THE FREE MARKET

VOL. 31, NO. 1, January 2013 THE MONTHLY PUBLICATION OF THE LUDWIG VON MISES INSTITUTE

Two Sides of the Same Debased Coin

HUNTER LEWIS

In the beginning of *The General Theory*, John Maynard Keynes says that his ideas will no doubt be rejected because they are so novel and revolutionary. Toward the end of the same book, he seems to have forgotten this, because now he says he is reviving the same centuries-old ideas that he had once dismissed as the most absurd fallacies. At least he acknowledges that he is changing his position, although he does not explain how his ideas can be new, revolutionary, and also centuries old.

This is of a piece with his describing himself as a member of "the brave army of rebels and heretics down through the ages" even as he recommends policies that appeal to the basest and most self-serving instincts of politicians—and even as he enjoys all the immense privileges that accrue from being at the top of the existing financial and political establishment.

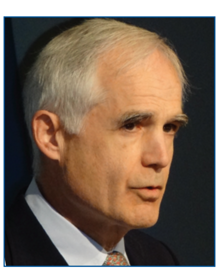
Although it may be true, as the art historian Kenneth Clark said, that Keynes "never dimmed his headlights," it cannot be said that he knew how to drive on a single side of the road. Keynes, would become the principal apologist for "crony capitalism," which is perhaps the best term to describe our current system. As you probably know, much of Keynes's writing is intentionally obscure, although the threads can be unraveled and rebutted, as Henry Hazlitt so brilliantly proved in *The Failure of "The New Economics."*

What is the very essence of Keynesianism? Can we describe it in the briefest and simplest terms, so that anyone can understand what is wrong with it, and thus strip away the intellectual fog that surrounds and protects crony capitalism?

At first glance, it might seem that the essence of Keynesianism is simply the endless self-contradiction to which I have already alluded. He was never in one place, intellectually or otherwise, for long.

For example, he railed at the love of money. He called it "the worm . . . gnawing at the insides of modern civilization." But he also desperately wanted to be rich. He railed against investment speculation, but avidly speculated himself. At one point, he was completely wiped out, and had to turn to his father, a teacher, for rescue. Two more times, he could have been wiped out, one of them 1929, which he did not anticipate, the other 1937, which he did not anticipate either.

Keynes's relationship with gold is a good example of his continual self-contradiction. In 1922, he wrote in *The Manchester Guardian*: "If the gold standard could be reintroduced . . . we all believe that the reform would promote trade and production



Hunter Lewis is cofounder of AgainstCronyCapitalism.org. He is the former CEO of Cambridge Associates and the author of six books. His most recent book is *Where Keynes Went Wrong*. He has served on boards and committees of 15 not-for-profit organizations, including environmental, teaching, research, and cultural organizations, as well as the World Bank.

Rather than follow Keynes and his followers down all these rabbit holes, let's ask ourselves: is there a common theme to this nonsense?

like nothing else." A little later he described gold as the "barbarous relic." Yet even when he called gold the "barbarous relic" he privately continued to recommend it as an investment diversifier.

When we turn to Keynes's economics, perhaps the most fantastic self-contradiction was that an alleged savings glut, too much supposed idle cash, could be cured by flooding the economy with more cash, newly printed by the government. Perhaps even more bizarrely, Keynes says that we should call this new cash "savings" because it represents "savings" just as genuine as "traditional savings." That is, the money rolling off the government printing presses is in no way different from the money we earn and choose not to spend.

All this new "savings" enters the economy through the mechanism of low interest rates. At this point, Keynes further confounds his forerunners and elders by arguing that it is not high interest rates, as always thought, but rather low interest rates, that increase savings, even though we started by positing too much savings in the first place.

Keynes's followers echo this even today. Greenspan, Bernanke, and Krugman have all written about a savings glut which is supposed to be at the root of our troubles, and have proposed more money and lower interest rates as a remedy, although they no longer call the new money "genuine savings." They prefer quantitative easing and similar obscure euphemisms.

Keynesian Gregory Mankiw, one of two chief economic advisors named by Mitt Romney, has even proposed ramping up CPI inflation to create deeply negative interest rates, perhaps as negative as -6 percent. In other words, increase inflation to around 6 percent but keep interest rates repressed to near zero by buying bonds with whatever money has to be printed.

This latest proposal of deeply negative interest rates outdoes even Keynes. *The General Theory* does argue that interest rates could and should be brought to a zero level permanently (that's pages 220–21 and 336). This idea of permanent zero interest rates appears first in Proudhon, although Keynes does not acknowledge or perhaps know that, and seems absurd on its face. Lending money at no interest is equivalent to giving it away, and it is hard to understand how anything can have value that is given away.

Nevertheless, Keynes said that it would be reasonable to get to zero interest rates (and zero level dividends) within a generation. By that standard, we have evidently failed him because we should have reached this utopia by 1966.

