. This is a common fate for builders of mathematical models in economics, but at least Ricardo had the courage to stick to his, even in the opposition to common sense, while most economists find themselves unable to ignore the demands of reality, and as a result come up with confused and logically inconsistent theories, of which Ricardo could hardly be accused. A left-handed compliment if any, supplied maliciously by the bemused author. The problem of quantifying economics is a bit ironic in view of the presence of money, which is eminently countable. In fact what people generally count the most in life is money. Typically there is a limited amount, a scarce commodity indeed for the individual, which should be meted out with care less it would prematurely run dry. This is the private view of economics, that favors thrift and caution. Some amount of consumption is unavoidable, a human being must eat in order to survive, and food production being not an option for most people in a more advanced society, it becomes one of consumption and thus subjected to the vagaries of economic reality. If income rises there is a greater latitude for spending, but as the author points out repeatedly, the desire to spend does not keep up with increase in income so a larger fraction of it is laid aside as savings true to the instinct for thrift. The attitude of a businessman to money is different, in order to earn money he has to spend it. Money that lies fallow is sterile, in fact unlike land, money does not have to recover. Finally we have the speculator, who is in essence a gambler. While the businessman may still have a hold on reality, seeing money as a means not an end, for the gambler, money is the end, and its proliferation is an enduring fascination. As the author remarks: 'The game of professional investment is intolerably boring and over-exacting to anyone who is entirely exempt from the gambling instinct, whilst he who has it must pay to this propensity the appropriate toll'. Further on he discusses the stock-market with disdain, the game of it being how to second-guess the actions of the general investor, or rather second-guess the second-guessed. Thus the skill lies not in understanding how people in general think of reality, but how people think people think about reality (or maybe even one meta-layer higher). Thus the effect is one of serious distortion, the stocks which are favored are not the ones that are sound and solid in the long run, but those that favor quick returns. The instruments of finance have taken prime of place, and the result, as moral common sense is liable to inform us, must be specious.

Now what is the point of Keynesianism? It is to realize that the point of view of general economics is by nature very different from that of individual. The former is not just the latter writ large. What may be an individual virtue may not necessarily be a collective one. The individual point of view is just an incomplete fraction of the grander, more holistic picture, and gives little guidance at most as to understanding the global point of view. A traditional scaling up is from the individual to the nation, thought of as a larger player on the world scene, hence the emergence of mercantilism, whose object was to maintain a favorable balance of trade, meaning exporting more than importing, and thus in effect transmuting the difference into a hoard of precious metals. Spain is often pointed out as a cautionary example. The emergence of modern economics with Adam Smith, whose seminal work is symptomatically titled 'On the Wealth of Nations' is to reveal the follies of such a point of view. For one thing, not every nation can have a positive balance, whatever is exported is necessarily imported as well, and global economy is bound to suffer if there is too much of an imbalance, and as every nation is ultimately to benefit from a vibrant global economy, and this is what economy is about, namely the activity of the collective, one-sided advantages are bound to be ultimately self-defeating. In particular the virtue of thrift has no meaning in a global interconnected economy. It is consumption that drives economic activity, if every one would be satisfied with bad food, bad housing and so on, which may appeal to the ascetic instincts of some of us, there would never be any incentive to have good food and good housing produced. Thus economic life is like nature in the sense that what is going on are circulations and feed-back loops. We cannot claim that it rains too much in the sense of rain drying out and there will be no rain left. On the contrary, all the rain that falls will eventually be drained into the oceans out of which it will evaporate and form clouds ready again to dispel its surplus. The idea that thrift is bad and spending good were ideas that started to pop up early in the 18th century, Keynes refers in particular to the 'Fables of the Bees' by a certain Mandeville, a poem that was considered so seditious that it was suppressed.

Keynes is concerned about full employment seeing this as the ultimate goal of economic activity, and which is being attained by a strong inducement to spend, setting the feedback mechanism to work properly. Or as the typical saying has it, letting the wheels turn around. Here Government has a role to play by actively encouraging spending. Thus Keynes squarely hits the middle-ground by rejecting classical *laissez-faire* yet by stopping short of socialism, lauding the virtues of individual enterprise as long as it is controlled by laws and regulations. It is a reaction against the great crises of 1929 and the ensuing depression, and was as such enthusiastically received by Western governments, even the American in the form of the New Deal of Roosevelt[1]. Later on as a result of economic recovery (supposedly as a consequence) it was viewed as obsolete, although in recent years it has experienced mild revivals.

