ON THE ART OF INNUENDO: J. M. KEYNES' PLAGIARISM OF SILVIO GESELL'S MONETARY ECONOMICS

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ABSTRACT

Keynes' allegedly revolutionary theory of money was in truth inspired, if not borrowed, from the early intuitions of a German social reformer by the name of Silvio Gesell, a forgotten figure traditionally classed amongst the anarchist dissenters of the early XXth century. This paper explores this connection and thereby attempts to re-establish some balance in the book of intellectual paternity, by laying emphasis on the original monetary themes of Gesell, and on the Keynesian recasting of those self-same themes into the 1936 classic, The General Theory. It is here argued that Keynes appropriated Gesell's insights into the nature of money and interest, and stripped them of their radical implications, so as to fashion an explanation of the crisis that would pose no threat to the foundations of the capitalist order.

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INTRODUCTION

Plagiarism, *n.* the appropriation or imitation of the language, ideas, and thoughts of another author, and representation of them, as one's original work (*The Random House Dictionary of the English Language*).

After more than a decade of incessant operation at the highest levels of the British society, John Maynard Keynes appeared to have come across a theoretical formula that quenched his heuristic aspirations with regard to monetary phenomenology. Indeed, his new treatise, which was printed in 1936, was forthwith labeled a "general theory."

The book, given the reputation of its author, was immediately hailed a masterpiece. Quaintly, after Keynes' opus had been widely lauded, began the interminable debate over *what*, in fact, had been written therein. In the midst of this adventure in the realm of economic thought, a fringe of scholars, which has had a fair record of recruitment among the newer generations, has made it its duty to ferret out of the tangle of the more or less illustrious inspirers of the *General Theory* the exiguous figure of a German crank named Silvio Gesell.

Truly, on account of the scant number of contributions on this subject, and of the sober tone of the exposition, common to all such references, this German connection, for all practical purposes, would have carried no weight and would have thus been lost to memory by fault of its imputed trifling significance, had there not prevailed among the contributors a unanimous apprehension of the profound impress of Gesellian traces into the whole make-up of the *General Theory*'s monetary foundations. Then, once the link between the two was secured by scholarship,[1] and given thicker relevance than what Keynes himself had been willing to concede in a concluding section of his book, the juxtaposition of Gesell's and Keynes' ideas would soon fall prey to the play of uncomfortable analogies – uncomfortable, that is, considered the diverse stations the two men had occupied in their lifetime. Thus, Gesell – an ex-businessman turned anarchist guru[2] and reformer, who participated in the second Republic of the Soviets in Munich, April 1919, as Finance Minister—, vis-à-vis Lord Keynes, a high product of the late Victorian epoch – the son of a Cambridge don, and later a don himself, a zealous negotiator for the British Treasury at the end of WWI, a protégé of Alfred Marshall (this last a frequent guest at the Keyneses), and later in life, a High Steward, as well as, amongst the multitude of honorific titles he assumed, Chairman of the National Insurance Company, and Director of the Bank of England.

Why would a leading member of the British intelligentsia, nay, a paragon of gentlemanly breeding such as Keynes, draw upon the economic reveries of an anarchist prince? In our modern era, what could have been the *use* for the financial constituency – which found in Lord Keynes a most up-to-date-mouthpiece – to

incorporate, in a surreptitious fashion (as will be canvassed in the paper), the monetary cures of a protagonist, albeit ephemeral and atypical, of Germany's post-WWI debacle? *Quo animo*?

The discussion presented herein will revolve round a synthesis of Gesell's most important contributions to the theory of money, namely the theory of interest and the monetary theses of his *Natural Economic Order (die Natürliche Wirtschaftsordnung)*. There follows an appraisal of Keynes' monetary economics in the *General Theory*, in the light of its relation to the work of Gesell. The analysis is conducted along lines of comparison with a view to isolating from the monetary constructions of the *General Theory* the Gesellian source, and accounting for the motive of its adoption and manipulation by Keynes.

Many authors' contributions to monetary economics have been incorporated in the *General Theory*, but none other than Gesell's *Theory of Interest* has set in motion the so-called "Keynesian revolution"; this it did so markedly as to suggest that such input went far beyond the mere agency of "inspiration": Keynes stole the idea, but – and here is the rub –, he cast the purloined intuition in a form that allowed him to account for the financial collapse of the 'thirties, without attacking the network of privilege erected on the monopolistic manufacture of the means of payment, that is, *banking*. He robbed the intuition, deliberately confused the premises of the argument, and employed its basic mechanisms to explicate the financial mismatch to which the world economy had fallen prey. Thus, he achieved three goals at once: (1) shielded oligarchy, and offered the banking brotherhood an honorable compromise that would forever acquit it of institutional foul play ('the price of money, interest, is a fact of life: the best that can be wished is to have it reduced'); (2) provided a much needed academic brochure for monopoly capitalism (concentrated industries and socialized investment), Nazi Germany being a formidable instance of the transformation; (3) disfigured an alien monetary scheme (Gesell's), which had identified the source of economic disintegration, with a view to appropriating the justness of the intuition in times of capitalist overhaul.

For, indeed, the Keynesian legacy consists, in essence, of but two loose propositions:

(1) Deficit spending allows the system to tide over the slump.
(2) There exists an **interest barrier** that prevents the expansion of investment, growth and production.

Now, the first proposition is a truism as old as economics itself; it is the second proposition that bespeaks of plagiarism. To this at present we turn.

I. AGING THE CURRENCY: *THE IDEAS OF SILVIO GESELL ON MONEY*

> Ich bin sozusagen die fleischgewordene Lehre vom Zins.[3]
>
> Silvio Gesell, *Verteidigungsrede*

A. The Bite

To Silvio Gesell, the economic discourse may properly begin only by questioning the origin and nature of *interest.*

Goods, he argues, perish, rust and rot. Time consumes both humans and merchandise mercilessly. Everything perishes. But one thing does not, and this is gold. *Interest,* says Gesell, *is the toll price we pay for the usage of gold.*

Silvio Gesell defined gold – and the paper money emanating from it – as "the archetype of death." As he put it: "In the substance of money we seek negative, not positive properties. The minimum of material properties is what all men demand of the material part of money" (Gesell, 1920, p. 52). Gold, for instance, owes its eternalness to the fact that it "neither rusts nor rots, neither grows nor decays, neither scratches, nor burns, nor cuts. Gold is without life, it is the archetype of death" (Gesell, 1920, p. 52). Since it is such a unique medium of exchange, men have vied to possess as much of it as they possibly could. Would one rather have goods, which will progressively lose value, or gold, which never does, and thus have the option to purchase whatever is desired?

Two opposing forces have always wrestled: on the one side, we find the supply of goods – which immediately translates into the demand for money – and on the other, the demand for goods – which is represented by the supply of money. Yet, the type of configuration the market locks in when these two forces encounter one another is not easily entitled to claim much resemblance to the customary equilibrium scenarios evoked by the neoclassical disciples of British Liberalism. Instead, the relationship that comes about between the holders of money and the producers of goods and services is of a peculiar sort.

The demand for money – that is, the supply of goods[4] – consists of an aggregate of goods, material, tangible, perishable; the supply of money, instead, is not even "grazed" by the erosion of time: the former is like a swollen river which, by its very nature, continually floods the market looking for buyers; the latter can afford to wait, imperturbable, for more advantageous conditions. The goods comprised in the supply deteriorate every day, and consequently, fresher merchandise will be sold at a higher price; for the supply of goods, postponing the exchange is lethal. Money, however, by reason of its negative

properties, not being prodded by "impulses" inherent in the substances that compose the goods, has no fear of procrastinating the transaction with its counterpart. And such an advantage has rendered money, since its birth, the umpire of market exchanges.

> The merchant is of course in need of commercial profit, and he can only satisfy this need through the purchase of commodities. The impulse stimulating the merchant's purchases of commodities is not, however, physical necessity, but the wish to obtain the commodities as cheap as possible . . . The consumer, under the pressure of personal wants, cannot wait . . .; neither can the producer wait . . . But the possessor of money . . ., the holder of the universal, essential medium of exchange, can wait and thereby embarrass both producer and consumer by holding back the medium of exchange (money) . . . The products of our labor cause considerable expense for storage and care-taking, and even this expense can only retard, but cannot prevent their gradual decay. The possessor of money, by the very nature of the money-material (precious metal or paper) is exempt from such loss. In commerce, therefore, the capitalist (possessor of money) can always afford to wait, whereas the possessors of merchandise are always hurried. So if the negotiations about the price break down, the resulting loss invariably falls upon the possessors of goods, that is, ultimately, upon the worker (in the widest sense). This circumstance is made use of by the capitalist to exert pressure upon the possessor of goods (worker), and to force him to sell his product below the true price (Gesell, 1920, pp. 226, 137).

Therefore, he who holds money has no difficulty in asking for a tribute, a reward for his unavoidable services. The premium that is claimed in exchange for the medium of payment – the *conditio sine qua non* for the survival of trade – is indeed interest: *basic interest (Urzins)*, as Gesell calls it.

Historically, merchants were the purveyors of gold; in the epoch of Natural Liberties, bankers – the direct descendants of the *mercatores* – relayed their predecessors' activity: bank paper – sealed by the colluded "State" – and, for the most part, virtual ciphers perform the like duty vicariously. They are the *private* providers of the means of payment, and for their service they ask for a fee: *interest.* For millennia, the average price of money, according to Gesell, has hovered around 5% (6%, according to others) per year. However, although basic interest appears during the exchange, the role of the merchant, indeed, reduces to that of a mere "taxman-middleman," since basic interest, which has to be squeezed out of the margin earned, must be handed over, unfailingly, to the provider of money. And who shall grant the money? As we move back to the origin of the chain of promises, we again meet *the banker.*

It is thought that interest, like calves, reflects nature's fertility. Interest is introduced as that bonus that is legitimately asked by the money-lender to the borrower by virtue of the natural fertile increase to which all things natural are subject. Such common reasoning wishes to intimate that the particular

percentage that is charged to the borrower – the *x*% – is a **mirroring image of the *physical* increase** triggered by that additional, loaned, money. The reasoning is thus: "if you'll increase production by 10% with my money, there is nothing wrong in my asking, say, 5% for it " (that would leave a net 5% profit for the entrepreneur).

The reasoning is fallacious.

