New Hope for the Nations: John Maynard Keynes

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"But we only owe it to ourselves!"

The world after the turn of the twentieth century was an optimistic place. The Industrial Revolution was coming on strong, promising an expanded measure of prosperity for the nations of the West. For the left, a fair degree of percolation was promised by the widening dissemination and impact of Marxist theory. For the right, the expansion of capital, with its promise of wider industrialization, seemed to be a good omen for the future. By 1910, the first airplane was flown above the beaches at Kitty Hawk. The first automobile was to belch and wheeze its way down a narrow street in one of America's cities. The railroad system had been expanded to unforeseen dimensions, reaching from coast to coast with its promise to unify a young, robust nation called America.

As we have seen, religious liberalism had taken hold in Europe and was beginning to penetrate the religious and academic worlds in the United States. It, too, brought with it a form of optimism, promising that it would deliver the culture and the churches from the narrow, legalistic views of the past and bring them into a wider, more opportune future. Behind it all, Darwin's writings—with their promise of the upward evolution of culture—were being read and believed. Even the American educational system, under the leadership of John Dewey of Columbia University, was percolating with new ideas attached to terms such as *instrumentalism* and *radical empiricism*. A sunny disposition prevailed in the first ten years of this century and brought with it a measure of happiness and a sanguine attitude about the days to come. Time-Life Books calls it the beginning of *This Fabulous Century* and gave the chapter about the first ten years of the period the title "The Cocksure Era":

> It was a splendid time, a wonderful country. Most Americans felt that way as they welcomed the twentieth century, and many of them said so, with great animation and grandiose references to peace, prosperity, and progress. From Senator Chauncey Depew of New York: "There is not a man here who does not feel four

> hundred percent bigger in 1900 than he did in 1896, bigger intellectually, bigger hopefully, bigger patriotically."
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> Depew's colleague, Mark Hannah of Ohio: "Furnaces are glowing, spindles are singing their song. Happiness comes to us all with prosperity."
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> The Reverend Newell Dwight Hillis of Brooklyn: "Laws are becoming more just, rulers humane; music is becoming sweeter and books wiser."
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> These statements set the mood for the first decade of the new century and won for the period several titles—the Age of Optimism, the Age of Confidence, the Age of Innocence. But another tag might have seemed appropriate to an objective visitor from abroad: the Cocksure Era. For this was a time when Americans were optimistic and self-confident to an extreme; they did not merely hope for the best, they fully expected it.… Most people automatically assumed that all problems would be solved in the normal course of events; meanwhile, the important thing was for a man to get ahead, to earn maximum returns from bountiful opportunities.[1]

Even the prices of those days were a cause for optimism. The housewife could buy a dozen eggs for twelve cents; she could get sirloin steak for twenty-four cents a pound; and a turkey dinner cost twenty cents. The businessman had it good—taxes were minimal, and trade was moving along briskly. Many new devices were appearing on the scene, including the telephone, the typewriter, the sewing machine, the self-binding harvester. And the automobile was moving strong.

A major part of the optimism of the people of the early 1900s came from looking back at the accomplishments of the preceding century. Thirty-five years now separated Americans from their civil war, and America had become a major industrial power. Indicative of the spirit of the time were the words of Senator Albert J. Beveridge of Indiana, who said, "God has marked the American people as His chosen nation to finally lead in the regeneration of the world. This is the divine mission of America, and it holds for us all the profit, all the glory, all the happiness possible to man. We are trustees of the world's progress, guardians of its righteous peace."

By the time the twentieth century moved into its second decade, the world was still experiencing affluent times, but questions were beginning to rise. Time-Life Books says:

> For the second decade of the century was a perplexing time for Americans. These affluent times were roiled by increasing ferment and discontent. Labor unrest,

[1] *This Fabulous Century: 1900–1910* (New York: Time-Life, 1969), p. 29.

> rising little noticed in the previous decade, could no longer be ignored; in the first six months of 1916, the country was beset by no fewer than 2,093 strikes and lock-outs. Added to the demands of militant labor were strident voices campaigning for other causes that seemed even more radical than the six-day work week: woman suffrage, birth control, advancement for colored people, progressive education, prohibition. Most alarming of all, a million socialists were demanding the overthrow of capitalism, which—they asserted—had proved itself rotten to the core.[2]

Then, in 1914, a shot was heard: the assassination of Archduke Francis Ferdinand of Austria-Hungary at the hands of a Serbian nationalist. That assassination and many related factors led into the conflict that followed—World War I. A conservative estimate of the losses places the dead at about 10 million, along with another 20 million wounded on the battlefield. This grisly total was expanded by related starvation and epidemics in the years immediately after the war. Although the war was initially characterized by sprightly uniforms, colorful banners, and martial music, it became a time of carnage more frightful than the world had thought possible. It had a massive impact on national attitudes and on the thought processes by which the masses interpreted the world and their future.

