Progressive Calvinism

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Contents

Purpose Of This Issue, A Study Of A Swindle

We continue, in easy stages, to analyze economic problems which are related to ethical problems, that is, related to the Ten Commandments.

In the November and December 1957 issues we analyzed how public dishonesty in regard to *money*, for which dishonesty all voters are responsible, is the cause of what is known as the business cycle, booms and depressions.

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In January 1958 we presented information on *unemployment* and explained that, of the four kinds two are desirable and two are undesirable. The two undesirable kinds are *cyclical unemployment* and *chronic unemployment.*

Astonishingly, it is the accepted policy in the United States to permit and even protect acts which cause chronic unemployment. The penalty of those evil acts has been escaped temporarily by perpetrating a second sin; a combination of two sins is believed to be effective in permanently frustrating the penalties proclaimed by the Law of God!

In this connection we shall pay special attention to the late economist, John Maynard Keynes, the greatest Indian giver in the history of mankind, the man who proposed a system in which labor would be babied by wage increases, which would be taken away by price increases. fn

An Indian Giver

In the United States there is a way of designating a certain kind of people who are called "Indian givers." Indian givers are persons who give you something and claim the credit for it, *but then take away from you what they gave.* What follows can be described as a study in "Indian giving." We shall begin by telling a true story.

At the beginning of the Korean war a few years ago, the directors of a big corporation were holding one of their monthly meetings. The management of the company came to the Board with this question: "Shall we, *on our initiative,* raise wages?"

That was an unusual question. It is considered to be an unfair labor practice for management to give a wage increase without first consulting and getting the agreement of union leaders. To put an increase into effect without the credit for getting that increase going to the union officials, whether they really had anything to do with it or not, is considered to be an act designed to weaken the union. The procedure is that the employer should first submit the idea to union officials. Then he must let them make further demands if they wish, in the name of the employes. If that is done, and the further demands are refused, the increase that the employer originally had in mind looks like an increase *obtained* by the union officers. Thus, the union is "strengthened"; otherwise, the union is "weakened."

The first inquiry made by one of the directors in the meeting was: "Are you going to put this into effect through the union officials?" The officers of the company answered, "Yes." Any anxiety of the directors that the company would get into trouble by being accused of an "unfair labor practice" was thereby put to rest.

The next question, by another director, was: "*Why* give an increase?"

The president answered: "In World War II all wages were frozen as of a certain day. Thereafter, we could not increase wages. If a company paid higher than average wages in its industrial area on the date of the freeze, then that company was able to drain men from neighboring companies which had lower wages. We shall not be able to stay in business if we cannot keep our employes. Here we are at the beginning of a Korean war. Nobody knows how bad it will become. Maybe there will be a new wage freeze. Our wages are now equal to the average of the community. But we would be safer if our wages were 'above the average.' Then as far as manpower is concerned — *if a wage freeze comes* — we shall not have trouble keeping our men. In fact, we can gain men from other plants."

The next question was: "Do you propose to raise wages 'across the board'?" meaning thereby an increase for everybody. To this the answer was, "Yes."

"How much will it cost?" The figure was given.

"Can we afford it?" "Yes, business is good. Orders are rolling in because customers are protecting themselves by buying ahead. They are afraid they may not be able to get deliveries later because of Korea."

Someone turned to a director who had a big business of his own, and asked him whether he had increased wages. He answered, "Our situation is different. We do not have a union in our plants. We treat the men as individuals. There are *individual increases going through all the time,* every day of the year. We never make 'across the board' increases. The men like it better the way we do it. We have never had a shortage of men."

After the foregoing discussion, and also on other phases of the problem, a director made a motion; it was expressed as follows: "I move that the management be authorized to put the proposed increase for employees into effect at once, and then immediately take it away from them."

This motion caused a stir. It sounded like a riddle. How give an increase in wages and salaries to all employees, and then take it away from them the next day? The others asked: "What do you mean?"

To this the director who had made the motion answered: "Raise prices." This required more explanation before it was accepted. The explanation given was as follows: "If we increase wages and if other companies do the same, and then *if we increase prices proportionately and others do the same,* then the wage increase means nothing. It costs as much more to live as the wages have increased. If this Korean situation develops as the management thinks it will, then the thing for us to do is to move faster than others. We should raise wages earlier than the others and we should raise prices earlier than the others. We shall be able, then, to keep our men, and we shall not have shrunk our profits at all. *But we must move promptly.* We may be too late already. If the government establishes price and wage freezes, it will undoubtedly follow its earlier practice of making them retroactive, and if they make them retroactive earlier than the date of our own increases in wages and prices, then we must return to our old wage and price structures."

Another director interrupted. He said, "In my own business we were lucky in World War II. We moved up the prices of our products earlier than the rest in our industry. When the date for the freeze to go into effect was finally announced by the government, it turned out to be *later* than our date but *earlier* than the price changes of our competitors. They all had to move their prices back and their profits were squeezed."

By this time the thinking of members of the Board was sufficiently clarified so that they were in a frame of mind to increase wages. The motion was reformulated into two: (1) to increase wages at once in cooperation with the union officers (according to the usual horseplay); and (2) because costs of material and labor were increasing, to put a price increase into effect immediately afterward. Both motions carried.

The idea originally expressed by one director, "to give an increase, and then to take it away," was fully accomplished by the two separate decisions. He had expressed the basic *economics* clearly and from a comprehensive viewpoint.