On the simplest plane of consideration, two scenarios need be considered: either *the banker refuses to put more money in the system* after the physical increase has taken place – in which case he will exact interest by commanding a greater portion of a representative bundle of goods, whose price has decreased owing to that gain in efficiency brought about by the loan (a so-called productive investment: there are more goods around than previously); or, *if the price level is not to decrease* (fixed or rising prices), he shall have to inject an additional quantity of money so that he can carve out his quota of interest, which action, indeed, the banker will agree to effect only by charging another dose of interest for this second injection, which is nothing but another *loan*.[5]

The first is a story of deflation. In the banking of yore, this cumbrous operation was frequent, and was suffered acrimoniously by the common man who then obtained newly minted coins (corresponding to a higher gold- or silver content), but at a much higher price apiece (in terms of goods offered in exchange). Credit dynamics in the modern machine-age, instead, came to adhere closely to the second scenario, wherein bankers manipulated credit in such a way as to inflate the price level and recoup interest in the price differentials thus created; in such an artificial monetary margin, combines of investment bankers, through business, compete against one another by means of technological innovations and aggressive marketing. The price rises steadily, at the cost of sizeable injections of credit money and concomitant interest charges, and adversarial consortia bank on efficiency advantages that will enable them to keep abreast of, if not crush, the competition. The resulting tension on the market owes its pull from two angular sources, the first being the immediate clash among manufacturers, the second originating within the combine itself – that is, between the producer and the banker, who is not willing to unlace the mouth of his purse, if he is not paid *interest*.

Indeed, as a routine, the money-lender asks for a *minimal*, fixed, rate of interest, *irrespective* of the actual conditions on the market.

This *fixed* charge is but one of several components within that enigmatic percentage the world at large takes for granted. It hides among risk premiums of various strains (insurance fees), depreciation charges, and a *hausse* premium (an addition that is incorporated in the interest in view of expected price surges) (Gesell, 1920, p. 275 and ff.), all of which sum up to the incumbent *x* % spoken

of as 'the current rate'; the fixed charge hides among licit economic allowances, but *it* is of an altogether foreign, non-economic breed.

The fixed component is *usury* proper – something in the nature of a pure tribute, an exaction. The Hebrew word for interest is *nesheck*, "which literally means a 'bite' " (Bonder, 1996, p. 125). The fixed component – concealed like noble metal encrusted in ore – serves as the *anchor* of monetary construction; the *Urzins* inscribes itself as the primal constraint of the Gesellian model portraying the economy.

> Money-interest is the product of an independent capital, namely money, and is comparable with the tolls exacted in the Middle Ages by robber barons, and until lately by the State, for the use of roads ... *Interest on money is not influenced by interest on so-called real capital (houses, factories, etc.) though the converse ... is true.* Basic interest has up to the present escaped observation because it was concealed behind its offspring, ordinary interest upon loan-money ... The interest paid by the merchant for loan-money is not the beginning, but the end of the whole transaction. The merchant uses money to exact basic interest from the wares, and as the money does not belong to him, he delivers the basic interest to the his capitalist. He acts here simply as cashier for the capitalist ... Basic interest is exacted during exchange, not during production. (Gesell, 1920, pp. 236, 265, and 264, emphasis added).

Basic interest is bandied as a *percentage* of some given amount; it is bitten off *something* – something that economists would define as the *just price* (Gesell, as shown above, named it the *true* price). A price, i.e. that: (1) affords the sustenance and covers the expenditures of the producer, and (2) enables him to replicate another unit (or batch) of the same good in the following period (Steiner, 1993, p. 83). If we warrant the existence of such a price, then that x % that is torn off it with the bite is "basic interest" proper – the hard core of usury: the price for the usage of the means of payment.

B. The Obstacle to Physical Investment: Basic versus Real Interest

The unalterable condition for money to circulate is that prices should not fall.

If they do, the margin above the cost of production is virtually eliminated and therefore there is no slack from which interest may be recouped. When prices plummet, the possessors of money withdraw it from circulation for it does not yield interest anymore. At that point a crisis begins. Gesell contends that the division of labor is not systematically balanced by an adequate stock of money, and this discrepancy – many goods versus scarce money – acts only to depress further the price of commodities. It is precisely because prices fall, that money hides to be hoarded. The supply of money decreases, the demand for money increases;

so does the supply of goods, which pile up in warehouses. Negative expectations compound the pressure and the process of contraction winds downward in a spiraling path with self-reinforcing impetus: fearing that prices might further decrease, no merchant dares to purchase anything; goods are "unsellable" because they are cheap and threaten to become even cheaper. The crisis begins. An increase in prices has symmetrical repercussions: the holder of money knows that what he has bought today can be sold tomorrow at a higher price; thus he buys as much as he can, relying heavily on credit leverage. Banks will encourage speculation as long as they feel they are in a bull market. Even in this case, the dynamics is of a self-reinforcing kind, yet with an inflationary bias: "prices rise because they have risen" (Gesell, 1920, p. 103).

> ... How do the makers of goods act when they cannot sell their products for money? Does the cabinet-maker sleep in his coffins, does the farmer eat all his potatoes? Nothing of the kind; they try to effect the sale by reducing their prices, they all try to attract money by lowering their demands. If capitalists and savers have withdrawn money from circulation and will only return it if promised interest, they obviously find the ground well prepared for the levy of interest in the readiness of the possessors of goods to surrender part of their produce for the use of money. ... Interest is the condition we lay down ... The cause of the crisis lay in the fact that capitalists refused to invest their money unless they obtained interest, and that when the supply of houses, industrial plant, and other instruments of production passed a certain limit, the rate [of remuneration of such activities] fell below the minimum yield necessary to pay the interest on the money invested in them ... As soon as this point was reached employers were no longer able to pay the interest demanded of them, and capitalist had no motive to lend their money gratis. They preferred to wait for the crisis which could be counted on to "ease" the situation and restore the normal rate of interest ... Thousands of years of experience have taught the owners of money that their money will fetch 3, 4 or 5%, according to the investment, and to obtain this rate of interest they need only wait. So they would have waited (Gesell, 1920, pp. 187, 196, 198).

It would then appear that the theoretical intricacies that have customarily obscured the conception of the notion of "interest" should be ascribed chiefly to two phenomena. The first is the characterization of interest as a *natural* element of the putative inexorable laws of economics. The second is the confusion between interest on money – that is, basic interest – and *interest on capital.* These two variables, argues Gesell, must be distinguished.

Basic interest is a monetary phenomenon: it is the price for the use of the medium of exchange. Owing to the power of exacting a tribute, money may properly be regarded as a kind of capital. Interest on capital is a by-product of basic interest.

> But if no money is given for the construction of houses unless they can exact the same interest that money itself exacts for the wares, building is suspended and the consequent scarcity of houses raises rent; just as the scarcity of factories reduces wages (Gesell, 1920, p. 240).

Houses, machinery, and plants are capital. However, unlike money, these goods do not exact interest during the exchange, so that it may be handed over to the banks, the "manufacturing center for the means of payment," as Schumpeter called them (Schumpeter, 1983, p. 73). Instead, interest upon capital arises in the course of the production process and is collected by the owners of capital goods.

"This power does not, however, lie in the characteristics of such things, but in the fact that money here, precisely as with the [perishable] wares, prepares the market conditions necessary for the collection of interest" (Gesell, 1920, p. 240). Houses, machinery and factories are real goods, but owing to the fact that money, at the origin, claims a reward for the services it provides, industrial capital – which has to be financed with money – will have to be allocated in such a way as to exact a similar tribute.

Usury, a purely monetary phenomenon, propagates its logic to the means of production. Since the foundation of usury is, according to Gesell, the capacity to "embarrass" the counterpart – that is, to enmesh the will of the transacting party –, in the economic realm, this condition translates into *an artificially limited supply with respect to demand.* In other words, in order to collect interest, it is necessary to effect a willful curtailment of the goods and services that cater to the community's needs. *Money, machinery, factories, houses, and so on, yield interest because they are scarce.* More specifically, basic interest is the equilibrium value interest upon capital converges to.[6]

Moving on to its ultimate implications, the Gesellian reasoning affords a final confluence of the monetary muddle into the grievances of labor economics, and the crux of remuneration.

> The employer does not buy work, or working hours, or power of work, for he does not sell the power of work. What he buys and sells is the product of labor, and the price he pays is determined, not by the cost of breeding, training and feeding a worker and his offspring (the physical appearance of the workers is only too good a proof that the employer cares little for all this), but simply by the price the consumer pays for the product. From this price the employer deducts the interest on his factory, the cost of raw material, including interest, and wages for his own work. The interest always corresponds to basic interest: the employer's wage, like all wages, follows the laws of competition: and the employer treats the raw material he intends his workmen to manufacture as every shop-keeper treats his merchandise. The employer lends the workmen machinery and raw material and deducts from the workers' produce the interest with which the raw material and machinery are burdened. The remainder, so-called wages, is in reality the price of the product delivered by the workmen. Factories are simply, therefore, pawn-shops (Gesell, 1920, pp. 258–259).

In this portrayal, the factory itself is capable of generating interest, insofar as the total number of factories is scarce (and wage-labor is abundant). Machinery is scarce and so are raw materials. And moving backward along the chain of

production, we are bound to reencounter money and the concomitant basic interest.

C. Dying Currency

The prescription follows: the ideal monetary system – one freed from all kept money-owners, who derive an income for supplying what ought to be the "most public" of all goods – is a system tenanted by *free-money*. Free-money is perishable money: if money were given an *age* by *stamping* it, and thus make it lose value day after day (or, e.g. on a monthly basis – the time interval for affixing the stamps on the scrip is a matter of convenience and arbitrary choice) like any other good yielded by nature, it would be irremediably forced to circulate.

No one would be thus inclined to hoard it; there would be available funds for all sorts of enterprises. One would reckon a paper bill for each good, and not too few bills for a glut of commodities (deflation), or too many notes for only a few commodities (inflation). The rate of interest would taper off and finally become zero. This proposal is brought forth as the completed synchronization of goods and money: the purpose being that of making money as perishable as the products of industry broadly defined.

For petty transactions, the public would use a definite sum of paper scrip, which would lose value as time passes. The stamps would be on sale at government offices, and the revenues forthcoming therefrom would be tantamount to an effective taxation of the community.

The amount saved by households will be entrusted to the care of credit institutes, which will be compelled no less than their clients to keep it in motion: state-sanctioned depreciation will enjoin the institutes to loan such savings to entrepreneurs. By dint of such compulsion, trades are bound to flourish, accompanied, as they would be, by bouts of renewed inventiveness within the realms of organizational and technical improvement.