For the Social Darwinists, the war was a sobering experience. After all, their philosophy implied that progress was a given, and now it appeared that anything but progress had actually occurred. Nevertheless, theirs was the hope that springs eternal, and so they joined with others in proclaiming that although human mistakes are inevitable, the evolution of society will persist in carrying us on to new heights.

For the Marxists, the war was a godsend. The socialist forces in the West used it to prove that the capitalist societies were indeed breaking down. Long had they preached that capitalism bears within itself the seeds of its own destruction. Now they could prove it. Socialist parties grew in the United States and in Europe, punctuated by colorful rallies of the workers in which they sang "The Internationale" and spoke about the inevitable socialist world revolution.

The war was a fortuitous time for the Marxists for another reason: fall of Russia to the Communists and the establishment of the first Communist dictatorship. Upon Lenin's return to Russia, he lifted his voice in fiery speeches that played upon people's disillusionment with the czar and promised them great change for the future. In their depressed circumstances, the Russian people found only the will to agree with Lenin, or at least they could not find the will to resist this man with a plan. So it was that in 1918

[2] Ibid., p. 31.

one of the most surprising and far-reaching revolutions in world history took place. Lenin captured Russia! At that time, the Communist party had only forty thousand followers, and with a fraction of that number they took over the broad lands of that primitive northern power, Russia. One hundred fifty million people slipped into the Communist dark age, most of them never to be heard from again. The fiery, revolutionary Lenin sensed the opportunity for Communism to move from mere ideology to control of the levers of power. That it did, to the future chagrin of the world, in those fateful days in October 1918.

To the religious liberals, the war in and of itself was of only modest consequence. Some of their strongest activity, however, came after the war, at which time they capitalized on what once again was the promise of the future. They promised, "Mankind has made its last great mistake," and set to work on capturing the religious establishment in America and England as they had done on the European continent. The liberal views of Wellhausen, with their doctrine of evolution in religion, were pressed more strongly than ever. The Roaring Twenties was the expansion of the promise of everything.

But particularly, the promise that was brought in the 1920s was economic: the promise of prosperity for everyone.

Economics became the issue.

There had been a brief depression after the war, out of which came an expansion in the economy that approached the spectacular. Everyone wanted the new products that were now moving on the market, and expansion began to move on an upward cycle. The new products produced new employment, the new employment produced the money to buy the products, and everyone was ecstatic. Mass production began to turn out radios, electric refrigerators, modern automobiles, shinier bathroom fixtures, and a thousand other things that could hardly be made fast enough to satisfy the appetite of a voracious populous.

Time-Life Books reports:

> Corporate profits were up. Thanks to new techniques of mass production, many manufacturers netted huge sums that they liberally plowed back into plant expansion. In 1923, U. S. Steel was operating so efficiently that it was able to reduce its work day from twelve to eight hours, to employ seventeen thousand additional workers, to raise wages, and yet, amazingly, to show an increase in profits.
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> Income was up in most lines of endeavor. Even the industrial workers, whose strikes for higher pay had availed them little in the previous decade, benefitted

> from company largesse and enjoyed a higher standard of living. To round out the happy picture, prices were stable, savings and life insurance doubled; and business was given an added impetus by the growth of chain stores and installment buying. With all these factors reenforcing the upward spiral, prosperity seemed to have no ceiling.[3]

This spiral of economic activity and prosperity created company profits in such spectacular amounts that new attention was paid by everyone to the rising values in the stock market. By 1928, the prices of stocks had soared to an unbelievable level. Tens of thousands of ordinary people across the nation moved into the stock market in the hopes of making an instant killing. A valet of one of the brokers made $250,000, and a nurse made $30,000; this miracle financing occurred in very short order.

Optimism turned to euphoria, and euphoria to ecstasy. More people than ever began to dream about riches, to the point where one and a half million Americans became involved in the market. They came bringing their dreams with them, confident that the amazing rise of stock prices would be the escalator that would take them to a level of possessions beyond their wildest dreams. Anyone in those days who lifted a word of warning was thought a Cassandra. Yes, those with warnings were more than pessimistic—they were positively unpatriotic.

