

John Maynard Keynes: How Much Does Finance Matter?

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<https://github.com/braddelong/public-files/blob/master/readings/article-keynes-finance-matter.pdf>: ‘Where we are using up resources, do not let us submit to the vile doctrine of the

nineteenth century that every enterprise must justify itself in pounds, shillings and pence of cash income, with no other denominator of values but this. I should like to see that war memorials of this tragic struggle take the shape of an enrichment of the civic life of every great centre of population. Why should we not set aside, let us say, £50 millions a year for the next twenty years to add in every substantial city of the realm the dignity of an ancient university or a European capital to our local schools and their surroundings, to our local government and its offices, and above all perhaps, to provide a local centre of refreshment and entertainment with an ample theatre, a concert hall, a dance hall, a gallery, a British restaurant, canteens, cafes and so forth. Assuredly we can afford this and much more. Anything we can actually do we can afford. Once done, it is there. Nothing can take it from us. We are immeasurably richer than our predecessors. Is it not evident that some sophistry, some fallacy, governs our collective action if we are forced to be so much meaner than they in the embellishments of life?...

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THE COLLECTED WRITINGS OF JOHN MAYNARD KEYNES: VOLUME XXVII:
ACTIVITIES 1940-1946: SHAPING THE POST-WAR WORLD: EMPLOYMENT AND
COMMODITIES: EDITED BY DONALD MOGGRIDGE

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Chapter 5: EMPLOYMENT POLICY

Discussions of post-war employment policy began in the course of 1941. While Keynes was in America, the Treasury had preliminary discussions on post-war internal economic problems, but these petered out before his return as other matters were more pressing. However, the Economic Section of the War Cabinet kept up the momentum. As early as February 1941, James Meade, in the first of a long series of memoranda, had turned to the subject. A later memorandum by Meade, dated 8 July 1941 and entitled 'Internal Measures for the Prevention of Unemployment', along with the preliminary Treasury discussions, played a part in the organisation of an inter- departmental Committee on Post-War Internal Economic Problems in October 1941. This Committee was charged with ascertaining what would be the chief internal problems facing post-war economic policy makers, arranging for memoranda to examine these problems and recommending to Ministers the considerations that they should have in mind in framing policy. Meade's July memorandum was one of the first documents circulated to the Committee. During the early stages of the Committee's work, Keynes himself made a foray into the shape of the post-war world, not for internal Treasury consumption, but as part of a series of BBC broadcasts on post-war planning.

From The Listener, 2 April 1942

HOW MUCH DOES FINANCE MATTER?

For some weeks at this hour you have enjoyed the day-dreams of planning. But what about the nightmare of finance? I am sure there have been many listeners who have been muttering: 'That's all very well, but how is it to be paid for?'

Let me begin by telling you how I tried to answer an eminent architect who pushed on one side all the grandiose plans to rebuild London with the phrase: 'Where's the money to come from?' 'The money?' I said. 'But surely, Sir John, you don't build houses with money? Do you mean that there won't be enough bricks and mortar and steel and cement?'

'Oh no', he replied, 'of course there will be plenty of all that'.

'Do you mean', I went on, 'that there won't be enough labour? For what will the builders be doing if they are not building houses?'

'Oh no, that's all right', he agreed.

'Then there is only one conclusion. You must be meaning, Sir John, that there won't be enough architects'. But there I was trespassing on the boundaries of politeness. So I hurried to add: 'Well, if there are bricks and mortar and steel and concrete and labour and architects, why not assemble all this good material into houses?'

But he was, I fear, quite unconvinced. 'What I want to know', he repeated, 'is where the money is coming from'.

To answer that would have got him and me into deeper water than I cared for, so I replied rather shabbily: 'The same place it is coming from now'. He might have countered (but he didn't): 'Of course I know that money is not the slightest use whatever. But, all the same, my dear sir, you will find it a devil of a business not to have any'.

A question of pace and preference

Had I given him a good and convincing answer by saying that we build houses with bricks and mortar, not with money? Or was I only teasing him?