> When I have saved a sum of money I now do exactly what I did formerly – I take it to the savings bank which enters the amount in my savings book. In this respect nothing has changed. It was said that the sum of money entered in the savings book would be subject to the same amount of depreciation as Free-Money, but that is nonsense. The savings bank owes so many dollars, American Standard, but not the notes which I handed in. And the standard dollar stands above the notes. If I lend somebody a sack of potatoes for a year, he will not give me back the same sack of potatoes, which have meanwhile rotted, but a sack of new potatoes. It is the same with the savings bank. I lent it 100 dollars, and it agrees to give me back 100 dollars. The savings bank is in a position to do so, since it lends the money on the same terms, while the tradesmen and farmers who obtain money

> at the savings bank for their enterprises do not keep the money at home. They buy goods for use with it, and in this way the depreciation loss is distributed among all the persons through whose hands the money has passed in the course of a year . . . Now, in the economic life of the individual, to save means to do much work, to produce and sell much, and to buy little . . . But what must happen if everyone brings 100 dollars worth of produce to market, and only buys for 90 dollars, that is, if everyone wishes to save 10 dollars? . . . Free-money applies the Christian maxim: whatsoever ye would that men should do to you, do you even so to them. It says: if you wish to sell your produce, buy the produce your neighbor wishes to sell . . . Otherwise savers mutually deprive one another of the possibility of carrying out their purpose (Gesell, 1920, pp. 166–167, 169–170).

A rate of interest equal to zero implies a corresponding investment so intense as to keep depreciation at bay – an endeavor the saver would have had to fight on his own, had there not been the opportunity to delegate such a task to an enterprising counterpart by the means of organized lending and investment. Paraphrasing the gist of Gesell's "Robinson Crusoe" dialogue (Gesell, 1920, pp. 217 and ff.), a null (or even negative, depending on the current rate of depreciation) rate of interest may thus be deemed a convenient arrangement by the owner of several (perishable) resources, who could scarcely manage on his own to conserve such goods, be they foods, barns, or buildings, from the persistent wear and tear of time. He is then willing to confide to a third party (the investor) a portion of the goods laid in (saved) in exchange for a promise on the part of the newly appointed care-taker to return that same amount, say, a year thenceforth. The zero-interest contract (loan) is a bargain for both parties, for the saver sees his possessions reconstituted by the end of the year, and the investor (or entrepreneur) derives sustenance (and an eventual surplus) from the employment of another's property.

Gesell's blueprint for centralized monetary management in the new system is confined to the sketching of the fundamental tasks falling to an *ad hoc* institution, the National Currency Office (*Reichswärungsamt*), which

> does not carry on banking business of any kind. It does not buy or sell bills of exchange; it does not classify business firms as first, second, or third rate. It entertains no connections with private persons. The national Currency Office issues money when the country needs it, and withdraws money when money is in excess . . . After Free-money has been put in circulation and metal money withdrawn, the sole function of the National Currency Office is to observe the ratio at which money and the goods are exchanged and by increase or decrease of the monetary circulation, to stabilize the general level of prices (Gesell, 1920, pp. 139, 141).

The depreciation rate, i.e. the percent charge to be deducted (at n regular intervals for an amount of $(X/n)\%$, if $X\%$ is the rate of depreciation) from the freshly issue note of the National Currency Office would reflect the technological features of the peculiar system. Gesell contemplated possible rates ranging from

5 to 12% per annum. As a measure of the liquidity needs of circulation, a competent division of the Office should be appointed to devising a statistical ratio that accounts for the overall rate of depreciation, over a comprehensive estimate of capital appreciation triggered by productive investment. A temporary dearth of currency would be overcome with tax remission, whereas an excessive spurt of liquidity would evaporate of its own accord thanks to the built-in perishability of the means of payment (Gesell, 1920, pp. 144 and ff.).

In brief, Gesell's storybook on pecuniary vicissitudes is comprised of three main yarns: first, the acknowledgment of a usurious tribute that is asked for the purveyance of the means of payment, as the embodiment of the worldly insufferableness of transience (resistance to death); this usurious exaction takes the form of a percent deduction, whose lower bound (the threshold) is to be set in the environs of 2 or 3%. Second is the strict causal nexus from such a *monetary* rate of interest to all other *real* rates, that is, rates of return upon capital: the former determines the latter, and not vice-versa. This conditioning of basic interest "embarrasses" entrepreneurship to a point where it will have to effect the creation of rent-generating monopolies that mimic the interest-bearing faculty of gold, with a view to securing profit and remunerating the interest-yielding money that is financing the investments: a setting of artificial scarcity makes the levy of an agio (a "plus" above what consumers reckon as the *true*, or just, price) a matter of resigned apprehension. This anchoring of production to the drift of financial exigencies obtrudes itself as an impediment to the progress of the industrial arts. Third is the remedial advocacy of stamped money as a means to defeat the purpose of hoarding, and thereby break this fettering of physical expansion.

II. A "GENERAL THEORY" OF MONEY *THE STRIVINGS OF JOHN MAYNARD KEYNES*

> [Keynes' *General Theory*] is a work of profound obscurity, badly written and prematurely published. All economists claimed to have read it. Only a few have.
>
> (J. K. Galbraith, 1975, p. 218).

> Nothing in Keynes' previous life or work really quite prepares us for the *General Theory* [...]. There is reason to believe that Keynes himself did not understand his own analysis [...]. When finally mastered, [the] analysis is found to be obvious and at the same time new. In short it is the work of genius.
>
> (P. A. Samuelson, 1964, pp. 316, 323).

> The *General Theory* is one of the greatest puzzles in the history of ideas [...]. [Keynes' letters to his friends and collaborators are] disappointingly incommunicative about his deeper

> vision of the basic ideas that composed it and how he made his inspired connections among them. His intuition asserting its claim here, they remain illuminations, a series of epiphanies vouchsafed only to the seer.
>
> (David Felix, 1995, pp. 107, 131).

> One of the perplexing riddles in the history of social science is how a man of the intellect of Keynes could have labored for years on what he considered to be a revelation without becoming aware of its multifarious antecedents, and how such a large segment of the English-speaking community of economists could have accepted his analysis and policy conclusions as such.
>
> (George Garvy, 1975, p. 391).

> [Keynes] had a wonderful memory for arguments, but no memory for their authors. If next day you returned to the same problem, you were as likely to find him parading your arguments of yesterday – if they were good arguments – as his own [. . .]. He remembered vividly the ideas which he absorbed into his own thinking. But he did not remember with great certainty whence he got them [. . .]. Indeed, I find it strange that Keynes, the great stylist, should be remembered principally by the least well written of his books.
>
> (E. A. G. Robinson, 1964, pp. 86, 88).

A. Prodromes

> *Viola.* Disguise, I see, thou art a wickedness
> Wherein the pregnant enemy does much.
> Shakespeare, *Twelfth Night, (II,ii)*

"Writing to George Bernard Shaw on New Year's Day, 1935, [Keynes] said: To understand my state of mind, you have to know that I believe myself to be writing a book on economic theory which will largely revolutionize – not, I suppose, at once but in the course of the next ten years – the way the world thinks about economic problems" (Galbraith, 1975, p. 216).

The 'revolutionary' treatise was published in 1936 in England under the title, *The General Theory of Employment, Interest and Money.* Afterwards, Keynes' premonition came to pass: no sooner had the book been printed than, much like Smith's *Wealth of Nations*, it became an "instant classic": that is, a work commissioned and immediately endorsed by the intelligentsia.[7]

It was not until 1930, when Keynes was forty-seven, that a thorough taxonomy of the protean expressions of money was attempted with the publication of his *Treatise on Money.* Protocolar paeans from several academic quarters notwithstanding, the book so came to be rated a generalized miss as to bring its author to repudiate it without a trace of vindictive after-thought.

> Two months after the *Treatise* was published [10/31/30], Keynes wrote to an economist-correspondent, "My own feeling is that now at last I have things clear in my own head, and I am itching to do it all over again" (Felix, 1995, p. 81).

The shortcomings. For one, the *Treatise*'s model – which consisted of a re-edition of the quantity theory of money, complemented by several additions of parameters included by way of realistic variety – assumed, on the eve of the Great Depression, constant output based on full employment. Eventually, the Scottish barrister, Hugh Macmillan – chairman of that notorious committee, in which sat Keynes himself, and assembled also to give a fair hearing to the cries and *doléances* of heretics and rank-and-filers of the depressed economy – sentenced: "I cannot believe that finality has been reached even in an exposition by you" (Felix, 1995, p. 94).

Presumably, to be counted amongst those pieces of analysis that prevented Keynes from reaching finality, was Knut Wicksell's distinction between *market* and *natural* rate of interest.

Following a spiritual crisis, before he moved on to become the founder of the Swedish school of macrodynamics, Wicksell had recanted religious belief and fashioned himself thereafter a neo-Malthusian atheist who wanted to improve the lot of mankind by rational means (Niehans, 1990, p. 248). It is by means of sympathy that things are done; and thus it was, even if stealthily, that Keynes was drawn to the Swede.

> On a trip to London, financed by the Swedish Central Bank, [Wicksell] met young John Maynard Keynes, who seems to have treated him condescendingly, not realizing what he could have learned from him (Niehans, 1990, p. 249).

> While Wicksell flourished a long generation before Keynes, the *Treatise* discussed the great Swede as if he and Keynes were contemporaries, with Wicksell perhaps a half-step behind (Felix, 1995, p. 68).

> Wicksell visualized a closed economy with inconvertible bank notes, in which banks set a lending rate and supply all money demanded at that rate ... Under these conditions, the banks can set the market rate of interest, i, at any level they wish. However, it is Wicksell's main point that there is only one rate, called the normal rate, r, that keeps prices stable. This normal rate is tightly related to the real returns on capital goods, which Wicksell calls the natural rate. The two are not identical, though, because one applies to bank loans and the other to real capital goods, which have different risks. According to Wicksell's hypothesis the course of prices is governed by the difference i–r (Niehans, 1990, p. 255).

This view is the obverse of Gesell's: here the causal link runs *from* the rate upon capital – the original yield of the barter economy – *to* the superimposed monetary rate set by banks, as a result of the substitution of fiduciary money and credit for the sheep and cowry shells. Wicksell therefore made price oscillations dependent upon the mismatch between rates, which is likely to be observed when economic agents, such as banks, as they fund new initiatives, have no option but to grope in setting their rate, around a nondescript natural

rate – which the theory postulates, presumably as an average growth index of the physical economy.

> As long as the market [monetary] rate stands below the normal rate, prices will continue to rise, and vice-versa, until the difference is eliminated. Once it is eliminated prices will remain at their highest (or lowest) level. The present price level thus appears as the legacy of past interest policies. The crucial point is that with respect to the banks' lending rate, the economy is unstable. However, a constant market rate would not, in general, suffice to keep prices stable, because the natural rate is subject to constant fluctuations due to, for example, inventions, discoveries or changes in expectations. This helps explain why market rates that are high relative to their trend are often associated with rising prices; the real returns on capital [i.e. natural rate] may be higher still (Niehans, 1990, p. 257).