A related development of those days was the unprecedented expansion of installment buying—purchasing goods by making payments over time. Between 1920 and 1929, installment purchases quintupled and reached 6 billion dollars annually. Installment buying accounted for the purchase of 90 percent of all pianos, sewing machines, and washing machines sold. A high percentage of sales of vacuum cleaners, radios, and refrigerators were made on installment, not to speak of the purchase of furniture and automobiles.

Installment buying seemed like a miracle. How easy it was to buy nearly anything for ten dollars down and fifteen dollars a month! People ignored the fact that installment buying added between 10 and 40 percent to the cost of an article. One "unpatriotic" banker warned against installment buying, saying that it was "mortgaging future earnings for the gratification of presentday pleasures," but his was a voice surely unheeded. The escalator kept on rising.

An interesting gauge of the times is reported by Time-Life Books: "New-fangled economists considered credit buying a healthy handmaiden of prosperity. One such optimist, writing in *Collier's Weekly*, suggested that the phrase, 'Smith has large debts,'

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[3] Ibid., p. 96.

was not really damning, but complimentary, for it meant that 'Smith has a fine line of credit.' "[4]

Another oncoming and soon-to-be major factor of those days was the advent of the electronic media. At the time, "electronic media" meant radio, and it was the universal craze. No new product those days met with greater success than the amazing machine that could bring into your home a voice from across the nation—yes, even from around the world.

Radio had its beginning in 1920 at station KDKA in Pittsburgh, announcing the returns of the Harding-Cox presidential election. So inspiring was the response to this broadcast that KDKA scheduled regular broadcasting of news, music, and the worship services of one of the local churches. By the end of the decade, 618 radio stations were beaming forth across the nation, and networks were regularly broadcasting from coast to coast. All of this stimulated the interest in this free home entertainment, such that radio sales rose from less than $2 million in 1920 to above $600 million in 1929.

In true American fashion, radio broadcasting was accompanied by radio advertising. It was in the 1920s that those commercial enterprises that could take advantage of radio promotion saw gigantic expansion. That was because that radio promotion created such an interest in their products that nothing could stop the desire of people to respond affirmatively to the voice of advertising. The time was accurately described as "the golden dawn of total advertising." Stock prices were riding a rocket upward and ever upward; prosperity seemed certain for every man.

Then came Black Tuesday, October 29, 1929.

That was the day of the stock market crash. Between late October and mid-November of that year, stock prices lost more than 40 percent of their total valuation—a drop of $30 billion in paper value. The collapse, of course, was traced to a number of causes. One was the fact that stocks were priced far, far above their real value, prices based on no economic justification whatsoever.

In addition, stocks could be purchased for as little as a 10 percent margin, with the balance of the purchase price financed by loans from the stockbrokers. As a consequence, when the market began to fall, overextended investors were required to put up additional margin, something many of them could not do. That drove the market into an even steeper and wider descent, with brokers themselves being carried away by the cataract of financial ruin rolling upon America and the world.

[4] Ibid.

Sick jokes about the market went everywhere. A common subject was the talk of suicide—but contrary to popular myth today, the actual suicide rate was higher in the few months before the crash than it was just after it.

Still, the fact remains that the crash in 1929 of the American stock market is still thought of as the most memorable day in the economic history of civilization. From that day on, anything that had anything to do with money or investments was to be more carefully watched, more judiciously handled. Never again was anything that carried the name *economics* to be thought of as automatic, ever-growing, never-failing.

It is also true that Black Tuesday stimulated the study of that nearly occultic science called economics. Understandably, everyone from the academicians to the bootblacks asked the questions: "Why? Why did it happen? How could it have been avoided? What can we do to restructure it all? Is there a tie-in between economics and politics? How shall we understand this matter of money, and what can we do to put the nation and the world back on the road to recovery?"

The pursuit of the answers to those questions became the full-time occupation of more thoughtful people than ever. Still, no answer seemed to be forthcoming, and the West moved into the gray, cheerless era called the Great Depression. Down went the statistics on employment, as the bread lines, soup kitchens, and rescue missions did a thriving business at simply keeping unemployed workers and their families alive. Few who are young today can appreciate the deep pall of despondency that settled upon a hopeless nation during the days of the Great Depression. Life was over; the bright dream of the 1920s had turned into a cruel farce. "Who is to blame?" people asked. "What shall we do about the future?" So it was that as the world moved into the 1930s, discouragement was large, hopes were small, and to promise possibilities in the future seemed like the words of a charlatan.