It all depends what he really had in mind. He might have meant that the burden of the national debt, the heavy taxation, the fact that the banks have lent so much money to the Government and all that, would make it impossible to borrow money to pay the wages of the makers of the raw material, the building labour, and even the architects.

Or he might have meant something quite different. He could have pointed out very justly that those who were making houses would have to be supported meanwhile with the means of subsistence. Will the rest of us, after supporting ourselves, have enough margin of output of food and clothing and the like, directly or by foreign trade, to support the builders as well as ourselves whilst they are at work?

In fact was he really talking about money? Or was he talking about resources in general—resources in a wide sense, not merely bricks and cement and architects?

If the former, if it was some technical problem of finance that was troubling him, then my answer was good and sufficient. For one thing, he was making the very usual confusion between the problem of finance for an individual and the problem for the community as a whole. Apart from this, no doubt there is a technical problem, a problem which we have sometimes bungled in the past, but one which today we understand much more thoroughly. It would be out of place to try to explain it in a few minutes on the air, just as it would be to explain the technical details of bridge- building or the internal combustion engine or the surgery of the thyroid gland. As a technician in these matters I can only affirm that the technical problem of where the money for reconstruction is to come from can be solved, and therefore should be solved.

Perhaps I can go a little further than this. The technical problem at the end of this war is likely to be a great deal easier to handle than it was at the end of the last war when we bungled it badly.

There are two chief reasons for this:

1. The Treasury is borrowing money at only half the rate of interest paid in the last war, with the result that the interest paid in 1941 on the new debt incurred in this war was actually more than offset by the relief to national resources of not having a large body of unemployed. We cannot expect that the position will be so good as this at the end of the war. Nevertheless if we keep good employment when peace comes (which we can and mean to do), even the post-war Budget problem will not be too difficult.

2. And there is another reason also. In 1919 public opinion and political opinion were determined to get back to 1914 by scrapping at the first possible moment many of the controls which were making the technical task easier. I do not notice today the same enthusiasm to get back to 1939. I hope and believe that this time public opinion will give the technicians a fair chance by letting them retain so long as they think necessary many of the controls over the financial machinery which we are finding useful, and indeed essential, today.

What can we afford to spend?

Now let me turn back to the other interpretation of what my friend may have had at the back of his head—the adequacy of our resources in general, even assuming good employment, to allow us to devote a large body of labour to capital works which would bring in no immediate return.

Here is a real problem, fundamental yet essentially simple, which it is important for all of us to try to understand. The first task is to make sure that there is enough demand to provide employment for everyone. The second task is to prevent a demand in excess of the physical possibilities of supply, which is the proper meaning of inflation. For the physical possibilities of supply are very far from unlimited. Our building programme must be properly proportioned to the resources which are left after we have met our daily needs and have produced enough exports to pay for what we require to import from overseas.

Immediately after the war the export industries must have the first claim on our attention. I cannot emphasise that too much. Until we have rebuilt our export trade to its former dimensions, we must be prepared for any reasonable sacrifice in the interests of exports. Success in that field is the clue to success all along the line.

After meeting our daily needs by production and by export, we shall find ourselves with a certain surplus of resources and of labour available for capital works of improvement. If there is insufficient outlet for this surplus, we have unemployment. If, on the other hand, there is an excess demand, we have inflation.

To make sure of good employment we must have ready an ample programme of restocking and of development over a wide field, industrial, engineering, transport and agricultural—not merely building. Having prepared our blue-prints, covering the whole field of our requirements and not building alone—and these can be as ambitious and glorious as the minds of our engineers and architects and social planners can conceive—those in charge must then concentrate on the vital task of central management, the pace at which the programme is put into operation, neither so slow as to cause unemployment nor so rapid as to cause inflation. The proportion of this surplus which can be allocated to building must depend on the order of our preference between different types of project.