This theory of interest Keynes had made, in a slightly varied guise, his own ("I defined what purported to be a unique rate of interest, which I called the natural rate of interest – namely the rate of interest which . . . preserved equality between the rate of saving and the rate of investment" (Keynes, 1950, pp. 242–243)) – the pivot of his *Treatise*. He soon was to forsake it for a better alternative (". . . It was a mistake to speak of the natural rate of interest or to suggest that the above definition would yield a unique value for the rate of interest irrespective of the rate of employment. I had not then understood that, in certain conditions, the system could be in equilibrium with less than full employment" (Keynes, 1950, ibid.)), which he had a mind to couple with a solution to the issue of underconsumption and effective demand.[8]

For Keynes, then, the dismissal of Wicksell's "natural rate" was reserved as a back-up to the frontal attack launched from the overture of the *General Theory,* against one of the undisputed axioms of orthodoxy – the so-called "law of outlets" (*loi des débouchés*), or Say's Law. As known, "Say's Law . . . held that, from the proceeds of every sale of goods, there was paid out to someone somewhere in wages, salaries, interest, rent or profit . . . the wherewithal to buy that item. As with one item, so with all. This being so, there could not be a shortage of purchasing power in the economy . . . If people saved more than was invested, the surplus of savings would bring down interest rates. Investment would thus be stimulated and saving (at least in theory) discouraged" (Galbraith, 1975, p. 218). "The intended meaning of Say's law can be paraphrased by the negative proposition that money is not being hoarded, at least not in the aggregate and in significant amounts . . . If for one person, because he accumulates cash balances, demands falls short of supply, another person may use up cash balances, so that in the aggregate, demand still matches supply . . . The significance of this proposition, if true, was twofold. First, it implied that aggregate production could never be excessive in the sense that it could not be sold at a cost. No matter how abundant the factors of production, they could always be

productively employed . . . Overproduction in some products might easily occur, but it must necessarily have a counterpart in the underproduction of others. The historical significance of this reasoning was that general overproduction ceased to be a respectable explanation of depression" (Niehans, 1990, pp. 112–113).

Keynes re-appropriated the Malthusian argument favoring the creation of unproductive labor to be paid out of revenue and combined it with the preconized avoidance of any form of sterile accumulation. Malthusian echoes are clearly discernible in the following passage:

> I distinctly maintain that an attempt to accumulate very rapidly which necessarily implies a considerable diminution of unproductive consumption, by greatly impairing the usual motives to production must prematurely check the progress of wealth (Keynes, 1933, p. 129).

Already in his *Treatise on Money*, he had stated the known equivalence between saving and investment in his parable of the "banana plantations."

> Let us suppose a community owing banana plantations and labouring to cultivate and collect bananas and nothing else; and consuming bananas and nothing else. Let us suppose, further, that there has been an equilibrium between saving and investment in the sense that the money-income of the community, not spent on the consumption of bananas but saved, is equal to the cost of production of new investment in the further development of plantations . . . Into this Eden there enters a Thrift Campaign, urging the members of the public to abate their improvident practices of devoting nearly all their current incomes to buying bananas for daily food. But at the time there is no corresponding increase in the development of new plantations (Keynes, 1950, p. 176, Vol. II).

Because the portion of bananas that was devoted to investment is not recycled in production, it rots and the price decreases. Producers react. What follows is the customary chronicle of incipient unemployment, *not* accompanied in this instance by an over-abundance of capital goods, which would have been the expected result of rapid capital accumulation prompted by the Thrift Campaign (and feared by Malthus). Keynes outflanks Malthus's primary concern, and includes the variant that savings, if not hoarded, are swallowed by *impairing* forms of investment. This is Johannsen's *Neglected Point*: so long as the community "continues to save in excess of new investment," the conditions will not cease to deteriorate; productive investment is sacrificed to a *speculative purchase of deeds and evidences of debt tendered by the bankrupt portion of the economy* (that is, the impairing form of investment, which is to be distinguished from productive investment, and hoarding) (Johannsen, 1971, pp. 84 and ff.). In other words, the capitalists' money, instead of funding new and expansionary ventures, is channeled towards the acquisition of titles of ownership issued in the past, representing goods and claims to wealth already in existence. In extreme circumstances, this may configure a buying-out of an insolvent economy by those possessing sufficient capital to do so.

Again, the frame of the problem is Malthusian, but the pivot of the discourse is the *Neglected Point*, with which Keynes was acquainted, and which he borrowed (Faye, 1980, p. 670). In the *General Theory*, this classic ground of economic controversy was enriched by Keynes' intent to challenge the hypothesized automatic adjustment of the interest rate in the equilibration process between saving and investment.

> ... It is notable that even in his path-breaking masterwork, *The General Theory* [...], Keynes adhered to the entirety of neoclassicism, micro and macro – deviating with respect to only *one* assumption: that savings are a function of the rate of interest. If that is *not* so – if, as Keynes argued, savings are instead a function of the level of income – Say's law collapses, as does a major pillar of *laissez-faire* capitalism (Dowd, 2000, pp. 127–128).

B. Borrowing from Gesell, on the Sly

Because the rate of interest was the key variable of monetary economics, a refutation of the dominant theories could only have been sharpened on the edge of alternative conceptions of money. Keynes set out to rid his plan of unwarranted assumptions, such as Wicksell's "natural rate of interest" – purportedly, as reported above, a hypothetical rate of return of the factors of production in a non-monetary (barter) economy (i.e. a measure of the economy's *real*, or physical, powers of reproduction) –, and account for the returns upon capital, by coining the appellation *marginal efficiency of capital.*

> When a man buys an investment or capital-asset, he purchases the right to the series of prospective returns, which he expects to obtain from selling its output, after deducting the running expenses of obtaining that output, during the life of the asset. This series of annuities *Q1, Q2, ..., Qn* it is convenient to call the *prospective yield* of the investment. Over against the prospective yield of the investment we have the *supply price* of the capital-asset, meaning by this ... the price which would just induce a manufacturer newly to produce an additional unit of such assets, i.e. what is sometimes called its *replacement cost* ... I define the marginal efficiency of capital as being equal to that rate of discount which would make the present value of the series of annuities given by the returns expected from the capital-asset during its life just equal to its supply price (Keynes, 1973, p. 135).

The marginal efficiency of capital equates the stream of future (expected) returns from the equipment (i.e. it dams the stream into one single measurable figure) to the total cost of financing the venture.[9] This rate establishes the relationship between the cost and prospective gains of an investment, and thus serves as an ordering index of potential projects: the higher the marginal efficiency, the more promising the investment. "Marginal efficiency of capital" is but another name for the "internal rate of return" of a capital investment. Gesell called it *interest upon capital*, and, as illustrated in the previous section, proceeded to contrast

this figure with *basic interest* – i.e. the banking rate, the price for imperishable money. So long as the former (interest upon capital) is greater than the latter (basic interest – the overhead charges of banking), manufacturers have an incentive to invest and produce. Were the market to succumb to a saturation of capital equipment, and thereby experience a violent depression of the returns upon capital, basic interest would loom as a paralyzing obstacle to further expansion and production. Incidentally, it may be noted that Michał Kalecki, employing the Marxian construct of capital over-accumulation, had observed this basic mechanism in similar terms. However, there appears to be no evidence that Kalecki was acquainted with the work of Gesell, nor that Keynes drew upon Kalecki as well.[10]

The Gesellian theme (basic interest vs. the rate upon capital) recurs in the *General Theory* numerous times; after each allusion, Keynes proceeds to redefine the concept of the interest rate, and of its source, money. In Chapter 14 ("The Classical Theory of the Rate of Interest") he writes:

> The significant conclusion is that the output of new investment will be pushed to the point at which the marginal efficiency of capital become equal to the rate of interest; and what the schedule of the marginal efficiency of capital tells us, is, not what the rate of interest is, but the point to which the output of new investment will be pushed, given the rate of interest (Keynes, 1973, p. 184).

Interest is no longer contemplated as that abstract variable equilibrating savings and investment, but is attributed a position of macroeconomic responsibility in deciding the fate of investment opportunity. Keynes anticipates the forthcoming inquietude of the orthodox reader and intersperses the path to a final definition of the interest rate with what, at a first glance, appear as diversionary observations on the nature thereof.

Psychology, Conventions and Scarcity

First, he looks at the matter from the investor's viewpoint, and by playing on the trade-off – arising from an increase in the interest rate – between capital account losses (through the decline of bond prices) and gains in interest revenue, Keynes hints, on the strength of these speculator-like similes, at the "highly psychological" connotation of the interest phenomenon (Keynes, 1973, p. 202).

This is Keynes' preliminary explanation of the interest rate's "stickiness from below," and the one that all macroeconomics textbooks would have eventually adopted.This first supposition holds that what prevents the rate of interest from sinking below the threshold to levels as low as 1% or less ("which leaves more to fear than to hope") (Keynes, 1973, p. 202) is the high risk entailed by the holding on to bonds at low levels of the interest rate, for the lower is the interest

rate, the more damaging is the capital loss, and the more insignificant is the gain in interest revenue for a given percent *increase* in the rate on a fixed-income security.[11]

To prevent the security's value to drop to low levels, investors, once the *short-term rate passes a certain threshold*, start to accumulate liquid balances rather than loan them and thus provoke a further fall of the rate.

> The lender would be inclined to lend when he expected the interest rate to fall because his loan as capitalized in a long-term bond would be worth more, while withholding his funds upon the opposite expectation (Felix, 1995, p. 165).

But when

> [b]ond prices are so high . . ., no one expects them to rise still higher. Consequently everyone prefers to 'hoard' idle cash and monetary policy is put out of commission (Blaug, 1985, p. 661).

This appears to be a macro-economic justification of hoarding (of idle cash), whose mark of disrepute, however, can hardly be cleansed on account of its being practiced as a standard financial routine 'by the many' – the fact remains: the money is withdrawn, and the economy thereby paralyzed, for the return on the investment (the price offered to "investors" to part with their money) is considered "not good enough."

Yet ethical preoccupation, it too, is here "put of commission," for this psychological routine prescinds from the moral imperative. As Keynes learnt at Cambridge from philosopher G. E. Moore – a great inspiration to him – "Ethics is quite unable to give us a list of duties . . . The utmost that Practical Ethics can hope to discover is which, among a few alternatives possible under certain circumstances, will, on the whole, produce the best results" (Moore, 1988, pp. 149, 151). For the psychology of the *individual* investor, hoarding, "under certain circumstances," is thus deemed to "produce the best results."

Second, a few paragraphs below, Keynes points to the conflictive tendencies stemming from a high rate: it is beneficial to international investing (for it attracts foreign capital), but detrimental to domestic employment (for it dispirits young enterprises). This second trade-off, Keynes argues, is evidence of interest's "highly conventional, rather than psychological" figure of the phenomenon.

