

The Disaster of Keynesian Economics

I

No single person deserves more blame for our modern financial condition—our lack of personal and national savings, and the extent of our indebtedness--than John Maynard Keynes; and no group more cause for our contempt than foolish economists like Paul Krugman and Robert Reich who continue to hawk his discredited ideas vigorously. Disproving Keynes theses is simple: it was done by Henry Hazlitt back in 1945, in his book “Economics in One Lesson. The primary task, therefore, that I have set myself here is showing not just that Keynes was wrong, but that his errors were intentional, and had as their aim the erosion of our political and economic liberty.

Let me begin with the same simple observation Hazlitt used: no policy can be considered sound which does not take into account all groups which are affected, and what the effect of that policy will be in the long term. Confronted with the long term consequence of debt his ideas fostered, Keynes countered with what many considered wit: “in the long run, we are all dead”. Self evidently, our children and their children are not (he himself, by the way, had no children.) They inherit what we bequeath them, and it is precisely to try and build a better future for coming generations that this series has come into being.

In its vulgar (which is to say common sense and entirely accurate) rendering, Keynesism amounts to the contention that you can borrow your way into prosperity. When businesses aren't hiring, you give them money, and they hire. Those employees then spend money, which increases aggregate demand, which stimulates production, which causes economic growth.

Yet what the right hand giveth, the left hand taketh away. Whose money were you given? Your own, in the form of future taxation. Governments, per se, have no money. All they have is what is taken in actual taxes, and what they can print; and as we have seen, printing money amounts to a tax, since the real purchasing value of your money goes down. Thus, all you have done is make a loan to yourself, at interest, and generally with created money. This is the equivalent of drinking salt water to ease thirst. It always works in the short run, and always fails in the long run. Hence our national debt—our systemic thirst--at least in part.

The necessity of inflation in Keynesism is missed by many. In theory, loans made in bad times are repaid in good times, but Keynes was plenty shrewd enough to realize that the impulse of politicians to pander to the electorate would prove insurmountable, and on-going inflation to pay the debt unavoidable. This is, in fact, what has happened.

To be clear, X amount of money is spent to build, say, a dam. The government doesn't have that money in pocket, and can't exact it in current taxes, so—in the United States—it issues X amount of Treasury Bonds, which are then purchased by the Federal Reserve through fiat money. Since those

dollars were in effect “printed”, they are inflationary. Inflation, in turn, decreases the value of every other dollar in existence. Existing private wealth is reduced.

Thus, supposed “stimulus” spending is always going to cost more than is given. The obvious corollary of Hazlitt’s observation is that you can always help a few people at the cost of the many, and can solve problems in the short term at the expense of the long term. When you build a dam, the people working on it benefit; everyone else loses, through the added taxes this imposes, which are not offset by the supposed economic utility of the dam. Further, even the workers on the dam lose in the long run, since when the work is complete, they will not have jobs, and whatever money they will have saved will have diminished in value.

Who wins? The government, which now has the power to again use inflation to create employment, but only for those who are in favor. (It takes me beyond my intent with this piece, but the principle role of the IMF—which Keynes helped found—appears to be taking this basic approach around the world, in support of what amount to fascist governments.)

What Keynesian apologists never talk about is that the goal was not economic equilibrium in a condition of freedom, but an economic equilibrium that was in effect under the complete control of the government:

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 [such as?]. 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 socialization of investment will prove the only means of securing an approximation to full employment. . . 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 augmenting 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 socialization can be introduced gradually and without a break in the general traditions of society. (General Theory, 378)

What is he saying here? That if the State controls how companies get money, how much profit they make, and how much their employees earn, then it doesn’t have to actually OWN them. Further, that his system enables a gradual transition in that direction, without setting off any alarm bells. This is socialism, plain and simple, of the Fabian variety.

To be clear, for a true Liberal, the role of government is to protect us from one another. For Keynes, it is to foster full employment at the expense of economic and—invariably—political freedom. The two go hand in hand.

How is it that the Federal Government owns some 63,000 homes as a result of foreclosure? Simple, it held their mortgages. How is it, then, that the Federal government holds some 80% of American mortgages? How did our government get in the banking business? As far as that goes, how is it that the Federal government will soon own all student loan debt (this was inserted into Obamacare, purportedly as a means of defraying cost increases)?