What was done in this actual instance with candid awareness and foresight is obviously the general and enthusiastically accepted policy of the people of the United States, employees as well as employers. We conduct our whole labor and pricing policies according to the same, cynical principles. The only difference is that few people realize it. One of the saddest phases of the situation is that many religionists and educators enthusiastically endorse exactly the same program under high-sounding words as righteousness, justice and brotherly love. Union spokesmen are aggressively in favor of the program just outlined; they love it. Their jobs largely depend on keeping in effect the policy outlined.

We shall in the following pages endeavor to explain the self-deception and destruction which is going on in the United States according to the foregoing pattern. We wish to explain this so that the wage earner who is being deceived by this phenomenon will have his eyes opened to the evils of the ethics of union pressure by secular and "Christian" unions alike, of inflationism and of the social gospel.

As a sequel to the story just told, we might add that the management carried out the program. Although there was no wage or price freeze in connection with the Korean war, orders were good, prices rose, profits were satisfactory, and the men were happy with the increase. In fact, they all "lived happily thereafter."

What was a special case in this corporation, and was considered as such, is unfortunately the *systematic case* in the United States generally.

A great deal of skullduggery can be accomplished if you do not candidly explain matters to people, if your program is planned craftily, and if you make each of the required moves at the right time and in the right sequence. fn

Outline Of Propositions To Be Explained In What Follows

So that readers may readily understand the general idea of what follows, we here present seven propositions:

I

One of the evils in the United States today is the policy and conduct of labor unions. Their program is essentially based on a violation of the Sixth Commandment, Thou shalt not coerce (or in traditional phraseology, kill).

II

The consequence of this evil is not the prompt destruction of capitalism and prosperity, but the eventual destruction. The *immediate or direct* consequence of the violation of the Sixth Commandment by the labor unions is (or ordinarily would be) *chronic unemployment.* (See January 1958 issue, pages 22-24.)

III

But chronic unemployment is not politically acceptable to the people of the United States. They will not "stand for it." The clamor (naturally, and reasonably, too) is for "full employment." (Full employment is, of course, the opposite term for chronic unemployment.) The head of the present administration in Washington has said that his party deems it its duty to provide full employment.

IV

A way must be found to escape the chronic unemployment resulting from coercion. There is a way. And it has been "found." That way consists in putting out more and more *fiduciary media* directly or indirectly.* The increase in the quantity of fiduciary

*To explain the *indirect* ways for putting out fiduciary media will interrupt the reasoning at this time, and will entail too many technicalities.

media increases the total quantity of money in circulation. Increasing the quantity of money *raises prices.*

V

Now what happens? There is no chronic unemployment after all. Why not? Prices go up. Whereas an employer *could* not pay the higher, uneconomic wages (extorted by the unions) at the old prices for goods he sells, he is now able to pay those higher wage rates on the basis of the higher prices he gets. The price increase has restored the normal ratio of prices to wages. What really has happened? The wage earners have been given an increase, and then (through the action of the government by inflationism) the increase is in reality taken away from them.

VI

Two sins have been committed: (1) the sin of coercion by the unions (violation of the Sixth Commandment); and (2) the sin of theft, by putting out fiduciary media (a violation of the Eighth Commandment).

The idea that people seem to have is that two sins will successfully annul each other. Let us rub our hands with pleasure; we have found a way of frustrating the law of God! Our sins will *not* find us out!

VII

But we are deceiving ourselves. Scripture declares that "God is not mocked." Putting two sins together — violence followed by fraud — will not outsmart the moral law. How will the delayed penalty for this combination of sins eventually show up? In this manner:

(1) In continuous inflation; *this is far worse than booms and depressions;*

(2) In the corrupting (by inflation) of all future planning by anybody and everybody; nobody *can* think straight any more in business or in planning his financial affairs;

(3) In eventual social and business collapse, which inescapably follows from (1) and (2);

(4) In a turn by people, who are confused and frightened, from a corrupted capitalism to complete socialism (one form of tyranny), or to dictatorship by a "strong man" — a Napoleon, a Hitler, and men of the same type (another form of tyranny). These systems cause poverty, misery and unhappiness.

* * *

And so there is no trick, after all, by which the Commandments of God can be successfully frustrated. We are deceiving ourselves when we expect it.

The pattern which we have outlined is obviously, *in principle,* exactly the same pattern as that of the Board of Directors in the preceding article, which they put into effect as a special case (in self-defense against the dangerous combination of circumstances which they feared would occur).

The basic idea in the United States in regard to wages is:

> *Placate the wage earner: (1) give him the wage increases which the union leaders demand for him, in order to seduce him into believing that they are doing something for him; but, (2) then let it be taken away from him in the form of increased cost of living (higher prices).* fn

John Maynard Keynes, First Baron Of Tilton (Prophet Of A New "Morality")

The First Half of The Twentieth Century In United States Economics

The economic troubles of the western world can be ascribed to many causes. An Old Testamentish attitude is to ascribe those troubles to *sins.* In that vein *we* get the following:

1. United States' capitalism has prospered better than what existed before it, because it was essentially based on the Laws of God — on noncoercion (freedom), honesty and property rights.

2. But early a basic dishonesty in regard to money, namely, the putting out of fiduciary media, disfigured capitalism by causing booms and depressions. These booms and depressions were always bad, but not *too* bad, until we changed the system in

1913 (by the formation of the Federal Reserve System), so that booms could be bigger and longer, which entailed however that the depressions would be proportionately worse. That worse depression happened in 1930-34. Remember?

3. That terrible depression in the early "thirties" unhinged the judgment and destroyed the economic perspective of nearly everybody. The United States went off the gold standard (wholly unnecessarily), and consequently we exposed ourselves not merely to the upswings and downswings of the business cycle but even worse, to inflationism; continued inflationism is a far greater evil than the business cycle.