In Chapter 16 ("Sundry Observations on the Nature of Capital), Keynes writes:

> The only reason why an asset offers a prospect of yielding during its life services having an aggregate value greater than its initial supply price is because it is *scarce*; and it is kept scarce because of the competition of the rate of interest on money (Keynes, 1973, p. 213).

Which passage is nothing but a disguise of Gesell's observation that physical capital is to be made scarce in order to remunerate the money that went into financing it. A perishable means of payment, supported by massive capital production and consumption would have driven pecuniary yields to a zero, and brought endless abundance. Keynes assents, and further challenges what he thought were the obsolete tenets of orthodoxy:

> Capital has to be kept scarce enough in the long-period to have a marginal efficiency which is at least equal to the rate of interest for a period equal to the life of the capital, as determined by psychological and institutional conditions. What would this involve for a society which finds itself so well equipped with capital that its marginal efficiency is zero and would be negative with any additional investment; yet possessing a monetary system, such that money will 'keep' and involve negligible costs of storage and safe custody, with the result that in practice interest cannot be negative; and, in conditions of full employment, disposed to save? (Keynes, 1973, p. 217).

"Money that will 'keep'" – that is, that will not perish – in a regime of *laissez-faire* will watch, unconcerned, the return upon capital sink below basic interest. Stagnation ensues, and the system freezes.

Keynes concedes: the conclusion is disturbing. Yet in the space of three pages, he writes for three times of the uncouth impediment created by the "psychological and institutional" factors behind the rate of interest on money. Not once, so far, does he broach the question of perishability, however.

The institutional factor: the reader suddenly acknowledges the appearance of a *lower bound* – a threshold – for the rate of interest.

> In particular the costs of bringing borrowers and lenders together and uncertainty as to the future of the rate of interest ... set a lower limit, which in present circumstances may perhaps be as high as 2 or $2\frac{1}{2}$% on long term (Keynes, 1973, p. 219).

By the sixteenth chapter, Keynes must have sensed that he was endeavoring to picture the dynamics of interest from too many angles – it was time to serve a proper definition. Yet he persists for the length of a few more pages to inveigh against wasteful expenditure.

> If – for whatever reason – the rate of interest cannot fall as fast as the marginal efficiency of capital would fall at a rate of accumulation corresponding to [desired] conditions of full employment, then even a diversion of the desire to hold wealth towards assets, which will in fact yield no economic fruit whatever, will increase economic well-being. In so far as millionaires find their satisfaction in building mighty mansions to contain their bodies when alive and pyramids to shelter them after death ... the day when abundance of capital will interfere with abundance of output may be postponed. 'To dig holes in the ground', paid out of savings, will increase, not only employment, but the real national dividend of useful goods and services. It is not reasonable, however, that a sensible community should be content to remain dependent on such fortuitous and often wasteful mitigations [...] (Keynes, 1973, p. 220).

The measure prescribed by Keynes to overcome the barrier of basic interest is State intervention. The State will bring about the equalization of interest upon capital and monetary interest at a level compatible with full employment. Eventually, under the aegis of government control, the marginal efficiency of capital will be reduced to zero, and rentiers, annihilated

Keynes' General Theory of Interest

Then, Keynes turns the page to Chapter 17 ("The Essential Properties of Interest and Money"). There, he will deliver the long awaited definition of interest. He does it in three installments:

(1) Positing money as a commodity.
(2) Revealing the virtues of this special commodity.
(3) Contriving the so-called "liquidity preference curve" to account for the determination of its yield.

First installment:

> It seems, then, that the rate of interest on money plays a peculiar part in setting a limit to the level of employment ... The money-rate of interest – we may remind the reader – is nothing more than the percentage excess of a sum contracted for forward delivery, e.g. a year hence, over what we may call the 'spot' or cash price of the sum thus contracted for forward delivery. It would seem, therefore, that for every kind of capital-asset there must be an analogue of the rate of interest on money (Keynes, 1973, p. 222).

Interest, which for the length of sixteen chapters, had seemed to mirror Gesell's "archetype of death" is here finally revealed to be, instead, a *merchandise*; it is assimilated to all the other, scarce, commodities, each with its own "natural yield." This is the first step.

In the second installment, Keynes has to justify the putative pre-eminence, in macroeconomic terms, of this particular (money-)commodity. He does it by positing three fundamental attributes possessed in differing degrees by capital assets (Keynes, 1973, pp. 225–226): (1) The *yield* – that is, a net return upon the asset's generative powers; (2) *carrying costs* (related to the wastage affecting perishable equipment and commodities); (3) the facility wherewith the capital asset can be transformed into immediate liquid means, called, the *liquidity premium*. Thus, "the return expected from the ownership of the asset" is the sum of these three components (Return = Yield-Carrying Costs + Liquidity Premium) – where, of course, wastage is included as a negative charge.

Keynes admonishes the reader that it is now a matter of judicious distinction not to liken traditional money (gold and bank notes) to conventional staples, for it is barren and bears no fruit – no yield, in the "natural" acceptation of

the term. Thus, the yield is nil, but so is the carrying cost (wastage); as to the liquidity premium – compared with all other capital assets –, it is likely to be high – indeed, money is liquidity by definition. There lies the core of money's powers of resistance.

After much taxonomic effort, Gesell's basic interest (*Urzins*) is reintroduced inconspicuously in the theoretical texture of the *General Theory*, yet not as Gesell defined it, namely, as the usurious tribute exacted for the mere handling of money, but as an impersonal premium arisen out of pragmatic necessity, and thereby hardened by *tradition* (wholesome and immutable, by default).

> In attributing . . . a peculiar significance to the money-rate of interest, we have been tacitly assuming that the kind of money to which we are accustomed has some *special characteristics* which lead to its own-rate of interest in terms of itself as standard being more reluctant to fall as the stock of assets in general increases than own-rates of interest of any other assets in terms of themselves (Keynes, 1973, p. 229, emphasis added).

Now, the reader of *The General Theory*, who, most likely, has never heard of Gesell, may want to know why the rate of interest declines most slowly, when all the other definable "own-rates" (e.g. the rates of return for all sorts of commodities, and various types of ventures that are postulated at the beginning of the 17th chapter) may easily plummet and become negative under the pressure of unbridled investment. In other words, why can't the rate of interest *on money* be ever **negative**? Keynes finds himself at a delicate juncture, for in his biased replica of Gesell's theory of interest, he is at this point sailing close to the unconditional arraignment of imperishable metals, which is a spot he wishes to elude. But by having reduced money to an ordinary commodity and depicted its rate as but one of a myriad envisionable yields, Keynes now has the leeway to discuss with detachment the source of the occasional rigidity encountered in the marketplace, which, as he learnt from Gesell, is, of course, *gold*. Notice the subtlety: unlike Gesell, Keynes does not suggest that gold usurped the symbolic nature of money, reified its function, and thereby demanded a toll for its usage; he affirms, instead, that amongst many commodities money is one, which chanced to be gold by way of traditional practice, and that the physical properties of the metal may at times be expected to obstruct the free flow of trade.

To explicate gold's viscous reaction to industrial transformation, Keynes reproduces two of the traditional observations on the subject: first, he maintains that gold possesses an extremely contained *elasticity of supply* – i.e. owing to the rarity of the precious metal, increases in the prices of gold on the market are capable of stimulating only less than proportional increases in the production of it; second, gold supposedly has a *null elasticity of substitution*, which means that as the price of gold – intended as a means of payment – rises, no alternative

forms of payment are introduced to substitute the costlier metal; the same quantity will be demanded, irrespective of price fluctuations (within allowable bounds). In other words, the traders cannot find a more suitable money than "money" itself (i.e. gold-money).

At last, comes the so-called "Keynesian trap."

> We come to what is the most fundamental consideration in this context, namely, the characteristics of money which satisfy liquidity-preference. For, in certain circumstances such as will often occur, these will cause the rate of interest to be insensitive, particularly below a certain figure, even to a substantial increase in the quantity of money in proportion to other forms of wealth. In other words, beyond a certain point money's yield from liquidity does not fall in response to an increase in its quantity to anything approaching the extent to which the yield from other types of assets falls when their quantity is comparably increased. In this connection the low (or negligible) carrying costs of money play an essential part (Keynes, 1973, p. 233).

From the unresponsiveness of gold-digging to price surges, the argument has shifted to the negligible carrying costs of money.

In the Keynesian scheme, the demand for money is divided into two main components[12]: a demand for transaction purposes (i.e. day to day purchases), which is a positive function of income; and a speculative demand for money which is a negative function of the rate of interest: as the rate of interest soars, the investor has an incentive to renounce immediate liquidity and "solidify" his money balances (whatever is left over, after all necessary transactions have been deducted) into longer-lived investments. This second demand function is the concise microeconomic tool employed by Keynes to summarize the habits of the community in managing a hypothetical "collective portfolio." Keynes conceives this so-called *liquidity preference* (the third installment of his comprehensive description of the nature of interest) as a putative expression of the aggregate saving and investing behavior of a diverse mass of savers: it allegedly indicates the masses' desire to hold wealth in liquid form (cash vs. other types of less liquid investments). The interest rate is then determined as the intersection of this last demand and a *fixed* supply of money provided by the central bank (from which one needs to subtract the quota of liquidity devoted to transactive purposes). In the words of Keynes, and contra Say: "The rate of interest is not the 'price' which brings into equilibrium the demand for resources to invest with the readiness to abstain from present consumption. It is the 'price' which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash" (Keynes, 1973, p. 167).

In the quoted passage above, the reader should deduce that, once the threshold (a rate of 2 or $2^1/_2\%$) is reached, persistent State-mandated injections of paper in the economy might not be capable of forcing down the rate of interest. The

monetary policies of the authorities would then be "trapped." The reason? Negligible carrying costs, answers Keynes. If accumulate he must, now that the threshold has been crossed, the saver would rather have gold, than, say, lettuce, which would not last the day. Keynes goes on to argue that

> The readiness of the public to increase their stock of money in response to a comparatively small stimulus is due to the advantage of liquidity having no offset to contend with in the shape of carrying-costs mounting steeply with the lapse of time. In the case of a commodity other than money a modest stock of it may offer some convenience to users of the commodity. But even though a larger stock might have some attractions as representing a store of wealth of stable value, this would be offset by its carrying-costs in the shape of storage, wastage, etc. (Keynes, 1973, p. 233).