If you think about it, the role of Fannie Mae and Freddie Mac has been determining—to a great extent—home prices and mortgage interest rates. Since local banks sell almost all their loans to the Federal government (remember, both FM's are now back "in-house") the price is effectively dictated by what our government will pay. Absent FM and FM, the California/Vegas/Florida/etc. home inflation could not have happened. There would not have been enough cash to issue the loans.

I will deal with the role of these two in our 2008 banking crisis in another piece, but for now let me point out the congruence between what Fannie Mae and Freddie Mac did, and Keynes call in "The End of Laissez Faire" for "semi autonomous bodies within the State". The role of both was clearly to gain control of our housing market, which they have plainly done.

These are some preliminary observations. Let me now deal in a bit more depth with who Keynes was, what his ideas were, what they were supposed to do, and what they have in fact done.

II

The first thing I think most people should know, and which most don't know, is that Keynes was a seminal figure in the "Bloomsbury Group", which was an aggregation of what I would call social decadents, who spent a lot of time in various homosexual, extramarital and sexually experimental couplings, and all of whom—certainly Keynes—were to my knowledge atheists.

Keynes himself was an active homosexual for most of his life, and kept a record of his trysts. He at one point wrote to his lover Lytton Strachey that "bed and boy" could be had for cheap in Tunis. Given that it was at that time common practice for poor parents to prostitute their children, this would seem to indicate an actual familiarity on his part.

Strange love triangles were common. For instance, Keynes stole a younger man, Duncan Grant, from Strachey, who was apparently quite upset. For his part Strachey developed a very intimate relationship with cross dressing bisexual Dora Carrington, who, when he fell in love with a man named Ralph Partridge, married him. Partridge would come by on weekends with his own lover, a woman, who he would later marry. As Carrington put it, she had to manage "a great deal of a great many kinds of love"

She killed herself when Strachey died. Virginia Woolf, another core member of the Group, also committed suicide.

It was in that sort of atmosphere that Keynes spent his youth: uncommon enough now, completely unheard of 100 years ago. To hew to a stereotype, they all belonged in San Francisco, or somewhere along the California coast.

Keynes was also a life-long protégé of Fabian Socialist George Bernard Shaw, who was one of the first people Keynes wrote when he completed his “General Theory”. They were quite close intellectually, sharing frequent letters to one another.

When he married—and his marriage indicates his homosexuality was volitional, and not genetic—he married a Russian woman, with whom he was allowed to travel the Soviet Union freely, a privilege which he appears to have been unique in enjoying.

My intent is to deal with his ideas, but these few details about his life appeared sufficiently relevant to an analysis that I have included them. Provided it is between consenting adults, I could care less what happens behind closed doors. The point is that Keynes was a lifelong intimate of social and political radicals. Is radical bad? If the goal is the maintenance of social and political order, yes. The argument I will be making is that his goal was the subversion of our economic, moral, political and social lives, and that it was a natural outflow of his social milieu seems self evident to me.

III

Keynes thought does not appear to have evolved much, but his outward rhetoric did. In my view, what is plainly perceptible is a progression from a goal—the bankruptcy of the Capitalist class—to a means which sounded plausible enough to get repeated. For that reason, I would like to take a close look at some of his earlier work, quote some of it at length, and then compare it with the conclusions he drew in his most influential work “The General Theory of Employment, Interest, and Money”, upon which Keynesian economists base their prescriptions. I will do this in sections, to facilitate the intellectual digestion of what at times are subtle ideas.

The book which made him famous was “The Economic Consequences of the Peace”, published in 1920. He attended the Paris peace talks, which led to the Treaty of Versailles, ending World War One. He was immensely frustrated—apparently sincerely—at the unwillingness of the allies to recognize that the “peace” they had negotiated was going to lead to economic and hence political instability. Most importantly, the indemnities which France insisted on inflicting on Germany were simply grossly excessive relative to Germany’s ability to pay, a fact which he underscores in some detail. Most of the Continental combatants had already paid much of their way with inflation, and he could well see that more would be needed. He could also see that inflation was damaging in many ways:

Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, government can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and while the process impoverishes many, it actually enriches some. – As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.

"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

In the latter stage of the war all the belligerents practiced, from necessity or incompetence, what a Bolshevik might have done from design. (Great Minds 247)

What is he saying here? Four things: first, that printing money creates economic dislocation. The money of the rich becomes worthless. Investing becomes extremely risky, because the future can't be predicted. If the essence of trade is buying low and selling high, it has become impossible to gauge the present value of goods, or their likely future value. In response the only safe thing to do is buy some property or gold, and hold on.

