

5230

5230

5230

SERVANTS OF INDIA SOCIETY'S LIBRARY,
POONA 4.

FOR INTERNAL CIRCULATION

To be returned on or before the last date stamped below

13 MAR 1964

26 AUG 1968

4 NOV 1968

26 MAR 1990

Dhananjayrao Gadgil Library



GIPE-PUNE-005230

BY THE SAME AUTHOR

INDIAN CURRENCY AND FINANCE.

Pp. viii + 263. 1913.

7s. 6d. net.

**THE ECONOMIC CONSEQUENCES
OF THE PEACE.**

Pp. vii + 279. 1919.

8s. 6d. net.

A TREATISE ON PROBABILITY.

Pp. xi + 466. 1921.

18s. net.

A REVISION OF THE TREATY.

Pp. viii + 223. 1922.

7s. 6d. net.

**A TRACT
ON MONETARY REFORM**



MACMILLAN AND CO., LIMITED
LONDON • BOMBAY • CALCUTTA • MADRAS
MELBOURNE

THE MACMILLAN COMPANY
NEW YORK • BOSTON • CHICAGO
DALLAS • SAN FRANCISCO

THE MACMILLAN CO. OF CANADA, LTD.
TORONTO

A TRACT
ON
MONETARY REFORM.

BY
JOHN MAYNARD KEYNES
FELLOW OF KING'S COLLEGE, CAMBRIDGE

MACMILLAN AND CO., LIMITED
ST. MARTIN'S STREET, LONDON

1924

X61

F4

COPYRIGHT

First Edition 1923

Reprinted 1924

5230

PRINTED IN GREAT BRITAIN

CONTENTS

PREFACE	PAGE v
-------------------	-----------

CHAPTER I

THE CONSEQUENCES TO SOCIETY OF CHANGES IN THE VALUE OF MONEY	1
I. As Affecting Distribution	5
1. The Investor	5
2. The Business Man	18
3. The Earner	27
• II. As Affecting Production	32

CHAPTER II

PUBLIC FINANCE AND CHANGES IN THE VALUE OF MONEY	41
1. Inflation as a Method of Taxation	41
2. Currency Depreciation <i>versus</i> Capital Levy	63

CHAPTER III

THE THEORY OF MONEY AND THE EXCHANGES	74
1. The Quantity Theory re-stated	74
2. The Theory of Purchasing Power Parity	87
3. The Seasonal Fluctuation of the Exchanges	106
4. The Forward Market in Exchanges	115

CHAPTER IV

	PAGE
ALTERNATIVE AIMS IN MONETARY POLICY	140
1. Devaluation <i>versus</i> Deflation	142
2. Stability of Prices <i>versus</i> Stability of Exchange	154
3. The Restoration of a Gold Standard	163

CHAPTER V

POSITIVE SUGGESTIONS FOR THE FUTURE REGULATION OF MONEY	177
1. Great Britain	178
2. The United States	197
3. Other Countries	204
INDEX	207

[I have utilised, mainly in the first chapter and in parts of the second and third, the material, much revised and re-written, of some articles which were published during 1922 in the Reconstruction Supplements of the *Manchester Guardian Commercial*.—
J. M. K.]

PREFACE

WE leave Saving to the private investor, and we encourage him to place his savings mainly in titles to money. We leave the responsibility for setting Production in motion to the business man, who is mainly influenced by the profits which he expects to accrue to himself in terms of money. Those who are not in favour of drastic changes in the existing organisation of society believe that these arrangements, being in accord with human nature, have great advantages. But they cannot work properly if the money, which they assume as a stable measuring-rod, is undependable. Unemployment, the precarious life of the worker, the disappointment of expectation, the sudden loss of savings, the excessive windfalls to individuals, the speculator, the profiteer—all proceed, in large measure, from the instability of the standard of value.

It is often supposed that the costs of production are threefold, corresponding to the rewards of labour, enterprise, and accumulation. But there is a fourth cost, namely risk; and the reward of risk-bearing is

one of the heaviest, and perhaps the most avoidable, burden on production. This element of risk is greatly aggravated by the instability of the standard of value. Currency Reforms, which led to the adoption by this country and the world at large of sound monetary principles, would diminish the wastes of *Risk*, which consume at present too much of our estate.

Nowhere do conservative notions consider themselves more in place than in currency; yet nowhere is the need of innovation more urgent. One is often warned that a scientific treatment of currency questions is impossible because the banking world is intellectually incapable of understanding its own problems. If this is true, the order of Society, which they stand for, will decay. But I do not believe it. What we have lacked is a clear analysis of the real facts, rather than ability to understand an analysis already given. If the new ideas, now developing in many quarters, are sound and right, I do not doubt that sooner or later they will prevail. I dedicate this book, humbly and without permission, to the Governors and Court of the Bank of England, who now and for the future have a much more difficult and anxious task entrusted to them than in former days.