In essence, Keynes is once more reiterating the Gesellian intuition, according to which, the possessor of wealth, not trusting in any foreseeable upswing, as a *routine*, transforms his substance in liquid balances (gold, bank notes or bank accounts), so as to protect the nominal figure of his principal. The difference between the original Gesellian exposition and the Keynesian reworking thereof is that the latter presents the process of *hoarding* more as a matter of rational economic choice than as an automatism dictated by the veritable nature of traditional money (something that is legally acknowledged never to die). Instead of affirming, as Gesell does, that everything is fated to decay, with the sole, and incongruous, exception of money, Keynes suggests that all things have their "own-rate of return," as well as their "carrying-costs"; and so it happens that some of these wares are more suitable than others for storing, and thereby have been historically selected to perform such an important duty. But, to Keynes, noble metals have no own-rate, yet they do command a "liquidity premium," which is still a form of return, and so, being the most resistant to erosion, they, though sterile, have been traditionally elected as optimal stores of value.

There follows the constraining influence of the money rate upon the rate of return of physical goods, which is identical to that of Gesell.

Undoubtedly, in fashioning the liquidity preference curve, Keynes drew to a certain extent upon the Cambridge heritage, which harbored particular strains of thought that had survived the century long Currency Controversy in England. One such strain was the Banking School (Tooke, Fullarton, Wilson), which taught that "it does not lie in the power of the banks-of-issue to increase or diminish their note circulation . . . The quantity of notes in circulation is settled by the demand within the community for media of payment . . . Expansions and contractions of the quantity of notes in circulation are said to be never the cause, always only the effect, of fluctuations of business life" (Von Mises, 1980, pp. 339–340). Indeed, the imputed passive role of banking does bear upon the question of the alleged inefficacy of monetary policy in time of crisis, for it follows therefrom that "every

attempt to extend the issue of notes beyond the limits set by the general conditions of production and prices is immediately frustrated by the reflux of the surplus notes, because they are not needed for making payments" (Von Mises, 1980. ibid.). "The 'excess issue' would flow back to the bank through repayment of loans or conversion into specie" (Blaug, 1985, p. 202). This appears to be the seed of Keynes' compassing of hoards in relation to his liquidity preference curve: here the routines of bank depositors dictate the overall drift of business. Yet Tooke's so-called contra-quantity theory[13], which focuses on expenditure flows, rather than on the stock of money, as the source of economic changes, can under no circumstance claim primacy over Gesell's theory of interest for shaping the monetary economics of the *General Theory*, because the pivotal element, the reason behind the impediment to investment (Gesell's basic interest), is entirely missing from this Cambridge connection. In truth, the popular notion of the "trap" appears to be drawn almost word for word from the following revealing passage of Gesell's *Natural Economic Order*, in which he counters the advocacy of unrestricted public money-issuance in times of crisis:

> The State prints money and advances it [even at a rate of 0%] to the employers if the money of capitalists is held back ... Those who have money have the right of immediately purchasing wares ... If you have no personal need of wares you can buy bills of exchange, promissory notes, mortgage-needs and so forth from persons who are in need of wares and have no money ... The surplus production of the savers is not bought with their money, but with new money. For the moment this is unimportant; with the help of the new money, the building of houses, factories and ships proceeds without interruption. [Employers receive a low return on their enterprises, but so is the interest charged by the state for the new money.] Many still find it advantageous to lend their savings at the lower rate of interest, but others will return to the old custom of keeping their savings at home and renouncing interest ... The State replaces this amount by the issue of new money ... The crisis is averted ... But the fresh fall in the rate of interest will still further check the flow of savings into the savings-bank ... Soon even the larger class of savers will begin to find it scarcely profitable to bring money to the savings-banks ... A mighty stream of paper money, of demand due day to day, will be lost to sight. The more the rate of interest falls. Finally, before the market is satiated with real capital, when interest has fallen to about 1%, no one will bring his savings to the savings banks ... Billions of dollars are lent on mortgage. But if mortgages bring in no interest they will be foreclosed and the money hoarded. The State must replace these billions by new issues (Gesell, 1920, p. 116).

It thus appears that Chapter 17 of *The General Theory* was so constructed as to eliminate the manifestly condemnatory flavor of the notion of *basic interest (Urzins)*, the exaction of which, for Gesell, is by definition an unjustified and exploitative act.

But at this juncture, Keynes finds himself forced to make some kind of concession to the German, still not hazarding, however, to mention clearly his name in the main body of his treatise.

> Those reformers, who look for a remedy by creating artificial carrying-costs for money through the device of requiring legal-tender currency to be periodically stamped at a prescribed cost in order to retain its quality as money, or in analogous ways, **have been on the right track**; and the practical value of their proposals deserves consideration (Keynes, 1973, p. 234, emphasis added).

Even so, the problem remained: even if gold (and its management by the financial oligarchy) is not to be attributed any sinister connotation – as the Gesellians would have wished –, because it is inelastic, it is still, by nature, apt to cause unemployment and trade paralysis: if the metallic monetary base cannot grow as fast as economic activity, the system would inevitably suffer a breakdown.

C. The Remedy: The Socialization of Investment

> Unemployment develops, that is to say, because people want the moon; men cannot be employed when the object of desire (i.e. money) is something which cannot be readily choked off. There is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (i.e. a central bank) under public control. It is interesting to notice that the characteristic which has been traditionally supposed to render gold especially suitable for use as the standard of value, namely, its inelasticity of supply, turns out to be precisely the characteristic which is at the bottom of the trouble (Keynes, 1973, pp. 235–236).

At last, Keynes joins in with that motley crowd of agitators, so vocal during the interwar period, uniting *völkisch* sun-worshippers, radicals of the extreme left and right, Utopian socialists and anarchists, left-winged Nazis, and disconsolate bourgeois, all serried, in spite of their marked diversities, by a cementing dissatisfaction with the working of the Gold Standard. So how does Keynes himself wish to reform this rigid world?

> The remedy for the boom is not a higher rate of interest but a lower rate of interest! For that may enable the so-called boom to last. The right remedy for the trade cycle is not to be found in abolishing booms and thus keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom . . . In conditions of laissez-faire the avoidance of wide fluctuations in employment may, therefore, prove impossible without a far-reaching change in the psychology of investment markets such as there is no reason to expect. I conclude that the duty of ordering the current volume of investment cannot safely be left in private hands . . . I should readily concede that the wisest course is to advance on both fronts at once. Whilst aiming at a socially controlled rate of investment with a view to a progressive decline in the marginal efficiency of capital, I should support at the same time all sorts of policies for increasing the propensity to consume (Keynes, 1973, pp. 320, 322, 325).

Socially controlled investment in public hands, a lower rate of interest to be achieved by means of an expansive monetary policy, and Malthusian unproductive consumption: on the face of it, Keynes' succinct remedy is no

less a green cheese craving than the nineteen-thirties heretics' daydream of financial revolt, for not much in the way of institutional detail is being provided in his analysis. Keynes deflects his attention from the questions touching the proper arrangements conducive to such a monetary expansion; a study of the procedures affecting the note-issuing institute, a re-definition of gold's de-monetization, an investigation of absentee owners': a. command over resources, b. investing habits, and c. manifold repercussions under varying scenarios of public policy, and the type of stimulants to consumption envisaged by remedial action, unfortunately, have not been incorporated in the *General Theory*. And for good reason: *The General Theory* was never drafted with a view to dissecting the intricacies of ownership and the banking mechanisms that actually caused the breakdown; it never was a book of *observation*, i.e. of theory: Keynes' "classic" was a rewrite of liberal pragmatism, whose task was to add to the refurbished corpus of business principles a few, pregnant, apothegms that left the door open on ways to succor the capitalist machine in times of disarray.

By the end of the book, there remained to dissipate the strong Gesellian after-taste of this long monetary discourse. Keynes discharged the duty in that remote 23rd chapter, in which the so-called "underworld" of economic heterodoxy is paraded somewhat hastily.

Keynes pays homage to his intellectual forefathers: Malthus, Mandeville, Hobson, and other sources of inspiration, such as Gesell (mentioned at last) and, in fine, Douglas. Of Gesell, he confesses his initial diffidence and recollects those hectic times when Gesellites literally "bombarded" him with publications of the *Freiland-Freigeld-Bund,* which he had failed to appreciate fully, repelled as he was by certain "palpable defects" of the arguments.

> As is often the case with imperfectly analyzed intuitions, their significance only became apparent after I had reached my own conclusions in my own way ... Since few of the readers of this book are likely to be well acquainted with the significance of Gesell, I will give to him what would be otherwise a disproportionate space (Keynes, 1973, p. 353).

In the "disproportionate" course of five pages, Keynes sketches a biography of the German reformer, and then proceeds to review Gesell's "flashes of deep insight"; the ostensible similarities between the newly printed theories of Keynes and the summarized ideas of Gesell are condensed into a brief description, which is suddenly truncated by Keynes' criticism that the German had failed to provide a fully characterized determination of the rate of interest. According to Keynes, Gesell had ignored psychological factors and a suitable money demand function (Keynes' "liquidity preference"), which, coupled with a supply function (of money, by the note-issuing institute) would explain why, in fact, the "own-rate" of money is *positive*. The rate of interest should thus be the

intersection point of a "micro-macro" demand curve (a synthesis of the public's pecuniary behavior) and a somewhat stable money supply that is governed to a certain extent by the central bank in accordance with the exigencies of business.

Gesell is criticized for not completing his analysis with a mechanism that accounts for the oscillations of the interest rate – expressed as a function of the public's imputed financial routines. This would be, indeed, the theoretical purpose of the "liquidity preference"(Keynes, 1973, p. 356).

> The rate of interest will be determined immediately by the liquidity preferences of those who are marginal between holding money and purchasing an interest-bearing security. The rate of interest will always be high enough to overcome the liquidity preference of all those who want cash somewhat less intensely than those who actually hold the *limited* supply available. An increase in the desire to shift wealth from securities into money is what causes a rise in the price that must be paid to marginal holders to induce them not to hoard. Only those most insistent on having cash will be able to get it. The doubts and fears of others will be lulled by interest payments (Dillard, 1958, p. 182).

Again, this illustrates how the notion of interest-determination has been resolved within the Keynesian framework: the model opts for the "psychological" explanation, which views the price of money as the result of the interaction between a money-providing authority and a broadly defined group of agents, who at any point in time may decide they are willing to shift cash balance to locked (durable) investments, and vice-versa. What motivates such abrupt, or tempered movements from one type of money (mere purchase money, cash) to another (loan money, invested wealth) is not discussed.

> . . . Keynes often appeared to be on more than one side of some questions. With a casualness that imposed hard work on his interpreters, he often spoke of the "public" or the "individual" in relation to liquidity preferences (Felix, 1995, p. 164).

In truth, it is only with stammering conviction that *The General Theory's* monetary theses have been upheld by Keynes' followers, the difficulty stemming from that impatient aggregation of "micro" decisions into a streamlined demand curve, such as the liquidity preference. The latter, in fact, is being proposed as an analytical tool depicting "psychological" motivation and capable of achieving a synthesis of collective behavior in the setting of the interest rate, by dispensing with an account of the nature of the several routines forming the aggregate. Within academia, of the pillars of Keynesian thought, the liquidity preference was the first to crumble (Galbraith, 1975, p. 220).

