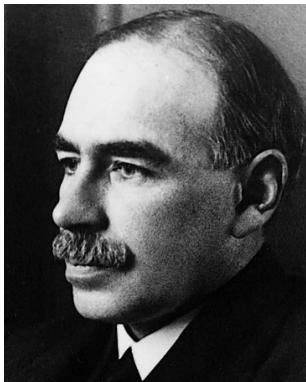


## John Maynard Keynes

*Nationalökonom, Cambridge*

### «Prospects of Sterling and the Gold-Standard»



John Maynard,  
Lord Keynes of Tilton (1942),  
5. Juni 1883 – 21. April 1946,  
britischer Volkswirtschaftler,  
Publizist, Diplomat. Trat 1915 als  
Berater in das britische Schatzamt  
ein und leitete dessen Delegation  
auf der Friedenskonferenz von  
Versailles. 1919 trat er von dieser  
Position zurück, da er die alliierten  
Reparationsforderungen für volks-  
wirtschaftlich nicht vertretbar hielt.  
1920–1946 war Keynes Professor  
am King's College in Cambridge,  
gleichzeitig Publizist (1911–1945  
Herausgeber des «Economic  
Journal» und 1913–1945 Schrift-  
führer der «Royal Economic  
Society»). Als Berater des Schatz-  
amtes während des Zweiten Welt-  
krieges erarbeitete er Pläne für die  
Kriegsfinanzierung.

The immediate problem for which the world needs a solution today is essentially different from the problem of a year ago.

Then it was a question of how we could lift ourselves out of the state of acute slump into which we had fallen and raise the volume of production and of employment back towards a normal figure.

But today the primary problem is how to avoid a far-reaching financial crisis. There is now no possibility of reaching a normal level of production at any reasonably early date. Our efforts are directed towards the attainment of more limited hopes. Can we prevent an almost complete collapse of the financial structure of modern capitalism? With no financial leadership left in the world and profound intellectual error as to causes and cures prevailing in the responsible seats of power, one begins to wonder and to doubt. At any rate, no one is likely to dispute that the avoidance of financial collapse, rather than the stimulation of industrial activity, is now the front-rank problem. The restoration of industry must come second in order of time.

The immediate causes of the financial panic – for that is what it is – are obvious. They are to be found in a catastrophic fall in the money value not only of commodities but of practically every kind of asset, – a fall which has proceeded to a point at which the assets, held against money debts of every kind including bank deposits, no longer have a realisable value in money equal to the amount of the debt. The ‘margins’ as we call them, upon confidence in the maintenance of which the debt and credit structure of the modern world depends, have ‘run off’. The assets of banks in very many countries – perhaps in all countries with the probable exception of Great Britain – are no longer equal, conservatively valued, to their liabilities to their depositors. Debtors of all kinds no longer have assets equal in value to their debts. Few governments still have revenues equal to the fixed money charges for which they have made themselves liable.

Moreover a collapse of this kind feeds on itself. We are now in the phase where the risk of carrying assets with borrowed money is so great that there is a competitive panic to get liquid. And each individual who succeeds in getting more liquid forces down the price of assets in the process of getting

liquid, with the result that the margins of other individuals are impaired and their courage undermined. And so the process continues. It is, perhaps, in the United States that is has proceeded to the most incredible lengths. But that country only offers an example, extreme owing to the psychology of its people, of a state of affairs which exists in some degree almost everywhere.

The competitive struggle for liquidity has now extended beyond individuals and institutions to nations and to governments, each of which tries to make its international balance sheet more liquid by restricting imports and stimulating exports by every possible means, the success of each one in this direction meaning the defeat of someone else. Moreover every country tries to stop capital development within its own borders for fear of the effect on its international balance. Yet it will only be successful in its object in so far as its progress towards negation is greater than that of its neighbours.

Where and how is this ghastly internecine struggle to stop? At the moment we are living on slender hopes of some sort of a seasonal recovery in the New Year which will reverse the trend. If these hopes fail, as they well may, it would not surprise me to see a closing of stock exchanges in almost all countries and an almost universal moratorium in respect of the repayment of existing debts. But what then? Through lack of foresight and constructive imagination the financial and political authorities of the world have lacked the courage or the conviction at each stage of the decline to apply the available remedies in sufficiently drastic doses; and by now they have allowed the collapse to reach a point where the whole system may have lost its resiliency and its capacity for a rebound.

Well, I have painted the prospect in the blackest colours. What is there to be said on the other side? What elements of hope can we discern in the surrounding gloom? And what useful action does it still lie in our power to take?