J. M. KEYNES.

INDEX

- American debt, 191
Aurelian, 152
Austria, elasticity of demand for
 money, 48
 value of note issue, 52
 currency of, 55
- Bank of England, and forward
 exchange, 135
 and gold, 171, 184, 190, 192
 and existing system, 178
Bank rate, and prices, 21
 and forward exchange, 136
 pre-war effect of, 159
"Big Five," 178
British Empire, currency of, 205
Business class, 18, 29
- Cannan, Professor, 47
Capital, diminution of, 29
Capital levy, *versus* currency de-
 preciation, 63, 65
 in Great Britain, 68
Cassel, Professor, 87, 92
Chervonetz, 51, 57
Consols, 12, 15
Credit-cycle, 83, 86, 187, 188
Cunliffe Committee, 140, 184, 194,
 195
Cuno, Dr., 60
Currency depreciation, in history, 9,
 11
 advantage to debtor class, 10
 incidence of, 42
 versus capital levy, 63
 social evils of, 65
Czecho-Slovakia, 143, 146
- Debtor class, political influence
 of, 9
Deflation, 143
 and distribution of wealth, 4
 and production of wealth, 4, 32
 meaning of, 82
 arguments for, 147
 and Aurelian, 152
Devaluation, 64, 67
 and deflation, 141, 142
 and currency reform, 145
Dollar, forward exchange-in, 118,
 123, 125
- Edward III., 163
Equation of exchange, 93, 97, 99
Estcourt, Dr., 107
Exchange speculation, effect of, 112
 and forward market, 130, 138
 services of, 136
External purchasing power, 88
- Federal Reserve Board, and gold,
 86, 167, 175, 197
 index number, 94
 co-operation with, 186
Fisher, Prof. Irving, 78, 148, 155,
 163, 187
Foreign exchange, and purchasing
 power parity, 87
 forward market in, 115
 stability of, 141, 154, 189
Forward market in exchanges, 115
 as an insurance, 121
 and interest rates, 124
 and State banks, 133
 and bank rate, 136

- Franc, exchange, 73
 purchasing power parity, 101, 104
 seasonal movement, 111
 forward exchange in, 116, 118,
 120, 125
 devaluation of, 143, 145
- France, losses of investors, 13, 65
 burden of internal debts, 70
- Genoa Conference, 134, 142, 143, 173
- Germany, interest rates in, 22
 and currency inflation, 41
 elasticity of demand for money
 in, 48
 value of note issue, 51
 currency of, 54
 sums raised by inflation, 58
 recent financial history, 61
 equation of exchange, 99
- Gibbon, 152
- Gold and State banks, 81
 price of, 190
 cost of burying, 199
- Gold discoveries, 164
- Gold mining, 165
- Gold standard, 9, 12
 restoration of, 149, 163
- Great Britain, capital levy in, 68
 currency statistics of, 83
 seasonal trade, 108
 ideal currency, 177, 203
 banking system of, 178, 185
 note issue, 193
- Harvard, economists of, 199
- Hawtrey, R. G., 163, 173, 174, 176,
 187, 203
- Hoover, Mr., 200
- Huskinson, 153
- Index numbers, for regulating
 money, 187
- India, 141
 prices in, 156
- Individualism, and monetary
 stability, 40
- Inflation, and distribution of wealth,
 4, 5
 and production of wealth, 4, 32
 and redistribution of wealth, 30
 as a method of taxation, 41
- Inflation (*contd.*)—
 importance of rate of, 49
 sums raised by in Russia, 57
 sums raised by in Germany, 58
 meaning of, 82
- Interest, "money" and "real"
 rates of, 20
- Interest rates and forward exchange,
 129
- Internal purchasing power, 88
- Investment system, 5
- Investors, losses of, 13, 16
- Italy, losses of investors, 14, 65
 Bank of, and forward exchange,
 134
- Labour, effect of rising prices on, 27
- Lasteyri, M. de, 71
- Lehfeldt, Professor, 48
- Lira, purchasing power parity, 101
 seasonal movement, 111
 forward exchange in, 116, 119, 129
 devaluation of, 143, 145
- "Managed" currency, 166
- Marks, speculation in, 113
 forward exchange in, 119
- Marshall, Dr., 78, 79
- Middle Ages, and currency debase-
 ment, 162
- Middle class, losses of, 30
- Money, elasticity of demand for, 47
 stability of, 40
 future regulation of, 177
- Moscow, and use of money, 46
- Mussolini, 145, 153
- Note issue, existing system in G.B.,
 183
 suggested system, 193
- Pigou, Professor, 74, 78
- Poland, elasticity of demand for
 money, 48
- Population, 31
- Prices, index numbers for various
 countries, 1913-1923, 3
 fluctuations in nineteenth century,
 2
 steadiness in nineteenth century,
 11