As the nation moved through the Great Depression, it thought deeply about what had happened and tried to analyze why it had happened. Only then did it take the time to remember that the previous message of unlimited prosperity was really a charade. Banks were actually failing before the crash at a rate of two per day. The nation angrily remembered that it was constantly the object of reassuring speeches by politicians, businessmen, economists, and other academicians, who claimed the nation was marching along a permanently high plateau with nothing to worry about. Never again was the world quite as confident in the promises of people who were supposed to know what they were talking about. One of the worst aspects of the Great Depression was that answers were not forthcoming, and it appeared that there would never be relief from the hopelessness the nation faced. The nation sang "Happy Days Are Here Again," but in

1930 the national income fell from $87 billion to $75 billion. It dropped to $59 billion in 1931, and to $42 billion in 1932.

In 1932, the nation took political vengeance on the party in power. The Republicans nominated Herbert Hoover once again, whereas the Democrats nominated a New York patrician by the name of Franklin D. Roosevelt. Hoover ran on a platform of stability and the slogan "We can make it through," while Roosevelt promised a "New Deal." As we all know, the New Deal caught the imagination of the people, and Roosevelt was elected by a landslide. The prospects under the Roosevelt administration brought new hope to the people.

By 1933, however, problems still persisted, and it seemed as if nothing would help the situation. The problem of unemployment especially dispirited the people and spread a sense of hopelessness. Heilbroner said of this period:

> It was the unemployment that was hardest to bear. The jobless millions were like an embolism in the nation's vital circulation; and while their indisputable existence argued more forcibly than any text that something was wrong with the system, the economists wrung their hands and racked their brains and called upon the spirit of Adam Smith, but could offer neither diagnosis nor remedy. Unemployment—this kind of unemployment—was simply not listed among the possible ills of the system: it was absurd, impossible, unreasonable, and paradoxical. But it was there.[5]

Yes, the economic system of that day, especially the element of unemployment, was a paradox. There was a great need for further production, and yet that need existed next to millions who were vainly seeking employment. The economic system of that day was a mystery of mysteries—and no one had the formula for solving it.

Then came a man with a solution. He offered a new way of thinking about economics that was startlingly different but, when explained, seemed very plausible. Along with this, he appeared to have the personal credentials, the knowledge, and the world awareness that lent gravity to his economic views. He had already made a personal fortune in world finance and was one of Britain's most respected and *avant-garde* intellectuals. He was chairman of a life insurance company but an intellectual of the first order. He appeared on the scene with what seemed to be the only workable solution to the economic problems of that day.

His name was John Maynard Keynes.

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[5] Robert Heilbroner, *The Worldly Philosophers* (New York: Simon & Schuster, 1986), p. 253.

The solution he proposed and the sense in which he continues to rule the world from the grave can be summed up in the words *Keynesian economics*. Keynesian economics changed the face of the world and affects every living person.

Who was this man, this world changer?

Keynes was a well-bred Englishman born in 1883 (the year of Karl Marx's death). In the early years of his education, Keynes demonstrated himself to be intellectually brilliant and a convincing, communicative salesman of his ideas to his schoolmates. By the age of fourteen, he had won a scholarship to Eton, probably the most sophisticated boys' school in Britain. He had great success as a student there, and then went to King's College at Cambridge. There Keynes again showed his brilliance and demonstrated himself to be a winning debater and thoroughly capable at every other form of interaction with his professors and his peers; he so impressed his professors that they asked him to consider becoming a full-time economist. But though the door was open to him to pursue an academic career, he had little money at that time and replied that he wanted instead to manage a railway or organize a trust.

Temporarily, however, he went into the civil service for the British government, passing his tests with brilliance, though, interestingly enough, his lowest mark was in the economics section.

By 1907, Keynes found himself in the India Office in the service of his government. He found the work boring and spent his rather sizable amount of spare time working on a mathematical treatise and other forms of economic research. After two years, he tired of his work in India and resigned to return to England. Despite his boredom with his involvement in the Office of Indian Affairs, he still wrote a treatise in 1913, *Indian Currency and Finance*, which many considered to be little short of a masterpiece. As a result, when he was but twenty-nine years old, he was invited to be a member of a newly formed Royal Commission on the problems of currency in India. At Cambridge he became the editor of the *Economic Journal*, Britain's most influential economic publication, holding that post for the next thirty-three years.