It is hard, if not impossible to separate economics from moral and politics, something that greatly hampers its progress towards an objective and scientific enterprise. In fact one may argue that due to the inability to look at economics as a spectacle, in the words of the British historian and philosopher R.G. Collingwood who applied them to the study of Nature, scientific claims will for ever be frustrated. The proper task of an economist is thus to clarify concepts not to explore in inappropriate detail various mathematical models. Still, as noted, some of it is unavoidable as money itself is quantitative. For one thing a Government needs to know how much money to print. How much is appropriate considering the amount of trade (and production)? How much does money contribute to the exchange of commodities, after all the use of money has many advantages over simple barter? Or could it be that a scarcity of money automatically engenders substitutes so if it is left to itself it will take care of itself? This is a naive point of view, as every society needs regulating laws without which the trust on which a money economy rests will simply not be there. Thus in practice much of economics traditionally concern monetary policies, in particular the level of interest analogous to the rent of land (to which Ricardo wanted to reduce all economics). Keynes warns against taking this too seriously, moderate adjustments on interest rates, has but a marginal effect on economy, as so many factors enters into the psychology of investors. He also warns against identifying savings with investments and even echoes the classical indictment against usury. He finds that the class of the rentiers, doing no productive work but benefitting from an accidental distribution of money and thus from its relative scarcity, should eventually be abolished. He sees nothing in principle objectionable to differences in income, although finding them excessive at the time, but when it comes to inheritances the benefits are purely accidental and unearned. Thus he is in favor of death duties, in addition to progressive taxation. After all when incomes are leveled out, the proportions devoted to consumption will increase.

Now the discussion of Keynes is necessarily abstract, consumption is discussed as such not the nature of it. Can there be good and bad consumption? Common contra-intuitive wisdom is that the German economy got going when Hitler started to arm. How come that the production of weapons can have such benefits? Would the same be true if self-destructing machines were produced? Is the only criterion of a good product that there is a demand for it? The demand for pornography seems to have greatly facilitated the development of computer graphics to take one example. One can take the analogy of

[1] Socialism is nowadays anathema in the States, but during the time of Roosevelt many members of his administrations were at least closeted socialists

mathematics, its development is not exclusively focused on applications, on the contrary; and much of pure mathematics has later turned out to be fortuitously applicable. Thus a great production per se has had many unexpected spin-off effects. The same thing can be said about the economy, a diversified production creatively stimulates further productions. Great inventions and technological progress thrive on great inventions and technological progress in a way that cannot be predicted. Still, is all activity good? Is War good? War involves a lot of destruction, be it of capital investments and human lives, but is it really bad for the economy? Does War involve a real set-back? Human lives are individually irreplaceable but collectively highly disposable, a cynical insight that has found many applications throughout history. Take the example of West-Germany whose rise to unprecedented prosperity from the ashes of war in a mere decade or so is often referred to as a miracle. But was it really a miracle? The destruction of human residences and industrial plants seems almost to have had a good effect. The recovery of the British economy after the war seems to have been much slower. Clearly Germany did not suffer so much materially from the War as it did spiritually. Old priceless medieval city centers have been replaced by soulless modern buildings[2]. And more seriously Germany's status as a spiritual and intellectual source seemingly indefinitely compromised. The German language as a cultural and scientific vehicle abolished.

Consumption is inseparably connected to ecology. Ecology being a kind of meta-economics. Much economic activity being self-defeating when viewed in the sufficiently long perspective. Examples such as depletion of fishing stocks, or the deforestation of land and subsequent degradation of soil being obvious examples. Not to mention carbon-dioxide emissions and subsequent global warming which ought to have disastrous consequences on human welfare[3]. But absolute standards are impossible to uphold, as Keynes famously reminded us: 'In the long run we are all dead'. `December 24, 2015`

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[2] The effect may have been the same had Hitler prevailed, old middle-age real estate being torn down in the interest of modernity, something similar which took place in prosperous Scandinavia in the post-war period, although of course the destruction was not as priceless

[3] It is remarkable that the analogous problem with other kinds of emissions and their consequences such as the depletion of the ozon layer, were dealt with swiftly and effectively, but of course it was economically isolated, and isolated problems are very liable to solutions