Second, he is saying that some people win. Who wins? The people who create the money—here the governments—those who own things that rise in value, and those to whom “undiluted” money is given. As Keynes puts it: “If prices are continually rising, every trader who has purchased for stock or owns property and plant inevitably makes profits.”

Consider in this regard William Shirer's commentary on the Weimar hyperinflation, from The Rise and Fall of the Third Reich:

...goaded by the big industrialists and landlords, who stood to gain from the masses of people who were financially ruined, the government deliberately let the mark tumble [i.e. kept the printing presses running day and night, and used that money to pay its bills] in order to free the state of its public debts, to escape from paying reparations, and to sabotage the French in the Ruhr. Moreover the destruction of the currency enabled German heavy industry to wipe out its indebtedness by refunding its obligations in worthless marks. The General Staff...took notice that the fall of the mark wiped out the war debts and thus left Germany financially unencumbered for a new war.

The masses of people, however, did not notice how much the industrial tycoons, the Army and the State were benefitting from the ruin of the currency." (Rise 96)

Third, inflation is a means of undermining Capitalism as a system. It is an instrument of Bolshevism.

Fourth, very, very few people understand it.

Later, he summarizes it in an interesting way:

Thus the menace of inflationism described above is not merely a product of the war, of which peace begins the cure. It is a continuing phenomena of which the end is not yet in sight.

*All these influences combine not merely to prevent Europe from supplying immediately a sufficient stream of exports to pay for the goods she needs to import, but they impair her credit for securing the working capital required to re-start the circle of exchange and also, **by swinging the forces of economic law yet further from equilibrium rather than towards it, they favor a continuance of the present conditions instead of a recovery from them.***

Inflation and equilibrium are incompatible. Let us call this Data Point One.

IV

Data Point Two is his expressed foundational understanding of the Capitalist system. I will quote him at length, interspersed with my commentary, again from Economic Consequences of the Peace:

Europe was so organized socially and economically as to secure maximum accumulation of capital. While there was some [much, if he is honest] continuous improvement in the daily conditions of life in the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the inequality of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvement. . . Herein lay, in fact, the main justification of the Capitalist System. .If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a regime intolerable. (Great Minds 67)

What is he saying? First, that he analyzes the world in terms of class. Second, that the Capitalist System (his capitalization of the words) is unjust, and would be overthrown if seen in its true light.

He goes on:

. . .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 co-operating 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" [his quotation marks, as if savings were somehow unreal] became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the non-consumption 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. . .

Saving was for old age or 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. (Great Minds 67)

This is really quite an extraordinary and counter-factual claim, that warrants some common sense analysis. As I have argued throughout this series, Capitalism is a system in which money is saved, expressed creatively, and which in turn yields more money. You gather together a seed, plant it, then harvest the result, which is larger than the seed.

Prior to World War One, standards of living were rising for ALL classes throughout Europe. This was made possible by increases in efficiency. For example, the railway system made all sorts of goods cheaper. It also created markets for goods, since foodstuffs, and the products of industry could be sold less expensively over a broader area, which in turn fostered employment and wealth. The seed was investment in transportation technology and the fruit was greater prosperity.

As I have often been at pains to point out, Marx's ideas of class warfare—which Keynes is expressing here more or less openly—were falsified by the emergence of the middle class. Where he posited that the rich would get richer on the backs of the poor--who would get poorer--what actually happened is that all boats rose in a swell of general prosperity.

As Keynes himself notes: ". . . escape was possible, for any man of capacity or character at all exceeding the average, into middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts and amenities beyond the compass of the richest and most powerful monarchs of other ages." (Great Minds 61)

I am getting slightly ahead of myself, but Keynes also quotes Bastiat in his later address which was published as "The End of Laissez Faire": "I believe that the invincible social tendency is a constant approximation of men towards a common moral, intellectual, and physical level, with, at the same time, a progressive and indefinite elevation of that level. I believe that all that is necessary to the gradual and peaceful development of humanity is that its tendencies should not be disturbed, nor have the liberty of their movements destroyed."

Keynes sets that up, so that he can deliver the devastating Argument from Authority that "From the time of John Stuart Mill, economists of authority have been in strong reaction against all such ideas." That's it. That's his only rebuttal, to an argument he has already admitted had merit, in that those who wanted to could rise socially and economically as high as their talents and dispositions inclined them.