The sequence had been before 1914: (1) a moderate economic sin and a moderate economic penalty; then from 1914-1932, (2) a bigger sin and an eventual bigger penalty; finally, since we went off the gold standard in 1933 (3) we think the sequence is that we can sin gloriously without a penalty in the form of a depression because we can keep on inflating and inflating. However, there will be a bigger penalty from that than any depression we have ever had.

4. The shock of the great depression in 1930-34 influenced wage earners as much as politicians and business men. Consequently, wage earners grasped more insistently and firmly the (unwarranted) power which they had acquired to coerce society by strikes, closed shops, etc. Unions acquired so many preferential privileges under the law that they *could* force wages above the economic (that is, the unforced, natural) level, and they have done so. That, however, caused serious chronic unemployment, which we had from 1935 to 1940 (until World War II). Do you remember the millions permanently unemployed in the period from 1935 to 1940? *That* was chronic unemployment. Chronic unemployment is the inescapable penalty in consequence of the sin of union coercion or any other evil which is essentially similar coercion.

5. Nevertheless, beginning with World War II there has been no chronic unemployment. That avoidance of chronic unemployment has been accomplished by means of serious inflationism. *That inflationism has raised prices as fast as the unions have*

forced wages above their natural level. The case is like the one of a cat chasing its tail; first, wage coercion requires price inflationism *or else there will be chronic unemployment;* then, that price inflationism "justifies" further wage increases.

The Need Of An Advocate To Justify Coercion And Fraud

There are so many features of the scheme just outlined which are obviously bad that it is not necessary to be a moralist or an economist to have serious misgivings about the whole business. Consequently, there was serious danger that the whole scheme would not be accepted. The program, therefore, required an apologist or rather an advocate. Providentially for this program the "right" man appeared on the scene, John Maynard Keynes. He became the recognized prophet of the new morality. Coercion and fraud were to be the handmaidens of the new brotherly love and the pillars of the new prosperity. He said: the capitalist principles, noncoercion and honesty, contribute to injustice to those who do not have capital and to chronic unemployment. Moses and Solomon and the rest were wrong when they said that obedience to the Commandments of God brought prosperity! Just the opposite is true, according to the Keynesian doctrine.

There was an exception, Keynes admitted. The ideas known as Classical economics (which he attacked) in a particular combination of circumstances *could* work out well as the classical economists had declared that they would. But, Keynes said, that required a favorable combination of circumstances which never really occurred. Consequently, he declared that noncoercion and honesty were not the seed beds of prosperity, but rather the seed beds of chronic unemployment and of less prosperity than was attainable.

This Keynesian doctrine, unfortunately, is looked upon by many politicians, economists, business men, labor unionists and social gospellers as a great insight.

John Maynard Keynes As A Man

John Maynard Keynes was born in Cambridge, England in 1883. When he died in 1946 he was a Director of The Bank of England and a peer of the Empire, First Baron Keynes of Tilton!

He was educated at Cambridge where he was a student under Alfred Marshall, the famous Cambridge economist, a man apparently in the Classical tradition, but essentially a deviator from it and an unfortunate influence on later economics in England. Keynes, after graduation became a civil servant (bureaucrat); then worked on monetary problems of India, and in 1915 when 32 years old joined the British treasury.

He worked on the peace treaty with Germany after World War I, but resigned in order to write a critical book entitled *The Economic Consequences of the Peace.* He had reached the conclusion that the Reparations which were demanded of Germany were excessive.

Keynes became more famous in the Great Depression in 1930 and thereafter. He then became the fountainhead of the idea of "spending one's way to prosperity." In 1936 he published the book by which he is best known, *The General Theory of Employment, Interest and Money* (Harcourt, Brace & Co., New York, 1936). People wanted government aid and the government in turn wanted to obtain votes by aiding the people. Erring capitalism with its depressions was considered *unplanned* and *unstable;* people thought that we needed a *regulated* economy. They also thought that there was not enough *demand;* production was believed to have outrun requirements. Further, there appeared to be a great shortage of money; more money seemed to be required.

Keynes's book was the answer to the wishes of people with those ideas. They themselves did not understand the real situation. Practically none of them knew the consequences of putting out fiduciary media. They did not realize that the conditions in 1930-34 were a result of past sins and follies. The solution at which these people grasped was not the real solution but a palliative; they wanted assistance from an agency that could not really assist, namely the government; they wanted more money because they thought money would solve the business problems of the world. However, these people were unhappy because they could not find a moral or logical excuse for what they wanted to do. They were like a thief who wanted an excuse for robbing a bank, but could not find the excuse.

Keynes did for these people even more than they fervently wanted. In the first place he told them that there had been too much freedom; secondly, far too much saving; thirdly, that everybody would be happier if wages and prices kept rising *all the time, endlessly;* that the real rascals in the community are the thrifty people, the savers; that the real benefactors of society are the spenders — the bigger spender that a man is, the greater social asset he is; that the rewards for thrift (interest, rents and profits) are far too high; and that those with large incomes should be taxed so heavily that there would be a "*euthanasia* of the *rentier*," that is, a "painless death of the capitalist as capitalist." (A capitalist is anyone with an *unearned* income. Readers will remember that Marx, father of modern so-called scientific socialism, similarly basically attacked *unearned* income. Unearned income is the core of the great dispute regarding *justice*, between Moses versus Marx and Capitalism versus Socialism. Keynes held the same idea that Marx had held but was more cautious in formulating his ideas.)