> There is a relationship but not an identity between Keynes' concept of liquidity preference for the speculative motive and the common sense notion of hoarding. Unemployment and depression are sometimes attributed to hoarding although the exact meaning of this term is usually not clear (Dillard, 1958, p. 181).

> [Keynes] said absolutely nothing about how the wealth-holder actually transferred his money (for a price that was by definition too high) to the entrepreneur-borrower. We do not see how the three liquidity motives affect this putative rentier to part with his funds, nor do we see how he imposes his judgment upon the entrepreneur to achieve the lending-borrowing transaction. We are not shown *how* the interest rate is determined (Felix, 1995, pp. 167–168).

As for the perishability of money, Keynes said no more than that those advocating it "were on the right track." This happened in the midst of the seventeenth chapter of his *General Theory*. The argument is no sooner broached than it is dropped, and covered by the successive argument of gold's inelasticity of production as a reminder that central banking is too old and reverend an institution to be challenged on the basis of the isolated accusations of a few impassioned eccentrics; that banking operates with gold; and that since there was little of that noble metal (i.e. it is scarce), the best that could be wished for was a providential lowering of its price (that is, the interest rate).

Keynes would return one last time to Gesell's stamped money proposal in Chapter 23 to close the door on the perilous subject. He again concedes that "the idea is sound," and goes on to venture a personal estimate as to what should be the cost of the stamp. He believes "it should be roughly equal to the excess of the money-rate of interest (apart from the stamps) over the marginal efficiency of capital [expected average rate of physical capital] corresponding to a rate of new investment compatible with full investment. The actual charge suggested by Gesell was 1 per mil. per week, equivalent to 5.2% per annum. This would be too high in existing conditions, but the correct figure, which would have to be changed from time to time, could only be reached by trial and error" (Keynes, 1973, p. 357).

But Gesell, argues Keynes, has seemingly failed to consider that the so-called liquidity premium, that "plus" the public is willing to pay to petrify wealth into means not eroded by time, attaches not just to money – which, indeed, possesses the highest premium of all available storage forms – but to a whole range of products, such as "bank-money, debts-at-call, foreign money, jewelry, and precious metals in general," which could easily give shelter to legions of frightened savers within hypothetically unstable communities that should decide to embark upon the experiments of a perishable currency.

However, it may be stressed here that Keynes' qualification does not do justice to Gesell's reform, for the latter had foreseen how the failed adoption of stamped scrip on the part of a world-community, however one may go about defining such a "community" in terms of resource and organizational relationships, would spell doom for the introduction of dying money from the outset: it can only work if a cooperative union of nations endorses it.[14]

This concluding critique, wherewith, strategically, Chapter 23 does not end, seems it almost for fear of granting Gesell the extra-benefit of a meditative pause, covers the length of two paragraphs. Its brevity has bequeathed to the entire Gesellian parenthesis a strong air of marginal subservience to the overall make-up of the *General Theory*: in the new Keynesian configuration, Gesell is but an appendix, a curiosum.

Thus masterly robbed and shunted aside, Gesell stands on the periphery of the Liberal bible, hapless, and prone to the remarks of sneering Keynesian compilers, who have regularly taken the liberty of dismissing his dreams as "clever-crazy prescriptions for an inflationary bonfire" (Felix, 1995, p. 193).

III. SUMMARY AND CONCLUSION

Keynes, after a more attentive re-evaluation of those Gesellian pamphlets he had been bombarded with in the nineteen-twenties, convinces himself of the validity of the dominant intuition, and thus proceeds to reform British orthodoxy at the time of the Great Depression by producing a bowdlerized edition of Gesell's ideas. Gesell's theory of interest consists in essence of two propositions: (1) imperishable commodities, unfairly employed as means of payment, command a tribute: interest; (2) this basic interest dictates the level of the yield upon capital), and a prescription (to avoid hoarding and paralysis, let the currency age and die). Keynes will discard the prescription (too radical) and appropriate the theoretical propositions by re-fashioning them in ways that would broadly account for the crisis and legitimize an overhaul of the system conducted 'behind closed doors', so to speak (by the pecuniary custodians themselves). Indeed, "one of Keynes' main aims (as an enlightened conservative) was to save capitalism" (Dowd, 2000, p. 131), and that is why "modern macroeconomics was founded on capitalist agony" (De Angelis, 1997, p. 14). The time was thus ripe to weave into the fabric of academic belief the hitherto disbelieved notion of *crisis*: this was a strategic move designed to conserve the idiom and ways of capital by acknowledging the plight of the common man, and thereby seeking avenues of compromise, material and intellectual, between absentee owners and labor, which, however, were not, at all times, to scathe the perquisites of business tenure.

To achieve this, Keynes casts aside Say's Law and its compatible monetary appendage, Wicksell's theory of interest, both discredited by the new turn of events, and adopts in their stead a revisited version of Malthus's underconsumptionist thesis seasoned with Johannsen's insight, and Gesell's theory of interest. Gesell's "interest upon capital" he names "marginal efficiency of capital." Keynes retains the univocal determining causal link *from* the monetary rate *to* the real

(capital) rate, but waters down the notion of basic interest by holding on to the conception of money as a *commodity*, and by making money the *primus inter pares* in a range of means of payment, which are ranked according to their degree of perishability and of convenience in use. He thus attributes to traditional money (gold) the highest "premium for liquidity," to whose indirect, and unavoidable, effect he ascribes the formation of Gesell's threshold, and excludes the issue of perishability from the argument. Instead, this peculiar percentage (i.e. the rate of interest) asked by money-owners is defined as that fee that recompenses money for being the most liquid asset – the most practical, thus scarce, and justly rewardable for the service offered. Keynes reaffirms the institutional necessity of employing a scarce resource (gold and its accounting more or less virtual derivatives) as an inalterable fact of economic life.

In his hands, money relapses into its condition of commodity – as the best-suited commodity for effecting commercial exchange –, whereas basic interest's threshold is justified by the additional (and politically preferable) argument that investors have much to fear from a low level of the rate of interest, for an expected rise in it would shrink the capitalized value of debts.

No usury, but scarcity; no problematic (for the economy as a whole) wish to hoard, but a psychological preoccupation to preserve one's mite from the intemperance of time; the canons of bank lending are saved. And what is more, they are salvaged in the face of mounting unemployment. Money is gold, and gold is scarce, *tertium non datur*, hence the high liquidity premium and the 2% (or thereabouts) uncrossable threshold.

Keynes must have thought that Gesell was right when the latter declared that basic interest foists artificial curtailment of production upon the physical component of the economy; if interest sank to zero one should expect a burgeoning of capital investment: this Gesellian piece of economic prophesying was drawn verbatim (excepting the appellation of the real rate) into the *General Theory* and made an insistent slogan thereof.

The main difference lay in the prescriptive measures envisioned by the two authors: Gesell made the de-monetization of gold the *sine qua non* of the reformed system. No more than the stamps' revenue and an essential drafting of the rules would have fallen to the State's share in a regime of dying money, where, as Gesell's disquieting eugenistic proclivities led him to hope, by virtue of a re-instituted wholesome competition among manufacturers, poverty, ugliness and infirmities would have been driven out of existence.[15]

On the other hand, for Keynes, who did not renounce gold and never went as far as advocating its de-monetization (his directorship at the Bank of England, and ultimate allegiance to the money cartel in charge of World Affairs, is borne out by his proposal at Bretton Woods to float *Bancor*, a special drawing right

initially anchored to gold) the solution to the crisis would have consisted in a benevolent entreat of the constituted financial oligarchy, better still if encompassed within a fascist coalition, to lower the bank rate so as to allow the rate upon capital to decrease and thus spur production. Short of proclaiming the Gesellian reform of dying currency, the best that could be achieved within the regime of the Vested Interests, of which Keynes was an able publicist, was a regimentation of the factors of production and a unilateral decrease of the price of money (the Gesellian threshold of basic interest) promulgated by the central bank to spur capital expansion.

The *General Theory* is a significant book, not for what it intimates, but for what it represents. It is the rushed and necessarily allusive response – given the compromissary nature of the treatise – of the leading faction of the British oligarchy to the foundering of the old "World Market Economics," managed by the usufructuary gentlemen of the Gold Standard. In the face of inexorable price decline and sweeping bankruptcy, rallying movements around communal values are a common occurrence, whose subtler purpose is to re-circulate the hoarded savings responsible for the collapse.

> The common will, embodied in the policy of the State, ought to be directed to increasing and supplementing the inducement to invest (Keynes, 1973, p. 377).

Once the causes of instability are comprehended, it is a matter of linear reasoning to predict the emergence of a movement that shall endeavor to re-establish order, by availing itself of varying degrees of violence. Thorstein Veblen had predicted the development at the end of the Great War:

> It may be remarked that vigilant and impartial surveillance of this system [business enterprise] by an external authority interested only in aggregate results, rather than in the differential gains of the interested individuals, might hopefully be counted on to correct some of the shortcomings which the system shows when running loose under the guidance of its multifarious incentives (Veblen, 1919, p. 159).

There is little doubt that the *General Theory* was inspired by the German Recovery of the nineteen-thirties under *Reichsbankspräsident* Hjalmar Schacht; the team of banking oligarchs that cooperated with the Nazi regime effected precisely this routine: it banned any radical platform of monetary reform and harnessed the commercial banking sector to a centralized policy of cheap credit engineered on the banks' behalf by the *Reichsbank* (the central bank) to finance public, and, up until 1935, to a minimal degree, martial infrastructure. As noted by many (for instance, Galbraith, 1987, pp. 222–223; Garvy, 1975), Keynes invented nothing, the Germans had preceded him by a long stretch: indeed, it is here contended that he used Gesell's insight to construe the Hitlerite recovery and made of his *General Theory* a palimpsest, whose new engraved

lines encouraged the democratic West, by way of innuendo, to take after the method employed by Schacht under Hitler.