Thus we have to reconcile the tension between Keynes class warfare rhetoric, patently false claim that savings and spending are incompatible, and his own admission that self elevation was possible within the Capitalist System, even as he described it.

That reconciliation cannot happen within the economic sphere. It must happen within the moral sphere. To that I will turn in a separate exposition on “Socialism as a Moral Claim”, but want for now to take one more nugget from Economic Consequences of the Peace.

V

*The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the laboring classes may no longer be willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their **confiscation** [emphasis mine](Great Minds 69)*

Building on an earlier theme:

Where we spent millions before the war, we have now learnt that we can spend hundreds of millions and apparently not suffer for it. Evidently we did not exploit to the utmost the possibilities of our economic life. We look, therefore, not only to a return to the comforts of 1914, but to an immense broadening and intensification of them. (Great Minds 54)

This is the essence of the modern European Welfare State. What is he really saying here? That governments can print money to create the illusion of prosperity. How was the war financed? In large measure, through inflation.

When Winston Churchill, as Chancellor of the Exchequer (effectively, Secretary of the Treasury) put England back on the gold standard in 1924, the subsequent economic downturn showed very effectively that much of England’s supposed prosperity depended on an inflated currency. As Churchill put it: “I will tell you what it [the return to the Gold Standard] will shackle us to. It will shackle us to reality.”

Data Point One, then is an understanding that inflation is a means of wealth transfer.

Data Point Two is a distaste for the system of Capitalism.

Data Point Three is an understanding that apparent wealth can nonetheless be generated through inflation.

Logically, then, inflation can be used to take wealth from Capitalists, and give it to others.

VI

“The End of Laissez Faire” was a lecture given twice, once at Oxford, and once to the University of Berlin. In it, Keynes seeks to explain “why State action to regulate the value of money, or the course of investment, or the population, provoke such passionate suspicions in many upright breasts.”

He never really explains why such State action should not arouse suspicion. After all, this speech was delivered while both Fascism and Bolshevik Communism were in ascendency.

His method of argument is quite interesting. He offers up some admirable quotes from common sense political economists and theorists, only in effect to say “but we all know that isn’t true.”

For example, consider this one, from Archbishop Whately: “True liberty is ‘that every man should be left free to dispose of his own property, his own time, and strength, and skill, in whatever way he himself may think fit, provided he does no wrong to his neighbors. . .’”

Response? “In short, the dogma had got hold of the educational machine; it had become a copybook maxim”. And why should it not have? He doesn’t say. He calls doctrines of equality before the law and individualism “exploded sophistries”, “preposterous”, and those who hold them “degenerate”.

The closest he gets to refuting common sense economics is in what we might term “the parable of the giraffes”. The essence of the argument is that giraffes with longer necks shut out those with shorter necks. The rich get richer, and the poor get poorer.

Ironically, he repeatedly accuses orthodox political economists of ignoring facts, yet the only “data” he offers to support his own contentions is an analogy, that of the hypothetical short, starving giraffes. To this, must be opposed the manifest material progress of all of Western Europe and the Americas, under Capitalism. As is usual with leftists, he inverts the truth, while pretending to be the honest one.

Having pretended to refute orthodox economics, however, he later feels free to pursue his actual agenda: “Perhaps the chief task of Economists at this hour is to distinguish afresh the *Agenda* of Government from the *Non-Agenda*; and the companion task of Politics is to devise forms of Government within a Democracy which shall be capable of accomplishing the *Agenda* [italics his] (Great Minds 37)

By *Agenda*, what does he have in mind?

First, the establishment of the already referenced “semi autonomous bodies with the State”. He offers as examples “universities, the Bank of England, the Port of London Authority, even perhaps the Railway Companies.” Phrased another way, institutions with power, but no democratic governance. Fannie Mae and Freddie Mac would absolutely fit this mold; or at least they did until they went broke and ceased being Government Sponsored Entities. The Federal Reserve would definitely qualify (if he could get his people in), as would the IMF and World Bank.

He goes on to say: “One of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialize itself.” Gradually, in other words, the profit motive gives way to public-spiritedness, and what was a Capitalist institution is now socialized. This would of course be greatly facilitated by making the sure “right” people get placed in the key positions, which is something that could be done over time without excessive difficulty.