With that analysis in our minds, let us come back to the building and constructional plans. It is extremely difficult to predict accurately in advance the scale and pace on which they can be carried out. In the long run almost anything is possible. Therefore do not be afraid of large and bold schemes. Let our plans be big, significant, but not hasty. Rome was not built in a day. The building of the great architectural monuments of the past was carried out slowly, gradually, over many years, and they drew much of their

virtue from being the fruit of slow cogitation ripening under the hand and before the eyes of the designer. The problem of pace can be determined rightly only in the light of the competing programmes in all other directions.

The difficulty of predicting accurately the appropriate pace of the execution of the building programme is extremely tiresome to those concerned. You cannot improvise a building industry suddenly or put part of it into cold storage when it is excessive. Tell those concerned that we shall need a building industry of a million operatives directly employed—well and good, it can be arranged. Tell them that we shall need a million-and-a-half or two million—again well and good. But we must let them have in good time some reasonably accurate idea of the target. For if the building industry is to expand in an orderly fashion, it must have some assurance of continuing employment for the larger labour force.

I myself have no adequate data on which to guess. But if you put me against a wall opposite a firing squad, I should, at the last moment, reply that at the present level of prices and wages we might afford in the early post-war years to spend not less than £600 million a year and not more than £800 million on the output of the building industry as a whole. Please remember that this includes repairs and current painting and decorations and replacements as well as all new construction, not merely on houses but also on factories and all other buildings. That, for what it is worth, is my best guess. It covers the activities of private citizens, of firms and companies, of building societies, as well as of local authorities and the central government.

Now these are very large sums. Continued, year by year, over a period of ten years or more, they are enormous. We could double in twenty years all the buildings there now are in the whole country. We can do almost anything we like, given time. We must not force the pace—that is necessary warning. In good time we can do it all. But we must work to a long-term programme.

Not all planning is expensive. Take the talk of two months ago about planning the countryside. Nothing costly there. To preserve as the national domain for exercise and recreation and the enjoyment and contemplation of nature the cliffs and coastline of the country, the Highlands, the lakes, the moors and fells and mountains, the downs and woodlands furnished with hostels and camping grounds and easy access—that requires no more than the decision to act. For the community as a whole the expense is insignificant. Or take the question of compensation, which Mr Osborn discussed so clearly and so fairly a fortnight ago. Compensation uses up no resources. It is out of one pocket into another and costs nothing to the community as a whole.

Even the planning of London to give space and air and perspective costs nothing to the nation's resources and need not involve a charge on the Budget. There is heaps of room, enough and more than enough, in a re-planned London. We could get all the

accommodation we need if a third of the present built-up area was cleared altogether and left cleared. The blitz has uncovered St Paul's to the eyes of this generation. To leave it so will cost nothing to the community as a whole. To build may be costly. Let us offset that expense by a generous policy, here and there, of not building.

Where we are using up resources, do not let us submit to the vile doctrine of the nineteenth century that every enterprise must justify itself in pounds, shillings and pence of cash income, with no other denominator of values but this. I should like to see that war memorials of this tragic struggle take the shape of an enrichment of the civic life of every great centre of population.

Why should we not set aside, let us say, £50 millions a year for the next twenty years to add in every substantial city of the realm the dignity of an ancient university or a European capital to our local schools and their surroundings, to our local government and its offices, and above all perhaps, to provide a local centre of refreshment and entertainment with an ample theatre, a concert hall, a dance hall, a gallery, a British restaurant, canteens, cafes and so forth.

Assuredly we can afford this and much more. Anything we can actually do we can afford. Once done, it is there. Nothing can take it from us. We are immeasurably richer than our predecessors. Is it not evident that some sophistry, some fallacy, governs our collective action if we are forced to be so much meaner than they in the embellishments of life?

Yet these must be only the trimmings on the more solid, urgent and necessary outgoings on housing the people, on reconstructing industry and transport and on re-planning the environment of our daily life. Not only shall we come to possess these excellent things. With a big programme carried out at a properly regulated pace we can hope to keep employment good for many years to come. We shall, in very fact, have built our New Jerusalem out of the labour which in our former vain folly we were keeping unused and unhappy in enforced idleness.

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