- Prices (*contd.*)—
 raw materials, 1919-1922, 19
 effect of expectation of rise or fall,
 22, 33, 37
 effect of falling, 24
 stability of, 154
 Profiteers, 25, 26, 28
 Purchasing power parity, 87
- Quantity theory, 42, 74
- Rasin, Dr., 146, 147
 Real balances, 78, 83
 Reichsbank discount rate, 23, 60
 Ricardo, 87, 152, 153, 154
 Risk, and production, 35
 Rupee exchange, 157
 Russia, and currency inflation, 41,
 63
 value of note issue, 52
 currency of, 55
- Saving, 7
 Seasonal movement of exchanges,
 106, 108, 111, 177, 191
 Sterling, purchasing power parity,
 100, 102
 seasonal movement, 111
 forward exchange in, 116, 117, 125
- Taxation, by means of inflation, 41
 Treasury Bills, relation of, to cur-
 rency, 179, 196
 Trustee investments, 8
- United States, proposals for, 197
 closing mints of, 200
 and redundant gold, 201
- Vienna, and use of money, 46
- Wages, and prices, 27, 29
 "Ways and Means" advances, 180

THE END

BY THE SAME AUTHOR

8vo. 8s. 6d. net.

THE ECONOMIC CONSEQUENCES OF THE PEACE

THE TIMES.—"Mr. Keynes writes with knowledge; he was himself one of the chief actors in the Conference, and his book is an important political event. . . . He brings great literary ability, a broad view, a clear grasp of general principles, to bear upon the very complicated matters with which he is occupied, and in his hands these questions of coal, exchange, and repatriation can be read with pleasure by the non-technical student."

THE WESTMINSTER GAZETTE.—"Mr. Keynes has produced a smashing and unanswerable indictment of the economic settlement."

THE ATHENÆUM.—"This book is a perfectly well-equipped arsenal of facts and arguments, to which every one will resort for years to come who wishes to strike a blow against the forces of prejudice, delusion, and stupidity. It is not easy to make large numbers of men reasonable by a book, yet there are no limits to which, without undue extravagance, we may not hope that the influence of this book may extend. . . . Never was the case for reasonableness more powerfully put. It is enforced with extraordinary art. What might easily have been a difficult treatise, semi-official or academic, proves to be as fascinating as a good novel."

8vo. 7s. 6d. net.

A REVISION OF THE TREATY

Being a Sequel to

"The Economic Consequences of the Peace."

THE SPECTATOR.—"The sequel, like the earlier book, is a brilliant performance regarded as economic argument and compact analysis, and it also has the advantage of dealing in sardonic and sometimes pitiless humour."

THE NATION.—"We found Mr. Keynes's second book to be of the same delightful texture as his first; showing a playfully impressive irony, alternating with warning seriousness, and the extraordinary power of economic analysis which has made him the greatest intellectual force in the work of European restoration."

THE TIMES.—"Mr. Keynes has the gift of interesting his readers in problems that are at once vital and obscure."

THE NEW STATESMAN.—"It is, like its predecessor, a pleasure to read, lucid and concise in its economic arguments, dashing in its political attitudes and its judgment of persons."

LONDON: MACMILLAN AND CO., LTD.

BY THE SAME AUTHOR

8vo. 18s. net.

A TREATISE ON PROBABILITY

THE TIMES.—"Mr. Keynes's book will certainly add to his reputation, and is, indeed, in our opinion, the best book he has yet written."

THE NEW STATESMAN.—"The book will be at once ranked among the most important contributions to the subject."

Prof. PIGOU in the ECONOMIC JOURNAL.—"The problems which Mr. Keynes has touched, he has not only illuminated with a marvellous lucidity of style, but has also substantially advanced."

THE MANCHESTER GUARDIAN.—"Mr. Keynes's book is undoubtedly one of first-rate importance, and it is especially valuable on account of the extension of its subject beyond the bounds of purely mathematical probability."

THE SPECTATOR.—"The book contains a great deal that the general reader will find both interesting and exhilarating."

8vo. 7s. 6d. net.

INDIAN CURRENCY AND FINANCE

THE ECONOMIC JOURNAL.—"The book is, and is likely long to remain, the standard work on its subject. . . . While academic students will be grateful for this acute and informing work, it will be read with as much interest, and perhaps even greater appreciation, by men of business and affairs."

THE SPECTATOR.—"Mr. Keynes's careful and disinterested study of the monetary facts of twenty years, and his methodical marshalling of facts and figures, will be useful even to those—and they will probably be few—who are not convinced by his reasoning."

THE CLARE MARKET REVIEW.—"By his really masterly treatment of the Indian currency system, the author has made a very valuable addition to our economic literature."

LONDON: MACMILLAN AND CO., LTD.

CHECKED
2003-04

X61/F4

5230

Keynes, J. M.
Monetary Reform.

Name of borrower	Lent on	Received on
------------------	---------	-------------

M. B. 2073	1955 20/3	1955 20/6
	4-1-58	7 JAN 1958

SERVANTS OF INDIA SOCIETY'S LIBRARY
POONA 4.

1. Books drawn from the library may not be retained for longer than a fortnight.
2. Borrowers will be held strictly responsible for any damage done to books while they are in their possession.