Keynes, then, was no prophet of what was unpopular. Prophets ordinarily are, but Keynes was a prophet of what people wanted to hear. His popularity was instantaneous. Who would not be a popular prophet if he boldly teaches that real morality consists in coercion, fraud, covetousness, alienation of property! Nobody thought of throwing Keynes into a lion's den as a Daniel; or in the oozing mire of a deep well as a Jeremiah; nor was he hunted as an Elijah; nor was his head cut off and delivered on a platter, as a John The Baptist's. If you select your message shrewdly, then you can be a *popular* prophet.

In 1941 Keynes — "believe it or not" — was elected a director of the Bank of England. In 1942 he was made First Baron Keynes of Tilton. He participated in the important Bretton Woods conference after the end of World War II.

Before he died in 1946 he was the most famous English economist. *The Encyclopedia Americana* says of Keynes: "He was generally considered to be Great Britain's most brilliant and influential economist."

Keynes, As Father Of The New Deal

The Encyclopedia Americana says of Keynes (our italics):

> During the 1930's he diagnosed the cause of the depression as a lack of mass purchasing power caused by severe deflation and recommended wide government spending to restore prosperity. Although this theory did not win much favor with the British government, *it formed the basis for President Franklin D. Roosevelt's New Deal recovery program.*

Keynes although not a citizen of the United States actually wrote a long personal letter to Roosevelt outlining how the United States should spend its way to prosperity. Keynes's ideas became the economic bible for Roosevelt's administration.

It is, however, a profound mistake to consider Roosevelt's administration to have been the only one influenced by Keynes's ideas. The present administration of Eisenhower is based almost as much on the principles of Keynes as was Roosevelt's. Any difference that exists is one of degree; the Eisenhower administration is a little more restrained and somewhat less demagogic.

Keynes As An Economist

The Encyclopedia Britannica has this to say of Keynes:

> [He looked at] economics not as a descriptive science, but an instrument of social control for objectives as maximum national income, full employment, international monetary stabilization.

These objectives can be attained by the Commandments in the Second Table of the Law of God, that is, by freedom, noncoercion, honesty, safety of property; or they can be attempted another way, namely, by government regulation, coercion, increasing the quantity of money, and by confiscatory or at least punitive taxation. The ideas of Keynes were completely in accord with the second group of means, and completely in disaccord with the first group.

The Encyclopedia Britannica goes on to say that Keynes's book on *General Theory:*

> attempts to show that the achievement of full employment is not likely to be accomplished by an automatic

mechanism, but rather by the production of capital goods, a cheap money policy and public investment as well as by the stimulation of consumption through the reduction of saving.

Keynes disliked a free market, something so-called "automatic," that is, unregulated; he wanted instead regulation — interventionism. His confidence was in "cheap money" and increases in the quantity of money; also in "stimulation of consumption" and "reduction of saving." This reduction of saving was to come (as we have mentioned already) primarily by the "*euthanasia* of the *rentier*."

The foregoing quotation is the restrained language of the *Encyclopedia Britannica.* In our language Keynes's program was the program of coercion by government and unions, plus inflationism (theft by putting out more and more fiduciary media), plus confiscation of property by greatly reducing (practically eliminating) the rate of return on savings, and by steeply progressive personal taxes. fn

Keynes, On The Virtue Of Extravagance (Or The Evils Resulting From Saving)

Keynes has a "complexified" style of writing. It is, therefore, somewhat difficult to quote him adequately except lengthily. The following quotations are subject to that observation, but the reader may be assured that we are correctly quoting and interpreting the real thrust of Keynes's ideas.

Chapter 23 of Keynes's *The General Theory of Employment, Interest And Money* has the title, "Notes on Mercantilism, The Usury Laws, Stamped Money and Theories of Under-Consumption." This is a historical chapter. Maybe at this point a remark should be made in regard to the position of Keynes in the history of thought and the originality of his thinking.

Keynes's ideas were merely a revival of *old* ideas. There was no originality in them. *Mercantilism* can be described as the system of Louis XIV in France, or the French economic organization prior to the French Revolution. That was a notoriously burden-some and oppressive system. Mercantilism stood for endless government interventionism, for the denial of economic freedom. Everything was regulated — production, employment, prices. Red tape controlled every action. Mercantilism was the paradise of the bureaucrat. One of the great benefits of the Industrial Revolution was the Western world's escape from the shackles of Mercantilism. Essentially, Keynes was a throw back to Mercantilism. He espoused its fallacies. He had implicit faith in government *regulation* (interventionism). He was a "reactionary." What people consider new in Keynes's thinking was merely his confusing economic lingo plus the use of some mathematical equations which gave the impression (false, by the way) of reliability and accuracy.

As the title of the chapter we have just quoted indicates, Keynes gives some consideration to "theories of underconsumption." The term "underconsumption" is characteristic of Keynes. It is the same as "oversaving." Keynes is attacking the view that "saving" is a virtue. Rather than to do that directly and raise doubts in people's minds regarding how he (Keynes) could be right about attacking *saving,* he changes the nomenclature from saving (or oversaving) to *underconsumption.* People obviously will be more ready to accept the idea that there is *underconsumption* than *oversaving.* (Everybody knows how hard it is to save and few people think they have enough savings. Few believe that they are *oversaving.*) The dialectics are clever. This is the type of mind that Keynes had.

Let us quote (p. 358):

> It is no new thing . . . to ascribe the . . . [existence] of unemployment to the insufficiency of the . . . propensity [inclination] to consume . . .

