KEYNES'S LIFELONG CONFUSIONS

THE NIAGARA of comment, pro and con, that followed the publication of Keynes's General Theory of Employment, Interest, and Money seldom considered the whole of his writing, but largely confined itself to that book in isolation. Even much of the relatively unfavorable comment tended to treat the book with great respect as a profound discussion of difficult technical economic problems.

But recently I happened to dip once more into The Economic Consequences of the Peace, which Keynes had published in 1920, 16 years before The General Theory. And I found myself wondering whether, if his commentators had read the two books in immediate succession, instead of 16 years apart, they would have taken Keynes's 1936 theories as seriously as they did.

For the commentators would have learned two things: First, that Keynes, even as early as The Economic Consequences, had ridiculed saving, because of an elementary misunderstanding about it, and so had all but stated the essence of his General Theory even then. And secondly, that Keynes, in both his 1920 and his 1936 books, explicitly rejected capitalism itself because he was convinced that it produced an "unequal," and therefore "inequitable," distribution of wealth.

Let me quote an early passage in the 1920 book:

The railways of the world which that age [the half-century before the First World War] built as a monument to posterity were, not less than the Pyramids of Egypt, the work of labor which was not free to consume in immediate enjoyment the full equivalent of its efforts. Thus this remarkable system depended

for its growth on a double bluff or deception. On the one hand the laboring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of Society into accepting, a situation in which they could call their own very little of the cake that they and Nature and the capitalists were cooperating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. The duty of "saving" became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the nonconsumption of the cake all those instincts of puritanism, which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age, or for your children; but this was only in theory—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.

The first piece of sheer nonsense in this long passage is the paragraph comparing the railways of the late nineteenth century to the Egyptian pyramids as a useless "monument to posterity." In fact, the railways were built to transport men and goods cheaper, faster, and farther than ever before. They enormously increased the supply of foodstuffs and other consumption goods available to mankind.

The whole passage, as I have remarked elsewhere, is a typical example of the satire and prose style of the Bloomsbury school, of which Keynes was a prominent member; but it cannot be taken seriously as economics. Its main purpose is obviously pour épater les bourgeois; it illustrates the frivolity and irresponsibility that are recurrent in Keynes's work. It is obviously absurd, for example, to say that labor "was not free to consume in im-

Mr. Hazlitt, a longtime contributor to NR, is the author of many books, among them Economics in One Lesson and a book on Keynes, The Failure of the "New Economics."
mediate enjoyment the full equivalent of its efforts.” It was the capitalists who were doing the saving; the workers saved only to the extent that their incomes permitted and their own voluntary prudence prescribed. Labor then, as now, predominantly got the full amount of its marginal contribution to the value of the product. There was no “bluff” and no “deception.” As a

result of the saving that took place, the size of the cake, it is true, was growing practically every year. But more cake was also being consumed practically every year.

Total production increased each year because of the saving, and would not have increased without it. The savings were invested year after year to increase the quantity or improve the quality of existing machinery and other capital equipment, and so to increase the size of the cake. Each year, it is true, not all of the currently produced cake was consumed. But there was no irrational or cumulative consumer constraint. For each year a larger and larger cake was in fact consumed. At the end of every decade or so, the annual consumers’ cake alone was equal to the combined consumers’ and producers’ cakes of the previous decade.

It is notorious that in the nineteenth century, which Keynes was here describing, there was not only continuous saving, and a consequent tremendous increase in capital equipment, but also a huge increase in population and a constant increase in the living standards of that population. Keynes himself, in fact, in the succeeding paragraph of *The Economic Consequences*, took the whole thing back. He was just having his little joke:

In writing thus I do not necessarily disparage the practices of that generation. In the unconscious recesses of its being Society knew what it was about. The cake was really very small in proportion to the appetites of consumption, and no one, if it were shared all around, would be much the better off by the cutting of it. Society was working not for the small pleasures of today, but for the future security and improvement of the race—in fact for “progress.” If only the cake were not cut but was allowed to grow in the geometrical proportion predicted by Malthus, however, but not less true of compound interest, perhaps a day might come when there would at last be enough to go round, and when posterity could enter into the enjoyment of our labors.

