

ESSAYS  
IN  
PERSUASION

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

1931

## PREFACE

HERE are collected the croakings of twelve years—the croakings of a Cassandra who could never influence the course of events in time. The volume might have been entitled “Essays in Prophecy and Persuasion,” for the *Prophecy*, unfortunately, has been more successful than the *Persuasion*. But it was in a spirit of persuasion that most of these essays were written, in an attempt to influence opinion. They were regarded at the time, many of them, as extreme and reckless utterances. But I think that the reader, looking through them to-day, will admit that this was because they often ran directly counter to the overwhelming weight of contemporary sentiment and opinion, and not because of their character in themselves. On the contrary, I feel—reading them again, though I am a prejudiced witness—that they contain more understatement than overstatement, as judged by after-events. That this should be their tendency, is a natural consequence of the circumstances in which they were written. For

I wrote many of these essays painfully conscious that a cloud of witnesses would rise up against me and very few in my support, and that I must, therefore, be at great pains to say nothing which I could not substantiate. I was constantly on my guard—as I well remember, looking back—to be as moderate as my convictions and the argument would permit.

All this applies to the first three of the five books into which these essays naturally group themselves, rather than to the last two; that is to say, to the three great controversies of the past decade, into which I plunged myself without reserve,—the Treaty of Peace and the War Debts, the Policy of Deflation, and the Return to the Gold Standard,<sup>1</sup> of which the last two, and indeed in some respects all three, were closely interconnected. In these essays the author was *in a hurry*, desperately anxious to convince his audience in time. But in the last two books time's chariots make a less disturbing noise. The author is looking into

<sup>1</sup> I still stand—substantially—by the *Positive Suggestions for the Future Regulation of Money*, which I wrote in 1923 before our Return to the Gold Standard and which are here reprinted (p. 213) as the third Essay of Book III. Whilst we were on the Gold Standard, these proposals were necessarily in abeyance. But any one who wishes to know the general outline of how the author would settle our currency Problem, as it presents itself to-day, will find it in this essay.

the more distant future, and is ruminating matters which need a slow course of evolution to determine them. He is more free to be leisurely and philosophical. And here emerges more clearly what is in truth his central thesis throughout,—the profound conviction that the Economic Problem, as one may call it for short, the problem of want and poverty and the economic struggle between classes and nations, is nothing but a frightful muddle, a transitory and an *unnecessary* muddle. For the Western World already has the resources and the technique, if we could create the organisation to use them, capable of reducing the Economic Problem, which now absorbs our moral and material energies, to a position of secondary importance.

Thus the author of these essays, for all his croakings, still hopes and believes that the day is not far off when the Economic Problem will take the back seat where it belongs, and that the arena of the heart and head will be occupied, or re-occupied, by our real problems—the problems of life and of human relations, of creation and behaviour and religion. And it happens that there is a subtle reason drawn from economic analysis why, in this case, faith may work. For if we consistently act on the optimistic hypothesis, this hypothesis will tend to be realised; whilst by acting on the pessimistic hypothesis

we can keep ourselves for ever in the pit of want.

The essays have been taken out of the author's printed writings, whether books or pamphlets or newspaper and magazine articles, indiscriminately. The method has been to omit freely (without special indications in the text) anything which appeared to be redundant or unnecessary to the main line of the argument or to have lost interest with the passage of events; but to alter nothing in the text which has been retained. New explanatory footnotes, which have been added in this volume, have been placed between square brackets. The author has endeavoured to secure that the omissions shall not be such as to make the balance of argument to appear in any way different from what it was in the original context. But for the curious inquirer, if there be any, there is provided on the last page of the book a table of references showing the source from which each essay has been taken, and where it can be found in its complete contemporary setting.