As World War I drew near, Keynes was called by his government to the Treasury and given the assignment of working on the overseas finances of Britain. In this position he was soon dealing in the currencies of Spain, Germany, France, Italy, the United States, and others. One in the midst of such a swirl of economic instruments could not help but develop awareness, convictions, and even theories as to what might be done with those unstable things called national currencies.

Very soon, as we may guess, he became an important figure in the Treasury. Many thought that he contributed more in his post to the winning of the war than any other person in civilian life.

In the years between the wars, Keynes gained the reputation of being an important person in the field of economics, especially economics as it relates to government. Following the war, he went to Paris as Deputy for the Chancellor of the Exchequer on the Supreme Economic Council and possessed full power to make decisions as a representative of the Treasury at the Peace Conference. Although he did not have ultimate decision-making power at the conference, he was able to observe, comment, be frustrated, and strongly propose what he would do if he were in the decision-making place. He strongly disagreed with the decisions made at the 1919 Peace Conference, saying that he had never been so miserable, and felt that the peace basis was outrageous and impossible and could never bring anything but misfortune. The reparations that Germany was required to pay in this Carthaginian peace were beyond its ability to fulfill. Keynes properly foresaw that this would merely lead to great resentment on the part of the Germans and an even stronger resurgence of German autarchy and militarism.

Despairing of any good possibilities from the conference, he resigned. He then set to writing and produced his repudiation of the conference, *The Economic Consequences of the Peace*. This polemic, written in the heat of passion, established him as a formidable economic mind. Of the conference, he wrote:

> The Council of Four paid no attention to these issues [of the resuscitation of Europe], being preoccupied with others: Clemenceau to crush the economic life of his enemy, Lloyd George to do a deal and bring home something that would pass muster for a week, the President to do nothing that was not just and right. It is an extraordinary fact that the fundamental problems of a Europe starving and disintegrating before their eyes, was the one question in which it was impossible to arouse the interest of the Four. Reparation was their main excursion into the economic field, and they settled it as a problem of theology, of politics, of electoral chicane, from every point of view except that of the economic future of the States whose destiny they were handling.[6]

It was clear from *The Economic Consequences of the Peace* that Keynes possessed a rapier-like mind and a fascinating facility with words. The book, however, was more than verbal grandstanding but was a serious warning to the world of the tragic consequences sure to follow the ill-considered treaty. Because the treaty was manifestly unworkable even in the near term, the book was considered prescient and was an immense success. By 1924,

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[6] Ibid., p. 260.

the nations initiated the long promises of undoing the decisions of 1919, which only further confirmed Keynes as an economist.

Out of all this, Keynes became famous. So that he could become independently wealthy enough to continue to operate on the high levels of statecraft, for a time he applied his insights about economics to the task of making money. Disdaining inside information, he made a fortune on Wall Street. Especially did he speculate in international currency markets. Here experience paid off, and Keynes was able to make himself a multimillionaire. His own ability to make money, a rather rare credential for an economist, further enhanced his reputation.

Keynes then began to think more deeply about the global economy and what was needed to prevent such disasters as the Great Depression of 1929–33. Eventually he came to conclusions that were to be of profound influence on the Roosevelt administration. Keynes, through Roosevelt, became the economist most decisive in American economic thinking and thereby gained in America the influence he already had in England and on the European continent. An understanding of economic theory Keynes developed will give us a clue to Keynes's pervasive influence to this day.

The standard concept of economics at that time was that wide variations in the economy between inflation and depression were inevitable. However, the thought was that there were built into the economy on a somewhat automatic basis the factors that could pull an economy upward from depression and ease it downward from an inflationary peak. The argument was that, during periods of depression, savings would rise and therefore interest rates would fall, making money available for industrial expansion. Industry would then expand, increasing employment and causing the economy to rise, thereby producing further investment. Interest rates would then rise, reducing savings and causing a downturn in the economy. So the cycle would continue with dependable safety switches built in at the top and the bottom of the business cycle.

That was the view of the way the economic cycle worked, standard variations of which were held by the conventional economists. Keynes, however, believed that there was a flaw in the view. The theory did not work the way it should have during the Great Depression. Keynes argued that the standard view in no way guaranteed that the economy would go up again, stimulated simply by the businessman's motivation to encourage production and plant building because of lower interest rates. Keynes asserted that the missing element in the theory was the notion that at the bottom of the business cycle there would be insufficient money in savings to reduce interest rates and cause the cycle to move up again.

For Keynes, the stimulant necessary to cause an economy to move upward toward prosperity from a depression did not lie in the static values of savings and investment. He held, rather, that it was *enterprise* that caused an upward economic movement.