He has no objections to State Socialism, per se, either:

*I criticize doctrinaire State Socialism, not because it seeks to engage men’s altruistic impulses in the service of Society, or because it departs from laissez-faire, or because it takes away from man’s natural liberty to make a million, or because it has courage for bold experiments [e.g. Bolshevism]. **All these things I applaud** [emphasis mine]. I criticize it because . . . [it] is in some respects a clearer, in some respects a more muddled version of just the same philosophy*

as underlies nineteenth century individualism. [Bentham and the doctrine of free competition] equally laid all their stress on freedom, the one negatively to avoid limitations on existing freedom, the other positively to destroy natural or acquired monopolies. They are different reactions to the same intellectual atmosphere [of individualism, which I reject] (Great Ideas 39)

Phrased another way, his primary objection to State Socialism is, apparently, that it goes too far in protecting individual liberties. Small wonder that Benito Mussolini, in reading this piece, commented:

*All this is pure fascist premises and I cordially recommend Mr. Keynes to proceed to Italy and there to study Fascism with an open mind and with the same scrupulous care as he has studied Bolshevism. An essay from his pen on Fascism would doubtless prove a most valuable piece on constructive criticism.*¹

Secondly, he wants to separate “those services which are *technically social* from those which are *technically individual*.” [italics his] (Great Ideas 40).

For instance: “. . . *deliberate control of the currency and of credit by a central institution [and in] the collection and dissemination on a great scale of data relating to the business situation, including the full publicity, by law if necessary, of all business facts which it is useful to know. . . I [also] believe some coordinate act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organization of the investment market distributes savings [income] along the most nationally productive channels. I do not think that these matters should be left entirely to the chances of private judgment and private profit, as they are at present. (Great Minds 41)*

In other words, he wants a very large State to be able to tell people what they can and can't do with their money.

Finally, he wants to be able to tell people if they can reproduce, and he implicitly invokes eugenics:

*The time has already come when each country needs a considered national policy about what size of Population . . . is most expedient. And having settled this policy, we must take steps to carry it into operation. The time may arrive a little later when the community as a whole must pay attention to the **innate quality** [emphasis mine] as well as to the mere numbers of its future members. (Great Minds 42)*

¹ James Strachey Barnes, *Universal Aspects of Fascism*, Williams and Norgate, London, 1929, pp. 115

Consider in that regard what his mentor George Bernard Shaw had to say about the future of people who in his view lacked quality:

We should find ourselves committed to killing a great many people whom we now leave living... A part of eugenic politics would finally land us in an extensive use of the lethal chamber. A great many people would have to be put out of existence simply because it wastes other people's time to look after them².

Have you begun to see a pattern, possibly, of something other than a sincere desire to “save Capitalism”?

VII

Finally, let's turn to the General Theory. The task Keynes sets himself is solving the problem of unemployment, which he views as fundamental. “Why?”, one may reasonably ask. If unemployment is not excessive, and if some sort of social relief is in place, why would that be the primary task? Why not continue the generalized economic amelioration which patently began with the Industrial Revolution, and has continued apace since then?

The simple answer is that it offers him the space he needs to make an argument in favor of putting the government in charge of the economy.

Here is what he has to say:

*The authoritarian state systems of to-day seem to solve the problem of unemployment [note, they didn't and they don't; most Cubans spend all day on their doorstep staring at the ground] at the expense of efficiency and freedom. It is certain that the world will not much longer tolerate the unemployment [emphasis mine] which, apart from brief intervals of excitement, is associated—and, in my opinion, inevitably associated—with present day capitalistic individualism. But it **may** [or may not; emphasis mine] be possible, by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.*

Please consider carefully what he is saying, and when he said it. This book came out in 1936. When he wrote it he knew there was high unemployment in the United States and elsewhere. He knew that Communist agitators were trying—both openly and secretly--to foment revolution. Some of them were his friends, such as Harry Dexter White.

What he is saying is that it MIGHT not be necessary to have a revolution, but something has to give. Capitalism inevitably leads to structural unemployment. He is positioning himself as a moderate,

² *The Daily Express* (London), March 4, 1910, quoted in Dan Stone, [Breeding Superman: Nietzsche, Race and Eugenics in Edwardian and Interwar Britain](#) (Liverpool University Press, 2002)

but as we have already seen, he was nothing of the sort. He wanted government control of all important aspects of the economy, and said so explicitly in The General Theory.