I have thought it convenient to choose this date of publication, because we are standing at a point of transition. It is called a National Crisis. But that is not correct—for Great

Britain the main crisis is over. There is a lull in our affairs. We are, in the autumn of 1931, resting ourselves in a quiet pool between two waterfalls. The main point is that we have regained our freedom of choice. Scarcely any one in England now believes in the Treaty of Versailles or in the pre-war Gold Standard or in the Policy of Deflation. These battles have been won—mainly by the irresistible pressure of events and only secondarily by the slow undermining of old prejudices. But most of us have, as yet, only a vague idea of what we are going to do next, of how we are going to use our regained freedom of choice. So I should like to clinch the past, as it were, by reminding the reader of what we have been through, and how it appeared at the time, and the nature of the mistakes we made.

J. M. KEYNES

*November 8, 1931.*



# CONTENTS

## I. THE TREATY OF PEACE

	PAGE
1. PARIS (1919) . . . . .	3
2. THE CAPACITY OF GERMANY TO PAY REPARATIONS (1919) . . . . .	7
3. PROPOSALS FOR THE RECONSTRUCTION OF EUROPE (1919) . . . . .	19
4. THE CHANGE OF OPINION (1921) . . . . .	46
5. WAR DEBTS AND THE UNITED STATES . . . . .	52
(i) <i>Cancellation</i> (1921).	
(ii) <i>The Balfour Note</i> (1925).	
(iii) <i>Cancellation</i> (1928).	

## II. INFLATION AND DEFLATION

1. INFLATION (1919) . . . . .	77
2. SOCIAL CONSEQUENCES OF CHANGES IN THE VALUE OF MONEY (1923) . . . . .	80
3. THE FRENCH FRANC . . . . .	105
(i) <i>An open letter to the French Minister of Finance</i> (1926).	
(ii) <i>The Stabilisation of the Franc</i> (1928).	



	PAGE
4. A PROGRAMME OF EXPANSION (General Election, May 1929) . . . . .	118
5. THE GREAT SLUMP OF 1930 (Dec. 1930) . . . . .	135
6. ECONOMY (1931) . . . . .	148
(i) <i>Saving and Spending</i> (Jan. 1931).	
(ii) <i>The Economy Report</i> (Aug. 15, 1931).	
(iii) <i>The Economy Bill</i> (Sept. 19, 1931).	
7. THE CONSEQUENCES TO THE BANKS OF THE COLLAPSE OF MONEY VALUES (Aug. 1931) . . . . .	168

### III. THE RETURN TO THE GOLD STANDARD

1. AURI SACRA FAMES (1930) . . . . .	181
2. ALTERNATIVE AIMS IN MONETARY POLICY (1923)	186
3. POSITIVE SUGGESTIONS FOR THE FUTURE REGULA- TION OF MONEY (1923) . . . . .	213
4. THE SPEECHES OF THE BANK CHAIRMEN . . . . .	220
(i) February 1924.	
(ii) February 1925.	
(iii) February 1927.	
5. THE ECONOMIC CONSEQUENCES OF MR. CHURCHILL (1925) . . . . .	244
(i) <i>The Misleading of Mr. Churchill.</i>	
(ii) <i>The Balance of Trade and the Bank of England.</i>	
(iii) <i>Is there a Remedy?</i>	

## CONTENTS

	xiii
	PAGE
6. MITIGATION BY TARIFF . . . . .	271
(i) <i>Proposals for a Revenue Tariff</i> (March 7, 1931).	
(ii) <i>On the Eve of Gold Suspension</i> (Sept. 10, 1931).	
(iii) <i>After the Suspension of Gold</i> (Sept. 28, 1931).	
7. THE END OF THE GOLD STANDARD (Sept. 27, 1931)	288

### IV. POLITICS

1. A SHORT VIEW OF RUSSIA (1925) . . . . .	297
(i) <i>What is the Communist Faith?</i>	
(ii) <i>Communism's Power to Survive.</i>	
2. THE END OF LAISSEZ-FAIRE (1926) . . . . .	312
3. AM I A LIBERAL? (1925) . . . . .	323
4. LIBERALISM AND LABOUR (1926) . . . . .	339

### V. THE FUTURE

1. CLISSOLD (1927) . . . . .	349
2. ECONOMIC POSSIBILITIES FOR OUR GRANDCHILDREN (1930) . . . . .	358
REFERENCES . . . . .	375