Keynes quotes favorably from Mandeville's *Fable of the Bees,* a poem which tells the alleged terrible results in a formerly "prosperous community in which all the citizens suddenly take it into their heads to abandon luxurious living, and the State to cut down armaments, in the interest of saving." Here is a paragraph quoted by Keynes from Mandeville (pp. 360-361):

Now mind the glorious Hive, and see
How Honesty and Trade agree:
The Shew is gone, it thins apace;
And looks with quite another Face,
For 'twas not only they that went,
By whom vast sums were yearly spent;
But Multitudes that lived on them,
Were daily forc'd to do the same.
In vain to other Trades they'd fly;
All were o'er-stocked accordingly.
The price of Land and Houses falls;
Mirac'lous Palaces whose Walls,
Like those of Thebes, were rais'd by Play,
Are to be let . . .
The Building Trade is quite destroy'd,
Artificers are not employ'd;
No limner for his Art is fam'd,
Stone-cutters, Carvers are not nam'd.

The language is old fashioned and quaint, but careful reading will make clear that Mandeville — and Keynes — condemned saving and laud extravagant living. They regretted that the "show" was gone; that "vast sums" were no longer spent; that "multitudes" allegedly dependent on extravagance were out of work, that prices fell, that the building trades were idle, that skilled craftsmen as stonecutters were unemployed.*

Keynes goes on to write (p. 362):

> No wonder that such wicked sentiments [as in Mandeville's poem] called down the opprobrium of two centuries of moralists and economists who felt much more virtuous in possession of their austere doctrine that no sound remedy was discoverable except in the utmost of thrift and economy both by the individual and by the state. Petty's "entertainments, magnificent shews, triumphal arches, etc." gave place to the penny-wisdom of Gladstonian finance and to a state system which "could

*There is profound confusion in ideas in Keynes's thinking which we cannot digress to analyze here. The fact remains that underconsumption (oversaving) was, in Keynes's estimation, the great evil of modern society. He glorified the spender.

not afford" hospitals, open spaces, noble buildings, even the preservation of its ancient monuments, far less the splendours of music and the drama, all of which were consigned to the private charity or magnanimity of improvident individuals.

Keynes here sarcastically attacks the economics of the administration of William E. Gladstone (1809-1898), the great prime minister of England, in whose century England made as large economic gains as at any time in its history. It is this thrift which Keynes derides and condemns. He sneers at Gladstone's "penny-wisdom."

Not enough consumption! That is Keynes's basic idea.

Moses viewed things differently. He did not talk at all about an inadequate "propensity to consume." He assumed that the propensity to consume would exceed production, and that there would always be a *welfareshortage*. But Keynes, the modern, says the propensity to consume is inadequate to keep all men employed; consequently because of an inadequate propensity to consume there is *chronic unemployment* in modern capitalist societies. The poor and rich *savers* are the culprits. To obtain full employment (the opposite of chronic unemployment), according to Keynes:

1. There should be less saving in total;

2. Rather than save, men should live more extravagantly, because extravagance creates work;

3. In order to be sure that there is not too much saving, the government should tax more heavily, and freely spend the money raised by taxation.

Poor Moses. He thought the problem was production. What an error. Keynes has enlightened us. The problem is instead an inadequate "propensity to consume." (We shall give further consideration in the next issue to the allegation of an inadequate propensity to consume.)

Readers will realize that PROGRESSIVE CALVINISM, following Ludwig von Mises as explained in recent issues, has an altogether different explanation of chronic unemployment and of the business cycle (booms and depressions) than Keynes. fn

Keynes, The World's Champion Indian Giver

The second article in this issue tells how it may appear that something has been given to you or that you have obtained it but how in reality you have not really gained anything at all. That is, you are eventually in the same position that you were originally. In order to make this point clear in regard to wage rates, we told the story of what happened in a specific business at the beginning of the Korean War, and how the event described should be interpreted.

The basic idea is simple. An increase in wages does not provide an improvement for the wage earner in the same percentage as his wage is increased unless the cost of living does not increase at all or at least does not increase as much in percentage as wages have been increased. This idea is readily understood by everybody. Even people generally uninformed frequently talk about a wage increase not having done them much good because the prices of goods and services have gone up proportionately. Now if that happens without design and unintentionally then it is just one of those things which disappoint us in life, but the situation takes on another appearance if it is the design — the deliberate intention — of someone to have an economy in which:

1. Wages increase; but then
2. The cost of living follows it upward.

That was the kind of economy that John Maynard Keynes considered preferable; namely, arrange things (1) so that wages constantly rise regardless; (2) that the cost of living rises with it.

In this connection Keynes stresses his distinction between *money wages* and *real wages.* He says that it is possible for real wages to go down at the very time that money wages are going up, that is, although wages may be increasing the cost of living may be increasing faster; really, then, the wage earner is worse off than before; his real wages are declining. However, Keynes undertakes to be a psychologist and he declares that a wage earner will tolerate that, to wit, that the cost of living advances faster than money wages. Keynes's point is that *money wages* control the thinking of wage earners.

He discusses the question of a reduction in money wages for wage earners. He declares that wage earners will resist a reduction in money wages vigorously, even at a time when *real wages* are increasing (because the cost of living is falling more rapidly than money wages). He declares that wage earners will be disposed to strike before they accept a reduction in *money* wages, but that they seldom think of striking when their *real* wages go down (because of an advance in the cost of living).

Keynes explains that it is somewhat futile for a particular group of wage earners to strike because they do not consider their *real wages* to be adequate, but that it is effective for them to strike for *money wages*.

He writes on page 9 of his book, *General Theory*:

> Now ordinary experience tells us, beyond doubt, that a situation where labour stipulates (within limits) for a money-wage rather than a real wage, so far from being a mere possibility, is the normal case. Whilst workers will usually resist a reduction of money-wages, it is not their practice to withdraw their labour whenever there is a rise in the price of wage goods [an increase in the cost of living]. It is sometimes said that it would be illogical for labour to resist a reduction of money-wages but not to resist a reduction of real wages. For reasons given below (p. 14), this might not be so illogical as it appears at first; and, as we shall see later, fortunately so. But, whether logical or illogical, experience shows that this is how labour in fact behaves.