Now I should devote a short moment to the content of his argument. What is the basic thesis he offers us? Simple: spending equals savings.

. . . up to the point where full employment prevails, the growth of capital [savings] depends not at all on a low propensity to consume [savings] but is, on the contrary, held back by it; and only in conditions of full employment is a low propensity to consume [savings] conducive to the growth of capital [savings]l. (General Theory 372)

Phrased another way, the more you spend the more you save, and the more you save, the more you can spend. Is that nonsense? Of course.

But it is hidden in verbiage like this: “. . .the volume of employment in equilibrium depends on (1) the aggregate supply function, ϕ , (ii) the propensity to consume, X , and (iii) the volume of investment, D_2 . This is the essence of the General Theory of Employment.” (General Theory 29).

As I view it, the book has three parts: the introduction, where he discusses Classical Economics, briefly; then you get strapped onto a roller coaster, where he invents words, uses intentionally opaque prose, and generally tries to confuse you; and finally, the end, where he reveals his actual objectives.

When you watch a magic act, the entirety of the effect depends on misdirection of attention. In my view, the entirety of the General Theory can be ignored, in favor of looking at the concrete outcomes he openly stated he hoped to achieve, which are perfectly congruent with the entirety of his previous output.

What he is in fact building is a theoretical template for a Command Economy in everything but name. He wants government to have the job of equalizing output and demand, in conditions in which only the government has capital for investing. He wants all three variables under State control, as he already more or less said in “End of Laissez Faire”.

He talks specifically about the destruction of Capital:

I feel sure that the demand for capital is strictly limited in the sense that it would not be difficult to increase the stock of capital [i.e. use a central bank to induce inflation] up to a point where its marginal efficiency had fallen to a very low figure. . .

Now, though this state of affairs would be quite compatible with some measure of individualism [a very, very small measure], yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. . .

. . .it will still be possible for communal saving through the agency of the State to 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 [i.e. the ability of individuals and banks to charge interest on loans, and more generally of anyone to invest in things that they own] 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 [for example, the State now controls the economy in every aspect that interests it]. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier [note that he is presumably speaking metaphorically, but given his association with Shaw that is not a given], of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and **it will need no revolution** [emphasis mine]. (Great Minds 376)*

He goes on to stipulate that the aim is “depriving capital of its scarcity value within one or two generations.”

If money is not scarce, what does that mean? It means all the means of production are in effect managed by a centralized authority, along with means of employment. Scarcity of capital means some people are rich. Non-scarcity of capital means there are no rich people, and that the State has control of all the money, and can create it at will.

As he comments—redundantly, given the foregoing: “The central controls necessary to ensure full employment will, of course, involve a large extension of the traditional functions of government.”

He does make some noise here and there to the effect that every last detail need not be controlled, and there is room in his heart for some individualism but of course anyone who causes trouble in the world he is envisioning could be dealt with easily enough, one way or another.

VIII

Keynes was not coy, for those with eyes to see. What we must assume when we see modern economists touting his ideas is that they support his ends, which amount to the collapse of economic—and hence political—freedom. Without the right to private property, political liberty is impossible. Without the right to property, you are not free in your home; you have no right to the results of your labor; you cannot enforce contracts; you cannot safely initiate business of any kind; and your ideas belong to the State.

If true Capitalism is a system for converting ideas into wealth, and wealth into leisure—as I would argue happens inevitably in conditions of monetary stasis--then Keynesian economics is a system for converting ideas into political power and political power into (relative) money.

Concretely, though, how would this work? How do you take the basic idea of using inflationary deficit spending to stimulate “demand”, and “euthanize” capital? How far along are the Keynesians in this country?

First off, it must be said that Keynes was working to implement Socialism, and socialism doesn't work. His claim was that his system would enable full employment. It didn't and it hasn't. I will deal with the Great Depression in the following piece, but the simple reality is that his policies, once adopted, did not reduce unemployment, for the same reason salt water doesn't reduce thirst: in solving one problem, it creates another.

Generally speaking, most Socialist revolutionaries take as their goal inducing national bankruptcy, then taking advantage of the confusion to seize power. That they would want to induce misery in

order to solve problems of misery is of course a species of insanity that is best explained psychologically and morally, as I will do later in this series.