NOTES

1. See for instance Darity (1995), Dillard (1958), and Seccareccia (1988).

2. Pacifist anarchists generally claim Gesell as one of their own. Gesell's connection to Gustav Landauer places him in that camp, even though the monetary reformer never defined himself as an "anarchist" *tout court.* Instead, he occasionally referred to his movement as a form of Neo-Physiocracy; the label is suggestive of a keen harking back to tradition – to those times in which men were engaged with a radical investigation of the economic patterns of growth and social distribution. It has been justly argued, however, that this particular caption (Physiocracy) may be misleading, for the political frequentations of Gesell (all firmly encompassed within the socialist, syndicalist and anarchist fringes), and especially the 11–point program of the *Physiokratische Kampfbund* (the Physiocratic Fighting Alliance), which he personally drafted in 1924, leave no doubt as to Gesell's true colors. Point 1 demands the "removal of the State, wherever its activities may be replaced by private initiative (*"Für den Abbau des Staates dort, wo er durch Privatinitiative ersetzt werden kann . . .*"); point 2 calls for the abolition of public charity and welfare (*Wider . . . staatlicher Wolhtaten, staatlicher Fürsorge . . .*). The removal of state interference in family matters, schooling, the arts and sciences (points 3,4 and 5 respectively); the opposition to war, the class-economy, and any state-mandated duty (points 6 and 7), are the defining strokes of what is considered a quintessential manifesto of anarchism. Indeed, *"Für di Lebensfreude des einzelnen Menschen. Wider die 'Lebensfreude' des Staates"* ("For the fulfillment of individuals. Against the 'fulfillment' of the State") is the final insubordinate cry of this revealing document. (Bartsch, 1989).

3. "I am, so to speak, the incarnated theory of interest" [Gesell, 1992, p. 39].

4. For Gesell these expressions are interchangeable: whoever **demands** money is an agent **offering** products therefor; whereas, whoever **offers** money **demands** goods.

5. An example will best serve this point: if the banker *A* loans to *B* a sum of $100, to be repaid after a number of years, *n*, with the addition of interest, *X*, *A* can retrieve $100+*X* (we exclude foreign markets) only by **loaning** the missing quota, *X*, to the economy, thus burdening the system with ever growing strata of overhead charges (interest payments) in his favor. Alternatively, consider the deflationary case – that in which the banker *de facto shrinks* the money supply: before the loan, $100 fetch, say, 100 units of a representative bundle of goods. After the loan – which by assumption was devoted to the expansion of production – that same amount buys 200 units (that is to say, the price level decreases by 100% by virtue of technical advance); this implies that the "new" dollar, to be put into circulation in the second cycle with a view of purchasing the doubled amount of produce, will be worth twice as much as the "old" one. In the metal exchanges of times past, the passage from the old to the new parity signified that the unit of account (the dollar) would correspond to an increased amount of fine silver (or gold). In a period of decreasing prices, and outstanding debt contracted in the old dollar, the newly minted issues are hoarded, as the system progressively freezes into palsy and unemployment soars. A paroxysm of this type of crunch was recorded at the time of the great Castilian deflation of 1680, when the grooms of the

royal stables, for lack of cash wherewith to procure forage, were forced to butcher the steeds of the King (Vilar, 1974, p. 294).

6. For instance, if many houses were to be built so as to force interest (that is, rent) below basic interest, money will cease to be loaned until, for a series of circumstances (such as a great population increase), a house-rationing level that will warrant the exaction of basic interest is reestablished. Conversely, if the demand for housing far exceeds the available supply, interest upon capital (rent) would gradually rise above basic interest. The opportunity to exploit the return differential would prompt money to forage real estate investments. The financing will continue until the two rates are brought into equality.

7. Whether the "classic" was forthwith read by a multitude of academics and professionals is beside the point: Smith's *Wealth of Nations* and Keynes' *General Theory* were **never** "devoured" by the 'great Public'. Nor were they ever meant to be. The question was whether the commissioned classic could form a rallying point in the corridors of the propaganda network, of which academia is one of the main pillars. These tomes were far too intricate to be digested even by a learned audience. The review was thus confined to those clans of higher learning versed in the technique of expert caviling and dogmatic elucubration. The debates stemming from such distinguished opuses served the purpose of provisioning the pool of rhetoric in times of political shift (conservation vs. revolution). Their chief aim was that of indoctrination; seldom did they affect the thrust of real policy: the 'instant classics' were drafted to provide slogans and facile formulas; never were they intended to 'change the world'. There seems to be agreement amongst scholars on this point: namely, that political expediency drives the elite's *promotional* endorsement of a particular book, and is thus ultimately responsible for making it a 'classic' (see M. Perelman, 2000, p. 176, and R. H Campbell and A. S. Skinner, 1976, pp. 41–42, to read of the concerns expressed by David Hume, a leading exponent of British intelligentsia, as to whether the *Wealth of Nations* could fit the mold of a 'popular' work).

8. In matters of rates of interest, Keynes is willing to afford neo-classical dogma an honorable dismissal: he concedes that one may speak of a *natural* rate of interest (i.e. a rate that equates savings and investments) *only* in connection with a static economy featuring full employment of resources. This special natural rate is to be called the *neutral* rate. It is and shall remain a supreme and useless abstraction. Keynes thus allows the neutral rate to figure as the boundary case of his re-formulated theory of interest. But he will not make any use whatsoever of this newly coined tool in the treatise. It lingers there as evidence of lip service to all those erroneous precepts he had abided by in the past, and as a decorous farewell to the "old school" (Keynes, 1973, p. 243).

9. The marginal efficiency of capital, m, is obtained by solving to the following customary formula:

$$\text{Replacement Cost} = \frac{Q_1}{(1+m)} + \frac{Q_2}{(1+m)^2} + \ldots + \frac{Q_n}{(1+m)^n}.$$

10. Joan Robinson wrote in an introduction to a collection of essays by Kalecki: "The *General Theory of Employment and Money* was published in January 1936. Meanwhile, without contact either way, Michał Kalecki had found the same solutions" (J. Robinson, 1966, p. ix). Kalecki explores the juxtaposition of basic interest to the rate upon capital in the following terms: "To be sure, banks can increase the demand for credit by lowering the rate of interest. Its reduction encourages investments, since it

increases the profitability of future enterprises by a reduction in charges for interest payments. The rise in investment activity is financed from bank credits, and by lowering the rate of interest banks can thereby grant more credits than before. Indeed, this is the typical method of intervention of the banking system aimed at improving business conditions. However, to a large extent this influence is illusory. The rate of interest is not a decisive factor in undertaking investments. More important is the expected gross profitability of the enterprise, estimated on the basis of profitability of existing enterprises. During crisis, when this profitability falls considerably below its average level, with very slack employment of existing plants, a reduction in the rate of interest has only a weak influence on the desire to invest, and in any case, takes a long time to produce perceptible effects" (M. Kalecki 1990, p. 151). As in Gesell, the crisis is here accounted for in terms of a misalignment of two rates: the rate upon capital (Kalecki names it 'gross profitability') and basic interest (the ordinary rate of interest). Kalecki doesn't acknowledge the imperishable nature of money in this instance, and thus lays emphasis on the rate upon capital as the determining rate of the dynamics, whereas Gesell insists much on the 'threshold' of basic interest. Otherwise, the mechanism illustrated is analogous.

11. Keynes' illustration: "Every fall in [the rate of interest] reduces the current earnings from illiquidity, which are available as a sort of insurance premium to offset the risk of loss on capital account, by an amount equal to the difference between the *squares* of the old rate of interest and the new. For example, if the rate of interest on a long-term debt is 4%, it is preferable to sacrifice liquidity unless on a balance of probabilities it is feared that the long-term of interest may rise faster than by 4% of itself per annum, i.e. by an amount greater than 0.16% per annum. If, however, the rate of interest is already as low as 2%, the running yield will only offset a rise in it of as little as 0.04% per annum. This, indeed, is perhaps the chief obstacle to a fall in the rate of interest to a very low level. Unless reasons are believed to exist why future experience will be very different from past experience, a long-term rate of interest of (say) 2% leaves more to fear than to hope, and offers, at the same time, a running yield which is only sufficient to offset a very small measure of fear" (Keynes, 1973, p. 202).

By "running yield" Keynes implies the (fixed) income of the security; he then derives his equilibrium rate as that *higher* (risen) rate for which the loss in capital value of the bond attending a rise in the interest rate is exactly compensated by the security's income (interest revenue), namely, the running yield. Thus, any rate higher than this "equilibrium" rate will entail a capital loss *greater* than the running yield. Formally, if A is the price of the bond, r is the interest rate and Q is the running yield, one can write the following relationship for a fixed-income security: $Ar = Q$. If r increases to become r', the previous identity becomes $A'r' = Q$, where $A' < A$, and $r < r'$. To find the equilibrium rate, one has to solve the following equation: $(A - A') = Q$, which yields the following expression for r':

$$r' = \frac{r}{1-r} \cong r + r^2 + O(r^3).$$

Dillard provides a simplified example of the Keyensian argument: "When the rate [of a fixed-income security] is 5%, a bond paying $50 per year is purchased at $1000. Three years later the rate of interest on this type of security rises to 6% as a result of which the price of bond falls to $833 (at 6% will purchase an income of $50 a year). The

capital loss is $167, but during the three-year period, interest income amounting to $150 has been collected. Hence the net loss is negligible. In contrast, when the rate of interest is 2%, a bond paying $20 can be purchased for $1000. Three years later the rate of interest rises to 3%, as a result of which the price of the bond falls to $667 (at 3% $667 will purchase an income of $20 a year). The capital loss of $333 is offset only to the extent of $60 in interest income received in the three-year period. Thus the loss arising in the interest rate from 2 to 3% is much greater than from 5 to 6%, first, because the loss in capital value is greater, and, second, because the interest income is less at the lower level" (Dillard, 1958, pp. 179–180).

12. With the auxiliary prompting of the so-called "precautionary" motive, which is an extension of the transactions' requisite: that is, cash laid in for security purposes in the face of uncertainty (Keynes, 1973, p. 170).

13. Another rubric under which the ideas of the Banking School are classed.

14. Here is a collection of excerpts of Gesell's blueprint for an international currency union anchored to Free-money: "The great importance of external trade makes it desirable that there should be an international agreement to stabilize the international exchanges . . . International paper-money issued in one denomination under the supervision of the countries concerned, and for this purpose only, would circulate freely . . . and regulate import and export, thus keeping the exchange in equilibrium . . . Gold will lose the "right of free coinage", and the coins will be deprived of their quality as legal tender [. . .] For payments abroad use can be made as heretofore of bills of exchange offered for sale by merchants who have shipped goods abroad . . . Countries desiring to join the International Valuta Association [our proposal for an international union] adopt the "Iva" unit of currency standard . . . The monetary systems of the Iva countries remain national but are based on unified principles . . . A special form of international paper-currency is issued which is imported and exported without hindrance by all the countries of the Association and is recognized by them as legal tender at par with the national currency . . ..This international paper-money is issued at a center – the Iva Office in Bern – to the countries of the Association and under their supervision. The Iva notes are issued free of cost . . . For the amount of the Iva notes issued to each country the Iva Office receives a bill of exchange . . . To dissolve the Association, these bills of exchange could be paid to the Iva Office which could then destroy the Iva notes so recalled" (Gesell, 1920, pp. 137–138, 211–212).

15. For a comprehensive survey of Gesell's ideas, see G. G. Preparata and John Elliott (2002).

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