What Keynes is saying is that wage earners will resist a reduction in money wages and will refuse to work or will even strike against a reduction in *money* wages, but that they will not equally resist a reduction in *real* wages (that is, because prices have gone up and so the cost of living has gone up).

Keynes goes on to say in his Chapter 19 which has the title "Changes in Money-Wages," page 264:

> . . . since there is, as a rule, no means of securing a simultaneous and equal reduction of money-wages in all industries, it is in the interest of all workers to resist a

reduction in their own particular case. In fact, a movement by employers to revise money-wage bargains downward will be much more strongly resisted than a gradual and automatic lowering of real wages as a result of rising prices.

On pages 13 and 14 Keynes writes:

> Though the struggle over money-wages between individuals and groups is often believed to determine the general level of real wages, it is, in fact, concerned with a different object. Since there is imperfect mobility of labour, and wages do not tend to an exact equality of net advantage in different occupations, any individual or group of individuals, who consent to a reduction of money-wages relatively to others, will suffer a *relative* reduction in real wages, which is a sufficient justification for them to resist it. On the other hand it would be impracticable to resist every reduction of real wages, due to a change in the purchasing-power of money which affects all workers alike; and in fact reductions of real wages arising in this way are not, as a rule, resisted unless they proceed to an extreme degree.
>
> * * *
>
> Thus it is fortunate that the workers, though unconsciously, . . . do not resist reductions of real wages, which are associated with increases in aggregate employment and leave relative money-wages unchanged, unless the reduction proceeds so far as to threaten a reduction of the real wage below the marginal disutility of the existing volume of employment.

Keynes elsewhere outlines what he thinks should be the basic policy in regard to wages:

1. The wage earner is happy when his *money* wages continue to go up and up. (This is accomplished in our modern economy by the wage coercion of labor unions and the extraordinary legal privileges that the law grants to them.)

2. The wage earner will not be too unhappy about an increase in prices and in the cost of living; in fact, he will tolerate

a decline in *real income* provided he has an increase in *money* income. (What Keynes is really saying is that a wage earner will tolerate a situation as follows: (1) an increase in wages of 10% followed by an increase in the cost of living of 15%. If that happens the wage earner will not strike, but if on the other hand the cost of living goes down 10% and the employer finds it necessary to negotiate to reduce wages only 5%, then the wage earners will probably withdraw their labor and strike.)

A little thought will make it obvious that Keynes believed that society should have systematically the policy outlined in the second article in this issue entitled "An Indian Giver."

The two pillars on which Keynes was building his economic structure are these two: (1) babying the wage earner by letting him have constantly increasing money wages; and (2) letting cost of living (prices) go higher and higher by the steady issuance of more and more fiduciary media, thereby taking away from the wage earner increases in *real* wages.

Keynes is the high priest of the real modern economy, to wit: (1) the toleration of labor coercion to get higher money wages; and (2) the steady inflation of all prices, with which everyone is so well acquainted today. fn

It Is Silly To Try To Deceive The Wage Earner

Keynes's whole case rests upon the assumption that wage earners are more concerned about their *money wage* than they are about their *real wage*, that is, about how much they can buy with the money they get. This assumes essentially that the wage earner is a fool. That assumption is erroneous.

Keynes's wage policy has been in effect fully in the United States only since World War II. The unions have acquired great power; they deliberately force the wages above their economic point. Prices are then increased. The question is this: how long will it take the wage earner to discover that he is like a cat chasing his tail; how long, in other words, will it take before the wage earner demands a protection for his *real* income?

Here is the answer: it took only a few years, and then the demand on the part of the labor unions became effective, for what are known today as "cost of living" adjustments in wages. One of the largest and best known corporations in the United States, General Motors Corporation, felt itself obliged to sign a union contract with the United Auto Workers providing that *wages be adjusted at regular intervals to changes in an index of the cost of living.*

Every union contract that has a cost of living wage adjustment clause in it is an obvious mockery of Keynes's idea that the wage earners are interested in *money* wages and not in *real* wages. Not all contracts have cost of living clauses but practically every contract has an annual wage reopener, and one purpose of wage negotiations by unions is to take into consideration changes in the cost of living.

Therefore, experience makes it obvious that Keynes's proposition that wage earners are more interested in money wages than real wages is false; wage earners are not fools; they are not determining their position according to *money* wages, but according to *real* wages. fn

Traditional Capitalism's Policy Just The Reverse Of Keynes's

Keynes has been probably the most effective socialist in the twentieth century. The reason for his effectiveness is his "moderation" in how he formulates the same basic principles that Karl Marx held. (A moderate statement has more effect than an extreme statement, as is well known to Englishmen who are taught to engage in understatement rather than overstatement.)

The attitude in regard to wage rates and commodity prices (cost of living) on the part of traditional capitalism is just the opposite of that of Keynes. In fact the two policies, Keynes's on the one hand and traditional capitalism's on the other, cannot be reconciled.

The essential nature of capitalism is to reduce prices. Capitalism depends upon competition. Everybody knows that the tendency of competition is to force prices downward. The greatest businessmen that have lived in the United States have concentrated their business attention on one problem, *reduction in costs,* giving more per dollar charged. Those men have had a fever in them, like malaria, to reduce costs. That in turn permitted them to reduce prices, or if they maintained prices, to give an improved quality or otherwise better product for the same amount of money.

