KEYNES, KEYNESIANS, AND MR. JACOBSSON:
A NOTE

The collected articles and addresses by Mr. Per Jacobsson make an impressive volume. He has been at the centre of things for some forty years, watching developments with his keen, sensitive mind. Very notable is his power of perceiving the broad trend or the significant departure amid the mass of detailed happenings. He does not forget the past; thus he is able to bring to bear upon his appraisal of passing events the lessons of history—of history, not as it has been narrated, so often wrongly, in the history books, but as it was currently interpreted by his superior intelligence. We are lucky to have such a man as Managing Director of the International Monetary Fund.

Trained in the great Swedish school, he is well versed in fundamental theory. A combination of this expertise with so wide a knowledge of the practical functioning of central banking must be rare indeed, if not unique. He is not a dogmatic theorist, but rather, one would say, eclectic, and always alive to new thought. Throughout the long period he has maintained his advocacy of a flexible monetary policy full in his belief in the potency of the rate of interest. This is allied to a wider faith in the market mechanism and a scepticism about the value of controls.

By his experience essentially a European, and keenly alive to the problems of Europe, he by no means favours a European closed shop, but advocates open trading relations with the dollar world and the convertibility of currencies. The Americans have tended since the war to regard themselves as the foremost apostles of commercial multilateralism and monetary orthodoxy; Mr. Jacobsson's address to the National Industrial Conference Board (1955), in which he pointed out that continental Europe had a lead over the United States in reverting to flexible monetary policies, including monetary discipline, and economic liberalism in recent years, must have created quite a stir.

Since it is impossible to enter into the details of Mr. Jacobsson's comments over so vast a domain (world monetary happenings from 1925 to 1957), it may be well to concentrate on one point of criticism. The attitude of a monetary theorist to Keynes remains to-day a point of interest. He has some just remarks about Keynes in relation to the post-war situation. For instance on page 218 he writes: "He attached great importance to the effect of changes in credit conditions and in the rate of interest in particular; only he believed current savings before 1939 to be more than adequate, necessitating the maintenance of very low rates, especially if full employment was to be restored. After the wartime destruction of capital assets and the marked decline in the post-war flow of savings, even with full employment, Keynes, had he lived, would logically have been in favour of a higher interest level." That is correct. There is also an appreciative article ("Keynes: Costs and Controls") on Keynes' attitude to the problem of wage costs.

3. Prof. E. A. G. Robinson, however, should be reckoned as matching me in this regard.
5. In Are These Hardships Necessary? and numerous other writings.

But it has evidently become a catch phrase with Mr. Jacobsson, since it occurs in two separate papers (p. 275 and 313), to say that "if Keynes were alive to-day he would not be a Keynesian". What does "Keynesian" mean? Perhaps the reviewer of a book containing personal retrospects may be allowed to match them with his own. Mr. Jacobsson seems to regard a Keynesian as an all-weather advocate of cheap money, regardless of the danger that over-investment may cause inflation. I knew the mind of Keynes intimately over a longer period than any other economist, except for two (H. D. Henderson and D. H. Robertson) who could not agree with him in later developments; and I wrote a summary of his General Theory, which had his imprint; I therefore claim the right to be regarded as a Keynesian and should gladly be so regarded.

In post-war Britain it seemed to me that inflationary pressure would be so great that it would be wise to keep a direct control over investment—though in other respects allowing the market mechanism to revive; if direct controls were adequately curbing investment, a high interest rate would be an unnecessary expense, precisely as in wartime. When the British government failed to use its direct controls to prevent investment reaching an inflationary level, I inveighed heavily against it. Later, after the passage of five years, when the worst of the post-war pressures were over on the one hand, and yet there continued to be a moderate pressure and was still no prospect of demand being insufficient to maintain full employment on the other, I judged it timely to bring a flexible monetary policy to bear on the situation. In all this I believe that I was a "Keynesian".