But note that even Keynes didn't suggest negative interest rates. The idea of engineered negative interest rates reminds me of a Yiddish phrase which I am told is translated roughly as: "Smart, smart, stupid." It takes very smart people to think it up but that doesn't mean it isn't stupid. And it is worrying that this is coming not just from President Bush or President Obama. One couldn't be surprised at anything coming from those quarters.

President Bush said that "I have abandoned free-market principles to save the free-market system." His successor, President Obama, said in his first budget message that he was taking us from "an era of borrow and spend" to an era of "save and invest." Then we had Mitt Romney not only relying on a retread Bush advisor, but even a proponent of deep negative interest rates. A very nice man, I might add, but not someone we need in Washington again.

These Romney advisors also, of course, believed in the fairy tale of borrow and spend stimulus. It is usually forgotten that Keynes assured us that each dollar of

Editor: Daniel J. Sanchez | Contributing editors: Thomas J. DiLorenzo, Jeffrey M. Herbener, Robert Higgs, Mark Thornton | Publisher: Llewellyn H. Rockwell, Jr.
The Free Market is published 12 times a year. Note: the views expressed in the *Free Market* are not necessarily those of the Ludwig von Mises Institute.

Ludwig von Mises Institute, 518 West Magnolia Avenue, Auburn, Alabama 36832-4501 Phone: 334.321.2100; Fax: 334.321.2119; Email: contact@mises.com; Web: mises.org

such stimulus would produce as much as twelve dollars of growth and not less than four dollars. Even the most ardent Keynesians have, of course, been unable to demonstrate as much as one dollar. How did Keynes know that you would get four dollars at least? He didn't. He told the governor of the Bank of England, Norman Montague, that his ideas were "a mathematical certainty" but that was just a crude bluff.

What is empirically verifiable is that all debt, private or public, has been generating less and less growth for decades. In the ten years following 1959, the official figures say that you got 73 cents in growth for each dollar borrowed. By the time of the Crash of '08, that was down to 19 cents. And I expect it was really negative by then and is deeply negative now.

Rather than follow Keynes and his followers down all these rabbit holes, let's ask ourselves: is there a common theme to this nonsense? And there is a common theme. The common theme is that market prices don't matter. In a system replete with paradoxes, this is the ultimate paradox: "In order to fix the price and profit system, we must subvert it. No free price or profit relationship must be left alone. The price/profit system must be poked, pushed, pulled apart, only to be left in a complete shambles."

The assault on interest rates and currency rates is particularly destructive, but all of this madcap tinkering with prices is destructive.

Is this, then, the essence of Keynesianism, its blind destruction of the price mechanism on which any economy depends, as Mises demonstrated? Yes. But there may be an even deeper essence.

When we think of Keynes's headline ideas, they have a kind of formulaic quality. You take a long established observation, for example, that over-spending and debt are the road to bankruptcy and ruin, and turn it on its head. No, spending and debt are the road to wealth.

For the Victorians, spending within your means and avoiding debt were not just financial principles. They were *moral* principles. Keynes, who was consciously rebelling against these same Victorians, described their "copybook morality" as "medieval [and] barbarous." He told his own inner circle that "I remain, and always will remain an immoralist."

You will recall Mr. Micawber's famous admonition in Charles Dickens's nineteenth-century novel *David Copperfield*: "Annual income twenty pounds, annual expenditure nineteen, nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."

Keynes certainly subverted that idea. In particular, he insinuated the very odd, but now very prevalent idea, that old-fashioned wisdom and morality is out of date, even a bit retarded, and odder still, in conflict with science. This is all such nonsense, but it permeates our culture. And the very people who preach honesty and sustainability outside of economics, for example in our treatment of the environment, entirely fail to understand that Keynes is preaching dishonesty and unsustainability in economics.

So, in conclusion, when we strip down Keynesianism to its essence, the relationship to crony capitalism becomes even clearer. Crony capitalism represents both a corruption of capitalism and a corruption of morals. Keynesianism also represents both a corruption of economics and a corruption of morals. Crony capitalism and Keynesianism are just two sides of the same debased coin. ■

The Austrian Economics Research Conference (formerly ASC) is the foremost international, interdisciplinary meeting of the Austrian School, bringing together leading scholars doing research in this intellectual tradition. The conference is hosted at the Ludwig von Mises Institute campus in Auburn, Alabama.

To recognize the increasing importance of Austrian economics research, not only within the university but also in research institutes and among business professionals, the Mises Institute has renamed its annual academic conference the Austrian Economics Research Conference. The aim is to focus more closely on the research tradition of Menger, Böhm-Bawerk, Mises, Hayek, and Rothbard in economic theory, economic history, and political economy.

Please see Mises.org/Events or write Patricia Barnett (pat@mises.com) for more details.

Inside:

"Two Sides of the Same Debased Coin"
by Hunter Lewis

THE FREE MARKET
THE MONTHLY PUBLICATION OF THE LUDWIG VON MISES INSTITUTE

Ludwig von Mises Institute
518 West Magnolia Avenue
Auburn, Alabama 36832-4501

ADDRESS SERVICE REQUESTED