The outstanding ground for cheerfulness lies, I think, in this – that the system has shown already its capacity to stand an almost inconceivable strain. If anyone had prophesied to us a year or two ago the actual state of affairs which exists today, could we have believed that we could continue to maintain that degree of normality which we actually have?

Could anyone, inside or outside of Germany, have believed beforehand that Germany could have stood such a degree of economic and financial pressure as she is now suffering, without a collapse of her political and social organisation? Could anyone, knowing the present level of commodity prices, have believed that the great majority of the debtor countries producing raw materials would still be meeting their obligations? Could anyone, told the present prices of bonds in the United States, have supposed that the banks and stock

exchanges of that country could still keep their doors open?

This remarkable capacity of the system to take punishment is the best reason for hoping that we still have time to rally the constructive forces of the world.

Moreover, there has been a still recent and, in my judgement, most blessed event (though not all of you may agree with me), of which we have not yet had time to gain the full benefit. I mean Great Britain's abandonment of the gold standard. I believe that this event has been charged with beneficent significance for the whole world. If Great Britain had somehow contrived to maintain her gold parity, the position of the world as a whole today would be considerably more desperate than it is, and default much more general.

For Great Britain's action has had two signal consequences. The first has been to stop the decline of prices, measured in terms of national currencies, over a very considerable proportion of the world. Consider for a moment what an array of countries are now linked to the fortunes of sterling rather than of gold. Australasia, India, Ceylon, Malaya, East and West Africa, Egypt, Ireland and Scandinavia; and, in substance though not so literally, Canada and Japan. Outside Europe there are no countries in the whole world except South Africa and the United States which now conform to a gold standard. France and the United States are now the only countries of major importance where the gold standard is functioning freely.

This means a very great abatement of the deflationary pressure which was existing six month ago. Over wide areas producers are now obtaining prices in terms of their domestic currencies which are not so desperately unsatisfactory in relation to their costs of production and to their debts. These events have been too recent to attract all the attention they deserve. There are a good many countries of which it could be argued that their economic and financial condition may have turned the corner in the last three months. It is true, for example, of Australia. I think it might be true of Argentine and Brazil. There has been an extraordinary improvement in India, where one consequence of the discount of sterling in terms of gold, which no one predicted, has almost solved the financial problem of the Government; – I mean the export of gold, previously hoarded. Already in the last three months, £ 24,000,000 has been exported; and the export is now proceeding, and seems likely to continue, at the rate of some £ 3 million a week. As regards Great Britain herself, the rest of the world has a little overlooked, I think, the change in the last three months which represents, if not an absolute, at least a relative improvement. The number of persons employed today falls very little short of the number employed a year ago, – which is true of no other industrial country. The present actual

rate of expenditure on the unemployed falls well below the Budget provision; and it is probable that there is now an appreciable surplus of budget receipts over expenditure, available for the reduction of debt. I am much more afraid of the sterling exchange rising above what I should consider the optimum point in terms of gold than of its falling too low.

It would not be true to say that there is as yet in any part of the world an adequate relaxation of the deflationary pressure. But the widespread abandonment of the gold standard is preparing the way for the possibility of such a relaxation.

Moreover, I consider it most probable that further currencies will join the sterling group in the course of 1932. In particular, South Africa, Germany and the Central European countries, and quite possibly (in spite of their present determination to the contrary) Holland dragged at the heels of Java which will find economic life under the gold standard increasingly impracticable.

You will notice that I include Germany and her neighbours amongst those countries which I expect to abandon gold in the present year. From the standpoint of the competitive interests of my own country, I do not altogether welcome the prospect. But for Germany it seems to me to be an indubitable necessity. I appreciate the reasons which are at present influencing your authorities away from this decision – the fears, so natural in Germany, of another great inflation, and the weight of fiscal obligations outstanding which are fixed in terms of gold. But I doubt whether the first of these two arguments really applies to the substitution of a sterling standard for a gold standard. At any rate, when the various negotiations now afoot have reached their conclusions, some mitigation of the present strain of deflation and taxation upon the German people will surely be unavoidable. And the reliefs which will be called for must include the abandonment of the burden and the pretence of maintaining the external value of the mark at a fancy figure. I appreciate the reasons of psychology and high politics which lie behind the present insufferable pressure on the economic life of the German people. But the continuance of the existing deflationary pressure, when the necessity for so impressive a demonstration has passed away, would surely be a disastrous mistake.