It may be felt that this is mere verbal quarrelling. What is "Keynes" except six marks on a bit of paper? There was once a great man who bore that name; he had a very full life and much influence in his day; but he died quite a long time ago now. If Mr. Jacobsson and others choose to apply the word "Keynesian" to all-weather inflationists—well, we are not antiquarians, it may be said; we must leave such nice disputes to the professors of the history of economic doctrines.

There is a more grave objection to such a policy of indifference. For if we allow the use of "Keynesian" in Mr. Jacobson's sense, what word are we to use for quite a different sort of people, namely those who adhere to the system of thought of which Keynes was the author? It may be most needful to refer to them occasionally. And here I must regretfully add that, from the evidence of references to Keynes in his interesting lecture on Wicksell (ch. 13), I do not judge that Mr. Jacobsson has thoroughly understood Keynes' system.

On the subject of Wicksell I should like to revert to a personal note. I believe that Mr. Jacobsson does less than justice to non-Swedes, when he writes that at his death (1926), "Wicksell was still unknown internationally" (p. 227). When in 1922 I had to equip myself to give lectures in the University of Oxford on Currency and Credit, I was advised to read Wicksell—unhappily I forget by whom; it may have been by Moritz Bonn. I acquired the German text of Volume 1, and struggled with it. And invariably, when giving a reading list in the opening
of my lectures in Oxford all through the 'twenties, I recommended Wickell for those conversant with German. I believe that he was the only author not available in English, who was included in my standard list of books.

There is no doubt that Wickell was a seminal writer of the very first importance; he has his secure place. Although he anticipated Keynes in one central idea, and that all important, it must be confessed that there remained much confusion in his thinking. It may be the master's fault, and not Mr. Jacobsson's, that there is an apparent contradiction in this lecture on Wickell between the identification of "real" capital with "machinery, stock-in-trade and so on" on pages 230/31, and the identification of "new real capital" with "increased savings" on page 233.

The point about Keynes is that he produced a total system, with the full interdependence of its parts clearly set forth. Wickell never did. There is much to modify in Keynes; he is static, not dynamic; there are verbal ambiguities. I am confident that it will be quite clear to one who knows Keynes' system that Mr. Jacobsson has never found time, amid his distracting duties, to master it.

This brings me on to a more practical point. Mr. Jacobsson has been greatly concerned with, and had heavy responsibilities in relation to, the long period of inflationary pressure since the war. He has been rightly criticized for the "Keynesians", as he wrongly calls them, who failed to appreciate the dangers of over-investment, who underestimated the importance of currency stability and who wished to plug on with a policy of cheap money through these difficult times. But may it be that now we have reached a different phase? May it be that 1938 corresponds in some respects to 1928 after the First World War, and that we may now have to face a prolonged period of insufficient demand? In these circumstances it may be important to understand, to the very bottom, the thought of Keynes, who fixed the sharp beam of his intellect upon the recession of the 'thirties.

For the last time I would make a personal observation. When in July 1952 I became temporarily attached to the research staff of the International Monetary Fund, Mr. Jacobsson came to my home in Christ Church, Oxford, by an odd inversion of roles, to give an address to the international conference of bankers there assembled. I conceived it to be my first duty at the International Monetary Fund to convince Mr. E. Bernstein that a minor recession was proceeding in Europe. Mr. Jacobsson said nothing about this recession at Christ Church. It is fair to add that in the same month he did refer to it in an article in the Quarterly Review of Skandinaviska Banken. No doubt his Swedish audience was the more sophisticated of the two.

In the Swedish article he appealed not to take the recession too tragically. He was proved quite right; for it was followed by an investment boom in Europe of unprecedented magnitude. But I venture to suggest that he will not be proved right, if, his mind still full of the inflationary pressures of the last twenty years, he does not take the existing world recession very seriously.

In a recent address6 he assured anxiety about the current shortage of international liquidity by pointing out that if we take 1928, rather than 1938, as our

6. To the New York Section of the American Finance Association, 14 November 1938.