Under capitalism, therefore, the natural tendency would have been not for prices to increase but to decrease. If, for example, someone when young had a wage of $20 a week which would buy a certain amount of goods, under a truly capitalist economic structure that same workman 40 years later might still be earning $20 a week, but *because prices had dropped that $20 might buy two times more at the later date than the earlier date.*

It is easily possible that in a genuinely capitalist economic structure not only prices would drop but wage rates might also drop, *but in lesser amount.* In such a case prices might drop say 50% and wages drop say 15%. The worker, of course, will be better off in such a case by 35 points. The *real wage* had increased although his *money wage* had decreased. This situation was considered by Keynes to be psychologically unacceptable to the wage earner.

In the United States and throughout the capitalist world generally there has been an unfortunate deviation from sound monetary principles which has resulted in the general price level being largely influenced by the immoral issuance of fiduciary media; see November and December 1957 issues of PROGRESSIVE CALVINISM. If that had not become the established policy in the Western world the price level would have been determined by the amount of gold mined and diverted to monetary purposes.

No one can predict exactly what the trend of the price level would have been under conditions of genuine monetary honesty, but we believe that the trend of prices would have been steadily downward. Further, that the trend of wages would also have been steadily downward, *but at a less rapid rate than prices declined.*

Such a situation might appear alarming to some people. They might say that such a trend in prices of wages and goods would be a burden on the debtors and a windfall to the creditors. That view, however, can be dismissed as erroneous. If everybody expects prices (and wages) to decline over a period of years, then all long-time contracts, except those made by fools, will have terms which assume exactly that phenomenon. The creditor will expect an advantage from the reduction in prices and the debtor a disadvantage; the deal they will make will reflect those expectations *and consequently neutralize them.* In contrast, if the expectation is for rising prices and wage levels, smart people make their long term contracts with that expectation in mind. In that case the creditor expects to receive a disadvantage and the debtor an advantage. Again, both sides take that into account and the contracts have terms accordingly.

There is a *very* important difference between the two conditions: in the one case the quantity of money *cannot* be increased or decreased *at will,* but is affected by the basic costs of mining gold; in the second case the quantity of money can be *arbitrarily* increased or decreased depending upon human judgment, weakness and cupidity in the form of an inclination to increase the quantity of money as an easy solution to obtain purchasing power. In the first instance, businessmen and wage earners can make their decisions without expecting an arbitrary human element to be injected; in the second case they are pretty much at sea on what will happen, except that they know that, human nature being what it is, the quantity of money will be increased unduly.

That, in fact, has been the fatal mistake of "capitalism." Early in its career in the Western World it adopted the policy of putting out fiduciary media. No more unfortunate decision could have been made.

But in any event, in proportion as Keynes's basic ideas prevail, capitalism is handicapped and will probably eventually be destroyed. A so-called capitalist economy which is not based upon the gold standard, but has a money structure unhinged from gold, is certainly doomed sooner or later. fn

The Economic Policy Of The United States Is Based On Keynes's Ideas

The Common Goal

Keynes founded his whole economic program on *full employment.* Everything else was made subservient to that. That is merely an objective, excellent in itself. The real question is, what are the *means* to attain that objective?

The same holds true today for the economic policy of the United States. The president has said that the creation of prosperity (*full employment,* of course) is considered to be a duty of the administration which he heads. The minute that employment statistics show a downward trend everything possible is set in motion to change it.

Full employment has a wonderful appeal. Who is there that does not want it? Every employer wants it so that demand for his products will be good; every employe wants it so that he may surely be employed.

Unless it is realized that full employment is the center of gravity in all thinking in the United States, it is not possible to see in the right perspective what is going on.

The Alternative Means

There is a "high road and a low road" to attain that goal of *full employment.*

The high road is noncoercion, freedom, honesty in regard to all activities, in respect to all labor, business and money matters. It is the road Scripture outlines, and the road that genuine classical economics has graded and paved, so that it has become or can become a turnpike to prosperity.

The low road is coercion by government and labor unions, followed by dishonesty in regard to money. This is the Keynesian road and the present American road. We are traveling it with the thought that we will come out all right. We shall not.

The Popularity Of The Low Road

The labor union movement rests on a false premise, namely, the premise that in a free society a segment of that society can help itself at the expense of the rest *by coercion.*

That is not the way the labor movement puts it. The idea of the unions is that they can better their position by coercion, by collective bargaining. *Bargaining* is not the right word; it should be *threats* or *power.* The action on the union's part is collective threats or collective power. That power has been acquired by the labor unions by preferential laws and court decisions. No group in our society has ever had so much preferential consideration as the labor unions now get.

If Scripture teaches anything it is that the road to stable prosperity does not consist in violence and coercion.

One of the greatest economists in history, Eugen von Böhm-Bawerk wrote an essay on *Macht oder Economisch Gesetz,* which has been translated with the feeble title, *Control or Economic Law?* A better translated title would be, *Which Will Win Out Finally, The Exercise of Power or Economic Laws?* Böhm-Bawerk's irrefutable answer is that all the power, coercion, violence, might (*macht*) in the world will not triumph over *economic law.* We, in this hybrid economic-ethical publication, would say it differently: power, coercion, violence, might, preferential laws, demagogic decisions by boards or judges, or pious talk by moralists, none of these will nullify the Law of God. (As always the Law of God and true economic laws are identical.)

The Consequences Of The Low Road

All the coercion of labor unions has an inescapable series of consequences. They are:

Firstly, *chronic* unemployment. Prices for labor have been forced higher than the market for commodities and services will tolerate. Employers cannot and will not employ anymore. They lose money because they are squeezed between high labor rates and prices for commodities which are not high enough to meet all costs. It is *economic law* that men will not continue to do that which causes them losses and is against their interests.