Moreover, Keynes argued, business investment and enterprise was not and could not be a constant and dependable thing. Expansion of a given business would reach the point where it was sufficient and where overexpansion would lead to costly investment in buildings and equipment beyond the demand for the product. The businessman, therefore, could not be expected to invest constantly, and thus there was no constant guarantee of an upward spiral in the economy.

The book that grew out of these theories was Keynes's most famous and striking book, *The General Theory of Employment, Interest, and Money*. This complicated treatise makes for demanding reading, but it actually presents but a few pointed thoughts, which Heilbroner reviews.

> First, an economy in depression could stay there. There was nothing inherent in the economic mechanism situation to pull it out. One could have "equilibrium" with unemployment, even massive unemployment.
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> Second, prosperity depended on investment. If business spending for capital equipment fell, a spiral of contraction would begin. Only if business investment rose would a spiral of expansion follow.
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> And third, investment was an undependable drive wheel for the economy. Uncertainty, not assurance, lay at the very core of capitalism. Through no fault of the businessman it was constantly threatened with satiety, satiety spelled economic shrinkage.[7]

In a word, the economy lived in the shadow of collapse.

Keynes believed that there had to be another input brought into play in the economy—a tonic, a catalyst—to get it moving again. In fact, he believed that the policies announced in the early days of the New Deal demonstrated that new factor. In this, he referred to an element proposed in the veritable flood of social legislation the Congress hoped would stimulate the economy, thereby improving the morale of a discontented nation. That tonic, which was precisely Keynes's recommendation, was specific, planned, *government investment*.

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[7] Ibid., pp. 274–75.

For Keynes, government investment was the golden panacea. He preached that the major responsibility of government was to create full employment even if it had to borrow money and assume mounting debt to do so. Keynes believed that America, even the entire Western world, was facing a major economic catastrophe and possible collapse. This impending collapse, he believed, had come about because of the lack of investment on the part of business, and therefore the government must take up the slack and invest in the economy.

Keynes presented this panacea in articulate, convincing fashion. The panacea was being applied in the United States, and he recommended it for other nations. It is probable that Keynes did not envision government intervention as a *permanent* factor in the economy but rather saw it as a temporary stimulant to bring on further employment and raise the levels of business investment activity. It is certain that he did not foresee that he was in fact creating a permanent condition whereby government borrowing and deficit spending would become the expected—indeed, the recommended—course of action for the nations.

He might well have taken the time to notice that the activity of the New Deal in the 1930s in America was but a short-term and costly answer to the problems of unemployment and poverty. The vast amounts of government spending in the New Deal could have been shown to be an unwise course, had it not been for the advent of a cataclysm so large as to put every economic theory on hold until it passed.

That cataclysm was World War II. In World War II, government spending rose, as if on an elevator, to $103 billion annually, a figure considered astronomical at the time. So it was that the day in which the government must pay the bill was pushed into the future by the advent of the war.

Keynes also did not foresee that the rise in government spending and intervention in the economy would be mistrusted by the business community. Questions that had to do with "the role of government in the economy" and how this new philosophy related to labor unions, government guarantees of financial institutions like the banks and the savings and loans, and a dozen other economic problems had not yet been answered. Some of these questions are being answered today, as the government faces its obligation of hundreds of billions of dollars of guarantees in failures it never foresaw.

It may well be said that the philosophy Keynes brought to the center of the world's thinking could be summed up in the maxim "The government has all the answers." Keynes thought he had proved that government intervention would move the economy; government guarantees would stabilize the banks; government protection would satisfy the labor unions; government regulation would stabilize transportation, travel, the media, housing, mortgages, pension funds, and retirement plans; and a thousand other things in which the government is now called upon to produce stability.

Keynesian economics preaches the doctrine that the government is the final resource. It can answer every problem; it can create something out of nothing, namely, prosperity. What can this mean except that the government is God?

The government is God! That is Keynesian economics.

The idea that the government can do it all was the unspoken concept behind Keynesian economics. That assumption allowed Keynes to produce immediately satisfying, short-term solutions. Someone is reported to have asked Keynes, "Yes, this appears to work in the short term, but what about the long-term consequences?" Keynes's famous answer was, "In the long term, we are all dead."

In response to the Keynesian view, many voices have been lifted that ask the questions: Where does all the money come from? From what source can we continue to borrow *ad infinitum* the money that is needed in larger and larger amounts for the government to be the nurturer and manager of everything?

The answer which came out of the Roosevelt administration in the 1930s was deceptively simple: That is no problem because, of course, *we only owe it to ourselves*.