In America particularly they have found it hard to counter our national tendencies towards innovation, our capacity for hard work, and our skepticism with respect to socialism. Absent Keynes "General Theory", in fact, they would have little progress at all. Make no mistake, though: they have made substantial inroads, and effectively taken over our universities. We are \$13 trillion in debt, and that number is growing. This is the sort of outcome Keynes wanted, although he would find much fault with the present positioning of those advocating socialism; other than, of course, our election of a socialist to our Presidency, and the pathway that has been laid, for now, towards socializing our healthcare system and health insurance companies.

We forget, though, that socialism has been much more advanced in other nations for many decades. Most countries have had politically relevant Communist Parties. Here, the lunatics have been forced into the use of subterfuge, with the result that they can't openly espouse their positions, and expect any significant amount of support from any but a radical and politically irrelevant fringe. This makes them easy prey, since all anyone has to do is tell the truth about who they are, and what they really want. Self evidently, my intent here is to roll Keynes back into the closet, and give people ample reason to reject his ideas in total.

You can't spend your way into prosperity. All people with a shred of common sense have always known that. Now you know why an intelligent man would nonetheless propose it, and why Harvard and MIT educated economists would support that proposal: they are closet socialists. I have quoted you enough of his texts that you should be able to see that no person of even average intelligence could fail to see what Keynes real goals were. He stated them: euthanization of the Capitalists through State control of investment, savings, and production.

With respect to the United States, one key element he wanted and could not get was control of our central bank, the Federal Reserve. He and Soviet agent, Asst. Secretary of the Treasury Harry Dexter White tried in the 1930's to get the Fed brought under direct Federal control, and failed.

I favor ending the Fed, for reasons I have articulated, but it is very much the case that we cannot assume confluence of interest between the Fed and the Keynesian socialists, as some conspiracy theorists are inclined to do. On the contrary, the Fed clearly favors the interests of the "rentier" class, much of whose money the Fed has created. They themselves may well want to rule the world—everybody wants to rule the world, don't they?--but they no doubt make no pretense privately about wanting to help anyone but themselves.

The "Stimulus" was clearly Keynesian, and socialists like Paul Krugman keep calling for more spending, but their calls are falling on increasingly deaf ears. It is simply impossible to maintain fictions forever. The maintenance of patent nonsense like Keynesian economics has always depended on controlling the media and message, and they have lost that control.

In my view, therefore, the purest expressions of actual Keynesian economics at work is the activity of the IMF/World Bank. Perhaps some of you don't know this, but Keynes and Harry Dexter White (who, again, was clearly a Soviet agent, but who unlike Alger Hiss died before he could be brought to trial) created both the IMF and World Bank. What these institutions do is fund public works projects throughout the developing world, via the agency of the local government. Local strongmen get the money, flip it to their backers, they build something, then the money runs out. What happens then, consistently, is that the government can no longer pay the loans back. The IMF then tells them in effect to use inflation to pay their debt, then loans them more money, starting the cycle anew. This process has enabled the World Bank to insert itself into very intimate details of national

economies. It has fostered dictatorship, rewarded elites, and impoverished many. Zimbabwe would be one good example of many. Of course, at some point most countries tire of drinking salt water, but IMF remains a potent force on the international scene. Like the Fed, it needs to be ended.

As was clearly seen in the Weimar Republic, inflation—far from taking wealth from elites—actually strengthens them. Keynes ideas—like those of all socialists—have accomplished much evil, despite their pretense of being well intentioned.

Socialism—in its truest form of being government ownership (or control) of the means of production—is intrinsically Fascist, in a formal sense, as ratified by the founder of Fascism himself, Mussolini.

IX

In the end, we have to see Keynes as what he was: an academic, well divorced from reality, unused to actually solving real problems, and whose ideas—ambitious as they may have been—have succeeded in causing a lot of problems—mostly for the working poor—and helped no one.

The debt we have accrued following his ideas is still quite dangerous. Social Security (nationalized savings, correct?) is not solvent. Medicare (nationalized medical care, in part, correct?) is not solvent. Medicaid (redistribution of wealth via healthcare access, correct?) is not solvent in most States. We can't afford to keep doing what we are doing.

At the same time, we are still in better position than the Europeans, the Japanese, the Chinese, and the rest of the world. That's not a lot, but it's something.

Keynes talked about economic equilibrium. This is a topic worth the discussion. As I view it, we can achieve economic equilibrium and full employment via continuously increasing the value of labor. As Bastiat said, this is the natural outcome of letting things take their course. Specifically, we have to stop monkeying with our money. My proposal for this is entitled "How to fix our financial system". We can undo all the evil Keynes sponsored, and then continue, into a much better world.