But there is a second major consequence of the partition of the countries of the world into two groups on and off the gold standard respectively. For the two groups, as they now are or as I predict they soon will be, roughly correspond to those which have been exercising deflationary pressure on the rest of the world by having a *net* creditor position which causes them to draw gold and those which have been suffering this pressure. But the departure of the latter group from gold means the beginning of a process towards the restoration

of economic equilibrium. It means the setting into motion of natural forces which are absolutely certain in course of time to undermine and eventually destroy the creditor position of the two leading creditors gold countries.

The working of this process will be seen most rapidly in the case of France. I should expect that France's creditor position will be undermined before the end of 1932. The cessation of reparation receipts, the loss of tourist traffic, the importation of a large proportion of the world's available gold, the competitive disadvantage of her export trades with non-gold countries, and the loss of income from foreign investments will, between them, do the work.

In the case of the United States the process may be a slower one, largely because the reduction of tourist traffic, which costs France so dear, means for the United States a large saving. But the tendency will be the same. A point will surely come when the current release of gold from India and from the mines will exceed the favourable balance of the gold countries.

The undermining of the competitive position of the export industries of these gold countries will be, in truth, in response to their own request; – or, at any rate a case of poetic justice. The rest of the world owes them money. They will not take payment in goods; they will not take it in bonds; they have already received all the gold there is. The puzzle which they have set to the rest of the world admits logically of only one solution, namely that the rest of us should find some way of doing without their exports. The expedient of continually reducing world prices failed; for prices were dragged down equally everywhere. But the expedient of exchange depreciation relatively to gold will succeed.

Thus a process has been set moving which may relieve in the end the deflationary pressure. The question is whether this will have time to happen before financial organisation and the system of international credit break under the strain.

If it does, then the way will be cleared for a concerted policy of capital expansion and price raising – which one can call inflation for short – throughout the world.

For the only alternative solution which I can envisage is one of the general default of debts and the disappearance of the existing credit system, followed by a rebuilding on quite new foundations.

Obviously it is very much more difficult to solve the position today than it would have been a year ago. But I still believe even now, as I believed then, that we still could be, if we would, the masters of our fate. The obstacles to revocery are not material. They reside in the state of knowledge, judgement and opinion of those who sit in the seats of authority. Unluckily the tradition-

nal and ingrained beliefs of those who hold responsible positions throughout the world grew out of experiences which contained no parallel to the present, and are often the opposite of what one would wish them to believe today.

There remains one great matter to which I have made so far no allusion, but which may largely decide whether the world's financial organisation survives the ensuing month. I mean reparations and War debts.

In a sense this has ceased to be a question of practical finance. For neither reparations nor War debts are being paid today; and nobody imagines that any substantial sum will be paid in the near future. The choice today has become obviously what I declared it would become in a book which I wrote more than ten years ago [JMK, vol 111]. It is a choice between a final settlement by a great act of international appeasement and a general default in an atmosphere of international disgust.

It is a delicate matter for a foreign visitor to enter into detail concerning a problem which is at the very moment the subject of high international negotiation. But one thing I can say emphatically. No responsible person in England today desires the continuance of the payment of reparations and War debts in any shape or form. My country stands without reserve – all parties and all interests in it – for a total cancellation. We now know that the whole system of ideas and policy for which these obligations stand was a disastrous error – one of the greatest errors of international statesmanship ever committed. The thing has become, as it always should have been, hateful in our eyes.

But we are not the only parties to the existing agreements. Is it better just to denounce the whole thing without agreement? Or to seek and obtain a settlement by agreement at the cost of retaining some modest remnant of War debt? In some moods one is very much disposed to the former. If I were a German, I am sure that that would very often be my mood. But it may be, nevertheless, that this is a mood of weakness rather than of strength, and that it is still the course of patient wisdom to seek a voluntary accommodation.

For consider what vast progress world opinion has shown in the last decade, and how far everyone has moved to the German point of view? I would think it probable that an agreed settlement could be made today for an annual payment by Germany of less than a third even of the amount which I proposed, as a lonely voice in those days, in my *Economic Consequences of the Peace*. If a final settlement could be obtained in return for a very modest annual payment commencing, say, three years hence, would it not be preferable to the shattering turmoil and disorganisation of a failure to agree?

I am making no prophecy. I do not know whether such a settlement is possible. But I would plead that it is worth trying.

I have often been doubtful during the past years about the wisdom of what you call the Policy of Fulfilment. If I had been a German statesman or economist, I think that I should probably have opposed it.

But now that this policy has been pursued so steadfastly and for so many years, would it not be a pity not to harvest the fruits now that they are ripening, and Germany's patience and endurance is capable, perhaps, of winning the reward of an agreed settlement on lines which would have been hailed with enthusiastic triumph even a year ago?