We owe it to ourselves!

That answer, of course, was initially true. Government bonds were issued in the 1930s to finance the borrowing of the federal establishment. They were issued in the 1940s and called war bonds to finance the cost of the global conflict. Government bonds have been issued in greater and greater amounts since that time, and now it has come the point where it is impossible to disguise the fact that the federal establishment in the United States is facing a most severe economic crisis due to its staggering debt.

Once upon a time, the admission of a government deficit was a great embarrassment to the politician. Presidential candidates from both parties ran on the platform of promising to balance the budget and pay off the national debt. The claim even became a serious plank in political platforms and was sometimes actually believed by a gullible populace. But there came a time when this all changed. There was even perhaps a specific point of time at which it changed. In the middle of his administration, conservative Republican Richard Nixon made a surprising public confession. He said, "I am a Keynesian."

When we heard that statement, our hearts skipped a beat, but there it was. From that point on, no presidential candidate has seriously promised to reduce the debt, and most of them merely mumble about balancing the budget. In a kind of a desperation, the Congress passed the Gramm-Rudman Act in which it was required that the deficit be reduced each year until finally government income would more than match expenditures, and government obligation move down rather than up.

The record is now clear that even the Gramm-Rudman Act was a chimerical promise. In fact, the government has even resorted to the ploy of disguising the true amount of the deficit by expropriating the Social Security fund gained from Social Security "contributions" and applying the money to the deficit. As a consequence, the annual deficit runs nearly $100 billion larger than the stated figure.

But now a crisis looms. The staggering debt of the federal government of the United States has passed through the $3.3 trillion mark. It can be expected to continue to rise, because there is no safety factor in Keynesian economics or in any other economic theory whereby a sum so large can be digested or properly handled.

Three point three trillion dollars is a lot of money!

How long do you think it would take to count to *one trillion* if one counted at one dollar per second, twenty-four hours of every day? It would take *thirty-two thousand years*. And if one were to count the dollars of the current U.S. deficit at a rate of one dollar per second, it would take more than *one hundred thousand years*.

In addition to the obligations on the books of the federal government, there are other commitments it must meet. It must meet its promise to fund military retirement, civil service retirement, Social Security payments, and many, many obligations that do not appear as accounts payable because they have not yet come due.

What happens when they do come due? Will millions of the youth of our nation react patiently to the news that there is no money left to pay for their retirement years? Who will give an answer for the empty Treasury and the consequent jeopardy in which our future senior citizens will find themselves?

The answer is that those obligations will be met through the twin programs of a rising population and controlled inflation.

That leads to the question, Will we have a rising population? At this point arises another consideration in the economic equation—the practice of abortion that is even now taking place in American life. Americans, by deliberate malice aforethought, are killing four thousand unborn children every day in the abortion mills of this land. Consequently, twenty million doctors, attorneys, nurses, airplane pilots, government workers, wage earners, and bearers of the burden will not exist in the future of America. Then the nation will truly sing "Where Have All the Children Gone?" It will discover what it means not to have someone to listen to the stethoscopes, push the wheelchairs, or operate the machinery that will make for the comfort of the aged and the life of society. In that the official position is now "zero population growth," and in that we are accomplishing that goal through the application of the knife and saline injection, we cannot guarantee that funds will be available in the future out of current cash flow to meet the present cost of yesterday's profligacy.

Controlled inflation is a tricky business. Inflation, by its very nature, is based upon components that in days gone by have stubbornly refused to be controlled. Inflation is affected by productivity, interest rates, careful management, personal competence, lack of greed, and other factors. Few management systems, including dictatorships, have been able to control those factors.

We must also remember that the economic situation of any given nation is related to the world economy. Decisions made in Japan, in Germany, in the new and powerful European Common Market, in the diamond mines of South Africa, and around military tables in the Kremlin will be factors—uncontrollable by America—that will impact upon us and other nations. In the old days of isolationism, nations could argue that they were masters of their own destiny. That day is gone forever. The industry of a Japanese carmaker can steal the hubcaps and even the wheels off a Cadillac in Detroit. It is all tied together, and the knots are increasingly out of the reach of the planners in the American hemisphere.

It is possible to show that the Keynesian doctrine that government can do it all is false in the short term and false in the long term. The days of stable economies in Western nations were the days in which the government served as an umpire, not as a member, of one or another of the teams. The government called the balls and strikes, but the competent entrepreneurs and capable workers produced the results. Now, under its mandate to be God, the government tilts the playing field, juggles the score, and fixes the game before the last batter has appeared. By doing so, it produces a game that cannot be fairly won even by the most worthy.