For my part, I am willing to use the word "Liberal"—in the sense in which Bastiat and Adam Smith were Liberals—even for government programs which provide a basic social safety net, where some of my conservative friends might object. Certainly, if we fix our financial system, I think poverty will disappear. Further, private charity is and always has been until recently the first and primary source of communal succor. But where gaps appear I don't object in principle to social spending of a limited sort. What I object to is the use of social spending to foster the erosion of our Constitutional form of government, which is what socialists are invariably after.

Ironically, the course Keynes prescribed for full employment has only achieved systemic unemployment, wider poverty, and the loss—really, redistribution—of wealth we should have been able to keep. In general, that redistribution has been from the "have not's" to the "haves". When gangsters rule, the best gangsters get the loot.

I see cause for fear, but also pathways forward. What we need more than anything is clarity of thought, and an ironclad resolution to correct the errors into which he led us, all those many years ago.

Some of you may want to read “Keynes at Harvard”, link here:

<http://www.keynesatharvard.org/index.html>

In general, I agree with his conclusions, but I found his lack of an overarching narrative reference to Keynes actual ideas unhelpful. I have of course tried to rectify that problem here.

Still, many of the quotes he offers up give the thoughtful reader—I would almost say “with a pulse, and a shred of genuine patriotism and Liberal spirit”—ample cause for anxiety, especially as regards the patent political subversiveness which has characterized our universities for at least two generations now; and in some cases—for example Harvard—for the better part of a hundred years. He traces the people, the ideas, and documentary record.

For example the author of the book “A New Deal”, Stuart Chase, had this to say:

Best of all, the new regime would have the clearest idea of what an economic system was for. The sixteen methods of becoming wealthy would be proscribed—by firing squad if necessary—ceasing to plague and disrupt the orderly process of production and distribution. Money would no longer be an end, but would be thrust back where it belongs as a labor-saving means. The whole vicious pecuniary complex would collapse as it has in Russia. Money making as a career would no more occur to a respectable young man than burglary, forgery or embezzlement. “Everyone,” says Keynes, “will work for the community and, if he does his duty, the community will uphold him.” Money making and money accumulating cannot enter into the life calculations of a rational man in Russia. A society of which this is even partially true is a tremendous innovation.

Lest the significance of this be underappreciated, the entire concept of the New Deal originated with that book, and he is here in effect offering up Communist Russia as an ideal. The Republicans who--then and now--called FDR’s program socialist were quite technically and ideologically accurate. Chase himself had a very successful career in the Roosevelt Administration, and eventually became the head of UNESCO after the formation (under the direction of Soviet agent Alger Hiss) of the UN.

It might be worth noting, too, that the idea of the League of Nations, of which the UN was the heir, was that of Bloombury Group member Leonard Woolf, husband of Virginia.

With regards to the section on moral depravity, I looked up his references, and was unable to verify many of them. The “bed and boy” quote clearly was in a letter; but as to the more sensational claims, such as frequent sex trips around the Mediterranean, I was unable to find any supporting material in the Strachey biography, which I did not read in full, but canvassed fairly extensively. I suspect that in the course of his investigation he got so angry that he substituted what he felt strongly to have been the case (and which of course may well have BEEN the case) for what he could actually prove from the extant record.

I will conclude by asking the reader who agrees with my conclusions, and sees the persisting dangers of these ideas to share this link—and my series on our financial system more generally, especially my proposed solution—with as many people as he or she thinks might have an interest.

Keynes well understood the power of ideas:

...the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. . . I am sure the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians, and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

Thus ended the most influential work of political philosophy published in the 20th Century, under whose thrall a generation of economists and politicians grew into maturity.

If you ponder his words, though, you should see ample cause for hope as well.

Books referenced

Hazlitt, Henry. Economics in One Lesson. New York: Three Rivers Press, 1946

Keynes, John Maynard. The End of Laissez Faire/The Economic Consequences of the Peace. Amherst: Prometheus Books, 2004. (Note: within the text I have called this “Great Minds” for simplicity. Self evidently, I see some irony there, but that was the title of the series, and the pagination conflated both texts, so I thought this approach simplest.)

Keynes, John Maynard. The General Theory of Employment, Interest, and Money. New York and London: Harvest/HBJ, 1964.