

The Keynesian “Revolution”

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Keynes was “elected” in the Thirties to provide the Financial Ascendancy with a “response,” or seeming response to [C.H.] Douglas’s A+ B Theorem. By the ‘Seventies with Great Britain on the edge of the financial abyss he was totally discredited, being replaced by the equally fallacious Freedman and the “Monetarists” who entered discredit in the late ‘Eighties.

What however was the “Keynesian Revolution?” Perhaps we can find the answer by taking a brief glance at Keynes’s celebrated book *The General Theory of Employment, Interest and Money* and the “short argument” on page 63:

Equation 1: $\text{Income} = \text{value of output} = \text{consumption} + \text{investment}$

Equation 2: $\text{Saving} = \text{income} - \text{consumption}$

Equation 3 (therefore): $\text{Saving} = \text{investment}$.

By “income” Keynes means “national income” and by equating it to the “value of output” he shows that it is regarded as equivalent to the total price recoverable in respect of all goods and services produced by industry in a given period. “Output” must, I think, be taken to be capacity output.

Equation 2 can be written: $\text{Income} = \text{Consumption} + \text{Saving}$, and since income is equivalent to the total price of output, the other side may be taken to be an analysis of the costs which go to make up this price. It follows that “Consumption” comprises costs which represent payments to consumers, i.e., wages, salaries and dividends; these are usually classified as “A” payments by Social Crediters. “Saving” is defined by

Keynes as “income not consumed” or, roughly speaking, as income paid out to “factors of production;” in other words, it comprises costs representing payments to other organizations for raw materials, machinery, plant, power, etc. These payments are, of course, classified as “B” payments in Social Credit theory.

Turning now to equation 1, it seems that “consumption” must mean the proportion of the total price of output which is money paid out of “money collected from consumers,” i.e., the total price of retail goods. Now “consumption” in equation 1 can be taken to be equal to “consumption” in equation 2: or, to put it another way, no more than a fraction of total costs takes the form of retail goods--the proportion of total costs, A + B, recovered through retail prices being limited to A. The remainder of the total price of output must therefore be paid out of money borrowed or otherwise raised by industry (“investment”) and represents the total price of capital goods sold for industrial re-equipment, export and, last but not least, rearmament. Equation 3 thus boils down to the Keynesian version of Douglas’s well-known statement that **“A proportion of the product at least equivalent to B must be distributed by a form of purchasing power not comprised in the descriptions grouped under A.”**

Keynesians maintain that when saving and investment are in equilibrium, i.e., kept approximately equal, there will be full employment and a stable price level. The preservation of equilibrium thus depends upon there being a steady market for capital goods. It is true that a more or less precarious balance was maintained

until the early 'Sixties, but it could not be maintained indefinitely once the post-war reconstruction period was over. There was the further "complication" of automation which reduced employment. Western Nations intensified their competition to export plant and machinery to the underdeveloped nations, first the machinery to make the goods they previously imported from the West, and then the machinery to make the machines. To this in the later 'Sixties was added competition in exports from the Soviet Bloc. Eventually every country must have a sufficiently developed industry to seek its own "Equilibrium." And this is exactly what is happening.

The truth is that the so-called Keynesian Revolution was not a revolution at all, but merely the same old mixture with the accent on expansion instead of on contraction. Naturally it was followed by the equally fallacious "Monetarism" espoused by Keith Joseph during the 'Seventies which placed the accent on contraction--as our ruined industry and commerce testifies. Real equilibrium will never be our lot until we are ready to learn from a greater man than Keynes, one whom Keynes publicly acknowledged as greater, that "investment" is not the only way of offsetting "saving." Why should not a greater fraction (or even the whole) of total output take the form of retail goods? It is obvious that, unless a radical change were made in the costing system, equation 2 must remain unaltered and, consequently, there can be no alteration of "consumption" in equation 1. **There is no reason however why equation 2 should not be balanced with equation 1 by using a part, or the whole, of the sum which would otherwise be allocated to "investment," for financing consumption.** Any money issued in this way could not, of course, be recovered from the recipients whose sole source of income would be "consumption," i.e., "A" payments; in other words, it would not be a loan but a free gift, or what Social Crediters call the "**National Dividend.**"

The Keynesian Equations would then be as follows:

1. Income = value of output (A+B) = consumption (A) + investment + National Dividend.

2. Saving (B) = income (A+ B) minus consumption (A)

3. Therefore: Saving (B) = investment + National Dividend.

It would be necessary to ensure that the "value of output" (so far as it represented the total price of retail goods) was kept down by using a part of the "National Dividend" to reduce retail prices, by means of the second Douglas proposal, the "**National Discount**" or "**Compensated Price.**"

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