It could be argued that the government has the right to do all this, if it could at the same time be proved that the government is controlled by the most brilliant, the most moral, the most competent of men. Were the capitals in our world inhabited by tall men, sun-crowned, who live above the fog in public duty and in private thinking, then we might take courage. But, alas, we look through our tears at the dreadful activities of small men who have been accidentally escalated to positions of undeserved power, to positions above the level of their competence. How else can we explain staggering debt, huge deficits, lost wars, and costly scandals? Any government that expands its control, while at the same time reducing its competence to exercise that control, will soon begin to sense the hitherto solid ground quivering beneath its feet.

The Keynesian view that the government can do it all while solving every one of its problems will soon be put to the ultimate test. That test is survival. The Congress of the United States, the parliaments, and the leadership groups of virtually every nation on earth are now meeting under the shadow of mounting economic crisis. Each one has proved that it is totally unable to reduce its spending. Therefore, the question will center on new sources of revenue and how an already beleaguered people can have more money extracted from them. This unhappy scenario is being repeated across the world today because government after government has taken to itself a myriad of obligations it cannot and will not fulfill. In the economy of God, the government has never been appointed to be the father, the mother, the rich uncle, the provider, or the savior of each one of its individual people. When the government begins to play God, it will find itself increasingly satanic in its activity and in its reputation.

There remains a question, one to which John Maynard Keynes was inattentive: Where will the money come from? In the 1930s and 1940s it was sufficient for the nation to say, "It doesn't matter, we only owe it to ourselves!" But now, this mythical committee called "ourselves" is ceasing to exist as a viable economic entity. That committee called "ourselves" is now Japanese, German, Dutch, and British and may soon be joined by many others. The money we must borrow today comes from far away.

In order to make this borrowing possible it has become imperative for the industrial nations of the world to set up an international economic construct. There must be a world bank, a set of multinational commissions, and other financial cartels that are a part of a mounting and necessary construct called international finance. We do not now have the remaining money to borrow from ourselves, and so we must turn to the international financial markets. But, alas, it is a finite world. How long will this stream of available international finance continue to flow? How long will the interest rates be manageable? How long will former enemies on many a battlefield continue to be our present friends? When will they decide that it is time to overturn the international financial and political structure of earth? Soon the answers to those questions will be entirely up to them, because they are the pipers and we are the dancers, the payees.

Keynes has succeeded in putting the nations of the world in the position where they must come together under a new form of international control. The final, stark necessity toward which all of the world is heading is an international economic community, an international management committee—yes, a world government. Foreseeing this, Europe is already pulling itself together to become the most powerful economic cartel in the world. Seeing this, Japan is gathering the nations of the Pacific rim to produce the economic unity crucial to their survival. Japan, the net creditor nation of the world, can do this with ease.

The United States is the net debtor nation of the world. It is not evident how easily it can gather the remaining nations of the world into an international cartel. Keynes may well have planted the time bomb of economic catastrophe set to explode on the North American continent. When that time bomb explodes, will he be here with a new theory to help us? Indeed not, for he watches from his grave. His exasperating insistence that the government is God continues with us. Astonishingly, the Keynesian view continues to have avid followers. They buy this infernal package in the short run. They seem not to have heard that "in the long run we are all dead."

A final question is in order: Is Keynes really to be blamed for all of this? We think not. Keynes, along with the others who rule from their graves, can only exercise power because he panders to the irascible nature of mankind. Keynesian economics gave to the Roosevelt administration and to successive governments of this and other lands an excuse to live the lives of economic dissipation, which was their intention in the first place.

The resolute man or woman is not easily persuaded to become a humble supplicant for government support. Being responsible, which is man's highest function, the strong human being does not concede to the proposition that the government owns, operates, and deserves it all. He lives and moves and has his being in a source other than the halls of a congress or parliament. He is a son of the living God. He is therefore confident that true riches are not the coins of the realm and that true government is the kingdom of heaven, which, despite temporary evidence to the contrary, rules over all. No, Keynes was but the catalyst whereby the incompetent majorities could subdue the competent minorities and use the government as a club to bring it to pass. Sensing the hopelessness of the course that has been produced by Keynesian economics, we rejoice that the course of any individual can still be the pursuit of the will of the One whose kingdom is not of this world.[8]

[8] Breese, D. (1990). *Seven men who rule the world from the grave* (pp. 181–202). Moody Publishers.