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Keynes' Prosperity Theory

Nonstop Boom Philosophy Called Good Trick for Any Magician to Pull

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The economic theories and ideas of Lord Keynes are no longer the concern of a few cloistered scholars and professors. His views have profoundly affected many governments and the lives of hundreds of millions of people in this country and abroad. They are the foundations for legislation as diverse as the Murray Full-Employment bill and the Bretton Woods Monetary Proposals. Small wonder that many people are asking pertinent questions about this famous British economist.

Lord Keynes crystallized his major ideas in his book "The General Theory of Money, Interest and Employment." It was an epoch-making volume, despite its limited appeal to students of higher economics, because it overturned all orthodox economic concepts.

In this book he attempts to solve the riddle—"Why do all capitalist societies suffer from recurring large-scale unemployment?" If we solve that problem, he says, capitalism can survive. If not, it hasn't a chance.

Lord Keynes' answer to this question has served as the bible for New Deal philosophy and legislation in this country.

Keynes Theory Outlined.

Briefly stated, his theory is that large-scale unemployment is due to the fact that all our national income is not actively employed every year in the production of goods. Part of our annual earnings are saved each year—even in the depression times. These savings, he says, are not used to create new capital goods (machinery, plants, etc.), but lie idle. When savings outstrip investment, the capitalist 'circuit' is broken. Activity bogs down and unemployment results.

Lord Keynes' solution is to place primary responsibility for investment and employment upon the government—not upon the individual. If corporations and individuals will not employ their savings every year, every month and thus create continuous employment, then the state must borrow the money and make the investment in their stead.

Lord Keynes insists that there must be a nonstop boom—which is a good trick for any magician to pull. In his analysis he refuses to take into consideration the adjustments that must take place in a free enterprise system. Prices may get out of line, inefficiencies must be corrected, costs of production (including labor cost) may soar to dizzy heights—many things may happen to clog the machinery. As the necessary corrections are made, industry temporarily contracts and unemployment results.

Overlooks Fundamentals.

Lord Keynes refuses to treat the many fundamental causes of recession. He has only one answer —more investment, regardless of whether it is economically justified or not.

Where will the money come from for these government expenditures? Never mind that, says Keynes. Government deficits are not evil—our internal national debt is owed to ourselves, so its size is of little consequence. Even the prospect of inflation is brushed aside by Keynes. He advocates "managed" currency and he has sublime faith in the managers to see to it that everything comes out all right.

Economists of the Hayek school maintain that Keynesian ideas are bad economics which lead to uneconomic production, a lower standard of living, inflation and inevitable Fascism or Communism. If they are right, then Keynes' ideas may be more than economic fallacies. They might be the nails in the coffin of a free society.