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A TREATISE ON MONEY

VOLUME I

THE PURE THEORY OF MONEY



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A TREATISE ON MONEY

BY

JOHN MAYNARD KEYNES

FELLOW OF KING'S COLLEGE, CAMBRIDGE

IN TWO VOLUMES

VOLUME I

THE PURE THEORY OF MONEY

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PREFACE

(IN Books III. and IV. of this Treatise I propose a novel means of approach to the fundamental problems of monetary theory. My object has been to find a method which is useful in describing, not merely the characteristics of static equilibrium, but also those of disequilibrium, and to discover the dynamical laws governing the passage of a monetary system from one position of equilibrium to another.) This discussion constitutes the kernel of Volume I. on "The Pure Theory of Money". In Volume II., on "The Applied Theory of Money", I have endeavoured to combine the quantitative method with the qualitative, and have made as good an estimate as I can of the order of magnitude of the quantities entering into the argument, on the basis, mainly, of present-day facts in Great Britain and the United States. In this volume I have also described the salient features of modern banking and monetary systems, and have discussed the objects and methods of Monetary Management in the practical sphere.

As I read through the page proofs of this book I am acutely conscious of its defects. It has occupied me for several years, not free from other occupations, during which my ideas have been developing and changing, with the result that its parts are not all entirely har-

monious with one another. The ideas with which I have finished up are widely different from those with which I began. The result is, I am afraid, that there is a good deal in this book which represents the process of getting rid of the ideas which I used to have and of finding my way to those which I now have. There are many skins which I have sloughed still littering these pages. It follows that I could do it better and much shorter if I were to start over again. I feel like someone who has been forcing his way through a confused jungle. Now that I have emerged from it, I see that I might have taken a more direct route and that many problems and perplexities which beset me during the journey had not precisely the significance which I supposed at the time. Nevertheless, I expect that I shall do well to offer my book to the world for what it is worth at the stage it has now reached, even if it represents a collection of material rather than a finished work.

In the second place, I have attempted, perhaps foolishly, to combine a systematic Treatise, both Pure and Applied, with a number of discussions which might have been the subject of separate monographs. The most important of these quasi-digressions are Book II. on Index Numbers and Book VI. on Fluctuations in the Rate of Investment. Book II., in particular, holds back for many pages the main progression of the argument towards the fundamental theory which occupies Books III. and IV.; perhaps some readers may prefer to omit these chapters or to return to them later on.

Another disadvantage from which I have suffered has been the absence of any models to guide me to the right order and arrangement of the various topics.

The best way to expound a subject of this kind can only be discovered gradually as the result of the experience of successive authors. But although my field of study is one which is being lectured upon in every University in the world, there exists, extraordinarily enough, no printed Treatise in any language—so far as I am aware—which deals systematically and thoroughly with the theory and facts of Representative Money as it exists in the modern world. I hope to use the experience, which I have now gained, to prepare something on a smaller scale which will try to find the best way to explain the subject.

I believe that a right understanding of the topics of this book is of enormous practical importance to the well-being of the world. If I am able to make a contribution to it, I owe this to the atmosphere of discussion and conversation in which I have worked at Cambridge. Mr. D. H. Robertson has cast a penetrating light on certain fundamental matters, and this book would never have taken its present shape without the help of his ideas. In the gradual evolution of the book into its final form and in the avoidance of errors my greatest debt is to Mr. R. F. Kahn of King's College, Cambridge, whose care and acuteness have left their trace on many pages, and to whom I am also indebted for the Index. Amongst several others from whom I have had help at different stages I would particularly mention Mr. H. D. Henderson.

When the greater part of what follows was already in print I was appointed to serve on the Treasury Committee on Finance and Industry of which Lord Macmillan is the Chairman. Thus the practical suggestions contained in Volume II. represent my opinions

as they stood before the work of the Committee commenced rather than what they may be when the time comes for the Committee to report.

I must mention my obligation to the printers of this book, Messrs. R. & R. Clark of Edinburgh, for their great patience and accuracy with proof-sheets which they have had to keep in type for a long period subject to continual alterations and additions.

J. M. KEYNES.

KING'S COLLEGE, CAMBRIDGE,
September 14, 1930.

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