ACTIVITIES 1931–1939

The next month, he provided an American popular magazine with a positive answer to the question ‘Can America spend its Way into Recovery?’ Harold Laski provided the negative answer in the same issue.

From Redbook, December 1934

CAN AMERICA SPEND ITS WAY INTO RECOVERY?

Why, obviously!—is my first reflection when I am faced by this question. No one of common sense could doubt it, unless his mind had first been muddled by a ‘sound’ financier or an ‘orthodox’ economist. We produce in order to sell. In other words, we produce in response to spending. It is impossible to suppose that we can stimulate production and employment by refraining from spending. So, as I have said, the answer is obvious.

But at a second glance, I can see that the question has been so worded as to inspire an insidious doubt. For spending means extravagance. A man who is extravagant soon makes himself poor. How, then, can a nation become rich by doing what must impoverish an individual? By this thought the public is bewildered. Yet a course of behaviour which might make a single individual poor can make a nation wealthy.

For when an individual spends, he affects not only himself but others. Spending is a two-sided transaction. If I spend my income on buying something which you can make for me, I have not increased my own income, but I have increased yours. If you respond by buying something which I can make for you, then my income also is increased. Thus, when we are thinking of the nation as a whole, we must take account of the results as a whole. The rest of the community is enriched by an individual’s expenditure—for his expenditure is simply an addition to everyone else’s income. If everybody spends more freely, everybody is rich.

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freely, everybody is richer and nobody is poorer. Each man
benefits from the expenditure of his neighbour, and incomes are
increased by just the amount required to provide the wherewithal
for the additional expenditure. There is only one limit to the
extent to which a nation’s income can be increased in this
manner, and that is the limit set by the physical capacity to
produce. To refrain from spending at a time of depression, not
only fails, from the national point of view, to add to wealth—it
is profligate: it means waste of available man-power, and waste
of available machine power, quite apart from the human misery
for which it is responsible.

The nation is simply a collection of individuals. If for any
reason the individuals who comprise the nation are unwilling,
each in his private capacity, to spend sufficient to employ the
resources with which the nation is endowed, then it is for the
government, the collective representative of all the individuals
in the nation, to fill the gap. For the effects of government
expenditure are precisely the same as the effects of individuals’
expenditure, and it is the increase in the income of the public
which provides the source of the extra government expenditure.

It may sometimes be advantageous for a government to resort
for part of its borrowing to the banking system rather than to
the public. That makes no difference of principle to the effects
of the expenditure. There are many who will raise the horror-
struck cry of ‘Inflation!’ when borrowing from the banks is
suggested. I doubt if any of those who speak in this way have
a clear idea what they mean by inflation. Expenditure is either
beneficial or it is harmful. I say it is beneficial, but whether I
am right or wrong, it is hard to see how the effect can be altered
if the money spent by the government comes from the banks
rather than from the public.

When the government borrows in order to spend, it undoubt-
edly gets the nation into debt. But the debt of a nation to its
own citizens is a very different thing from the debt of a private
individual. The nation is the citizens who comprise it—no more

335
and no less—and to owe money to them is not very different from owing money to one's self. Insofar as taxes are necessary to shift the interest payments out of one pocket and into the other, this is certainly a disadvantage; but it is a small matter compared with the importance of restoring normal conditions of prosperity. If private individuals refuse to spend, then the government must do it for them. It might be better if they did it for themselves, but that is no argument for not having it done at all.

It is easy, however, to exaggerate the extent to which the government need get into unproductive debt. Let us take, for purposes of illustration, a government hydro-electric power scheme. The government pays out money, which it borrows, to the men employed on the scheme. But the benefit does not stop there. These men who, previously unemployed, are now drawing wages from the government, spend these wages in providing themselves with the necessaries and comforts of existence—shirts, boots and the like. The makers of these shirts and boots, who were hitherto unemployed, spend their wages in their turn, and so set up a fresh wave of additional employment, of additional production, of additional wages, and of additional purchasing power. And so it goes on, until we find that for each man actually employed on the government scheme, three, or perhaps four, additional men are employed in providing for his needs and for the needs of one another. In this way a given rate of government expenditure will give rise to four or five times as much employment as a crude calculation would suggest. Thus there would be some advantage even if the scheme itself were to yield but little revenue hereafter. If, however, it is even a moderately sound scheme capable of yielding (say) three per cent on its cost, the case for it is overwhelmingly established.

That is not all. Unemployment involves a serious financial strain to the municipal, state, and federal governments. The alleviation of unemployment, as a result of government expen-

diture, means a considerable leverage; the government having greater number of dollars; better way by which A than by spending money waiting to be satisfied; to be utilised. It will spin: There is no greater s houses. There is proba civilisation and a sound
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THE NEW DEAL

diture, means a considerable reduction in outgoings on the support of the unemployed. At the same time the receipts from taxation mount up as the nation’s taxable income increases, and as real property values are re-established. These important factors must be allowed for before it is possible to say how far government expenditure involves additional unproductive government debt. The residue cannot be very large. Depression is itself the cause of government deficits, resulting from increased expenditure on the support of the unemployed and the falling-off in the yield of taxation. Public debt is inevitable at a time when private expenditure is inadequate: it is better to incur it actively in providing employment and promoting industrial activity than to suffer it passively as a consequence of poverty and inactivity.

So far I have been advocating government expenditure without much reference to the purpose to which the money is devoted. The predominant issue, as I look at the matter, is to get the money spent. But productive and socially useful expenditure is naturally to be preferred to unproductive expenditure. The arguments for expenditure are very much strengthened if the government, by spending a small sum of money, can induce private individuals and corporations to spend a much larger sum. Thus a government guarantee to facilitate the building of houses is, perhaps, the best measure of all. The government is here operating under the advantage of very considerable leverage; every dollar which there is any risk of the government having to find under its guarantee means a vastly greater number of dollars spent by private persons. There is no better way by which America can spend itself into prosperity than by spending money on building houses. The need is there waiting to be satisfied; the labour and materials are there waiting to be utilised. It will spread employment through every locality. There is no greater social and economic benefit than good houses. There is probably no greater material contribution to civilisation and a sound and healthy life which it lies within our
power to make. The man who regards all this as a senseless extravagance which will impoverish the nation, as compared with doing nothing and leaving millions unemployed, should be recognised for a lunatic.

I stress housing, for this seems to me the happiest of the Administration’s schemes. But it is difficult to organise quickly any one type of scheme on a sufficient scale. Meanwhile other forms of government expenditure, not so desirable in themselves, are not to be despised. Even pure relief expenditure is much better than nothing. The object must be to raise the total expenditure to a figure which is high enough to push the vast machine of American industry into renewed motion. If demand can be raised sufficiently by emergency measures, business men will find that they cannot meet it without repairs and renewals to their plant, and they will then once again take heart of grace to recover the care-free optimism without which none of us ever has the courage to live our lives as they should be lived.

Keynes’s associations with the New Deal naturally left him open to journalistic attack. Normally Keynes made no reply to such comments but he made an exception on one occasion. The case was an article in The Independent of 5 January 1935, in which Sir Ernest Benn, warning Americans about being misled by Keynes, used as evidence of his soundness the results of the Independent Investment Company of which Keynes (together with O. T. Falk) was a director. Keynes replied:

To the Editor of The Independent, 13 January 1935

Sir,

You have done an unworthy thing in writing without knowledge of the essential facts an article which has just reached me through my press-cutting agency.

You have seen fit to write this article (1) without possessing knowledge as to how far my advice was in fact followed by the Board of the company to which you refer, of which I was not

* See *JMK*, vol. xxi for much more on Keynes’s involvement in this firm.