All Keynes had to do was stick with his original premise and he would have arrived at his full General Theory 16 years earlier than he actually did.

But if Society “knew what it was about,” why did Keynes write any of his preceding baseless satire? All he had to do was stick with his original premise that it was folly for society not to spend all its income immediately on consumption, and he would have arrived at his full General Theory 16 years earlier than he actually did.

The parallels between the two books, as I have already indicated, run much deeper. In the early pages of *The Economic Consequences* Keynes also revealed his deep-seated anti-capitalism. There we find him denouncing the *inequality* (his italics) in the distribution of wealth on the same page as he was admitting that “the immense accumulations of fixed capital . . . the great benefit of mankind . . . could never have come about in a Society where wealth was divided equitably.”

These sentences imply the naïve socialist belief on Keynes’s part that after wealth was produced, it should have been “equitably” (which meant “equally”) “distributed” by somebody—presumably by government bureaucrats. If we spell out these implications, those who produced more than the average (of crops or shoes or whatever, or the income from their sale) would have the excess seized from them and given to those who produced less than the average. This would presumably restore “equity.” (It would also destroy incentives to production.)

Keynes never outgrew this early anticapitalism. So far from forgetting it, in the final chapter of his *General Theo-

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"Concluding Notes on the Social Philosophy toward Which the General Theory Might Lead"—Keynes came back completely to the anti-capitalism of The Economic Consequences: "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes." The frequent appeal the labor laws that bring about excessive wage rates by encouraging union violence, strikes, or threats of strikes.

Once we keep in mind these alternate Keynesian forgettings and rememberingsthat "saving" and "investment" are merely the first and second parts of the same process—we are in a much better position to understand the confusions and contradictions that permeate and befuddle the text of The General Theory. Keynes's implied definitions of "saving" and "investment" constantly shift. He begins by tacitly assuming that what is not spent on consumption goods is not spent on anything at all. Whatever plausibility his General Theory has, in fact, depends on that assumption. But at other times we find Keynes formally defining saving and investment as "necessarily equal in amount" and "merely different aspects of the same thing."

(I am myself assuming that under-the-mattress-type saving, which Keynes may sometimes have had in mind, is nowadays negligible. To the extent that it continues, its only effect is to keep prices slightly lower than they would otherwise be.)

I need hardly repeat that the Keynesian doctrines have done and will continue to do great harm. They ridicule personal prudence and thrift as not only unnecessary but socially disruptive. They rationalize and encourage not only personal extravagance but government deficit spending and inflation. By their belief in the necessity for government control of the economy, they increase the drift toward socialism and tyranny.

At this point I hear someone say: "Why are you still whipping a dead horse? The criticism of the last quarter-century has done its work. Keynesianism has already been discredited in the minds of economists."

Of most professional economists, perhaps. But it is still the prescription of the great majority of politicians, and is at least still acquiesced in by the majority of voters. The undiminished prevalence of punitive graduated income taxes, the steady increase of other redistributive measures, the persistence of government monetary authorities in trying to hold down interest rates, and the endless and mounting budget deficits of the last half-century—these are Keynesianism rampant.

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The individual saver seldom buys his capital goods directly. He more often puts his money into a savings bank, or buys stocks or bonds. From the saver's point of view, his act of saving seems to come long before the act of investment. From the social point of view, the interval is usually short. Investment can even precede saving by the creation of new bank loans—i.e., by continuous credit expansion—i.e., by inflation.

It was this credit expansion or inflation that became in effect the overriding Keynesian remedy for unemployment. It is a false and unnecessary remedy; it draws attention away from the real cure for unemployment—to re-