Let me say, before I sit down, how happy I am to be in Hamburg again. Hamburg for me will always be associated with the name and the friendship of your great citizen Dr Melchior.

It was exactly thirteen years ago that we two first met – in a railway carriage in the station of Trier on the occasion of the negotiations between Foch and Erzberger for the second renewal of the Armistice [JMK, vol. x, ch. 38]. He and I were, I think, the very first two civilians from the opposed camps to meet after the War in peaceful and honourable intercourse. When we two shook hands in that railway carriage on January 15, 1919, there began the long and seemingly interminable series of financial negotiations of which we have not yet seen the end today. *I have long ago – thank God! – escaped from the toils of official service and have been a free individual man endeavouring, no longer to mould directly the course of events, but to influence the opinion which in the long run determines things.* But he has found it his duty for these long and terrible years to wear himself out, serving his country and serving the world too in the direct negotiations between governments, preserving under all provocations and difficulties the highest human standards of patience and truth.

I remember most vividly the impression which Dr Melchior made upon us members of the Supreme Economic Council of the Allies in those early days of suspicion and distrust at Trier and at the several conferences which succeeded it before the revictualling of starving Germany – which was our joint object – had been secured. In this man, we all felt, we met a true representative of the honour and uprightness of Germany. And that, as I know, has been the feeling of the many succeeding groups of representatives of the Allied Powers whom he has met. He has done his country and the world great services.

On 11 January Keynes had an hour's interview in Berlin with Heinrich Breuning, the German Chancellor. On his return to England, Keynes recorded some of *this* impressions for *The New Statesman* his of 15 January (JMK, vol. XVIII, pp. 366-9). He cabled the same article to *The New Republic*. As well, he provided Walter Case with a bit of additional material in the form of a brief note.

### The Position in Germany

My broad reactions to my visit, which included a very instructive hour's private conference with the Chancellor, are given in an article which I cabled to *The New Republic*.

I have been to Germany at all the times of crisis since the War but never, I think, have I found them so extraordinarily depressed. They are not starving, as they were in 1920-21. Everyone has more or less enough to eat, but everyone is reduced to a dead level of absence of pleasurable anticipation. During the great inflation plenty of people were making money. Today no one is making money; no one has an income which satisfies him and no one sees any chance of an improvement, except as a result of drastic change.

The result of this is an unanimous and overwhelming determination to pay no reparations whatever. I did not find anyone, except those in the highest and most responsible positions, who were even prepared to discuss with me the possibility of Germany paying anything whatever, in any circumstances. Any German Minister who was to make any statement inconsistent with this could not survive a week. Nevertheless I do not believe it to be true that they will not, in certain circumstances, agree to make payments. But they will only do so in response to a very moderate offer which constitutes a final settlement. I believe that the French are bound to be faced in the course of this year with the choice between final default on Germany's part or making them an exceedingly moderate offer.

We have all been working, not for an immediate solution, but for six months' delay, for four principle reasons: (1) to get over the Prussian elections and the German Presidential election, (2) to get over the French election, (3) to allow time for further economic [and] financial pressure on France, where the economic situation is worsening at a great pace, and (4) to see if anything can come out of the Disarmament Conference, since there are many people here who are unwilling to quarrel with France so long as any hope remains of a satisfactory issue of the Disarmament Conference.

But a crisis cannot be delayed much beyond the middle of this year, and I should say that it is about even chances whether or not it results in the proclamation of default by Germany.

I discussed a good deal the question of Germany's remaining on the gold standard which, though in a sense nominal, is absolutely crushing their export trade. No one will admit in public that it is possible, or even conceivable, that a change should be made. Even in private they will scarcely admit it. But after conversations with many of the leading bankers, and those whose views would be decisive, I came away with the conviction that it is quite certain that

Germany will depart from her present gold parity the moment that any suitable and convenient opportunity arises for doing so.

Meanwhile since most people know in their bones that the present gold value of the mark is precarious, no one wishes to owe money in foreign currencies and everyone endeavours to transfer foreign loans into loans expressed in terms of marks. This leads, paradoxically, to a keen desire to discharge foreign debts, particularly sterling debts, and the Reichsbank has to struggle, with only very limited success, against too much of the available exchange being used up in this way. It also means that there is a great shortage of foreign bills, since every importer vastly prefers to finance his business, if he can, by means of a mark overdraft, or by selling some mark asset, rather than by drawing a foreign currency bill. ■

*21. January 1932 (J.M.K.)*