But unemployment is exactly what people do not want. They want instead *full employment.* What can be done now, to escape chronic unemployment caused by coercion? Either, a cure for the wage price squeeze must be found or the program of union coercion must be abandoned. As the latter (union coercion) is everywhere accepted, and is the doctrine which this country does not wish to abandon, the correction is sought in something else than abandonment of coercion.

And so we come to the next consequence of following the low Keynesian road, namely:

Secondly, *inflationism,* the putting out of more and more fiduciary media.

Fiduciary media is really "phony money." The sole purpose of fiduciary media is to *increase* the supply of money. Increasing the supply of money raises prices. When prices rise men can again be employed at the excessive wage rates. But now after the inflation the wage rates are not excessive anymore.

We get a round of events, higher wages make for higher prices, higher prices make for still higher wages, etc., etc. The whole world is following this road today, at varying speeds.

The people of the United States have no intention of getting off that road. Consequently, we are headed for sure ruin. If not, what Scripture teaches about morality is not worth the paper on which it is written.

However, it is important to note that inflationism is not the voluntary policy of the United States. This country is compelled to go the inflationary route because of a prior sin, union coercion.

* * *

We shall tell you in our next issue how you can *personally* escape the consequences of these public sins *temporarily.* But we shall all be punished for our iniquities. There is no escape from economic law, or, in Biblical language, from sins.

If you believe that inflationism has been permanently successful, let us know when, where and by whom. fn

Keynes As A Socialist

The last chapter in Keynes's *The General Theory of Employment, Interest and Money* has the title, "Concluding Notes on the Social Philosophy Towards Which the General Theory Might Lead." The title is indicative that Keynes proposes to summarize his "social philosophy," that is, whether he is a capitalist or a socialist. No one reading this chapter can conclude that Keynes was in any sense in favor of capitalism.

Here are some basic ideas which Keynes presents in his last chapter:

1. Capitalism has two faults: (1) unemployment; and (2) injustice. He says: "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes." [These two charges are standard charges of socialists against capitalism.]

2. He says that the inequity of incomes and wealth has been reduced by the progressive "income tax and surtax and death duties." [This tax program is the same as Marx's points 2 and 3 in the Communist Manifesto.] But on pages 372 and 373 Keynes makes clear that what he calls "progress" in redistributing income and wealth can well be carried *further* for the public good, as he sees that. He concludes "the growth of wealth . . . is impeded . . . [by] the abstinence of the rich"; therefore, tax them more and spend the proceeds because that helps consumption and consumption promotes investment and such investment promotes employment. On page 374 Keynes has a mild qualification to the foregoing. He finally concludes by a concession, namely to treat men as greyhounds chasing a forever-escaping mechanical jackrabbit; he writes: ". . . it may still be wise and prudent statesmanship to allow the game to be played [the business greyhounds to run], subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money making passion." Heavier progressive taxation is for Keynes a primary means to a better society in the future.

3. The lower that interest rates go, the better, according to Keynes. The term *interest* here means all rents and profits as well as interest in the popular sense. As was said before, the second great indictment of capitalism by socialists is that it is *unjust;* there should, they say, be no return at all on the ownership of property; Keynes in seductive moderation says, the lower the return on capital goes, the better. He talks hopefully and approvingly of the "euthanasia of the rentier," or in more popular

language the "painlessly induced elimination of the property owner as property-owner." He looks forward to the end of a return on all private property. If capital formation needs to be induced, then that can be met by "communal saving through the agency of the State;" [that of course is the communist system]. However, he advocated that the "painless death" of the rentier [capitalist] be slow; he was against hurrying the process; he was against "forgoing our aim of depriving capital of its scarcity-value [and consequently, return] within one or two generations"; [he looked for the death of capitalism in 40 to 80 years!].

4. Keynes conceived "that a somewhat comprehensive *socialization of investment* [our italics] will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will cooperate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community." In short, he recommends comprehensive state ownership of capital, that is, state socialism. After soothing remarks about what might be left of private enterprise, he adds, "The *central* controls [our italics] necessary to ensure full employment will, of course, involve a *large extension* of the traditional functions of government." He adds that there will still be "a wide field for the exercise of private initiative and responsibility." [The "wide field," we would say, of a sergeant in the conduct of a war!] He has some words of praise for what remnant of Individualism could still exist. Finally, he becomes vague on the very crux of the problem; he says (p. 381):

> The authoritarian state systems of to-day seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated — and in my opinion, inevitably associated — with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom. [We ask, *how?*]

Keynes in the foregoing proposes:

1. Radical redistribution of income and wealth;

2. Progressive reduction of all return on private investment, and eventual liquidation of all unearned income;

3. Socialization of investment and great extension of government controls;

4. Accomplishment of full employment by means of the foregoing.

Keynes's alleged *purpose* is full employment. The *means* he proposes are essentially the same as those of the totalitarian states, with the vague hope that some freedom may be left. A vain hope, we are sure.

The analysis in PROGRESSIVE CALVINISM following the great economist Von Mises is different. The lack of full employment has had two causes:

1. In regard to *chronic* unemployment the causes are coercive union policies or government interventionism (both of which violate the Sixth Commandment in the Law of God); and

2. In regard to *cyclical* unemployment the cause is variations in the quantity of fiduciary media, the issuance of which is a violation of the Eighth and Ninth Commandments forbidding theft and fraud.

But Keynes rejects those explanations. He approved coercion, theft and fraud; at any rate he did not reject fiduciary media nor union coercion. Instead his hope for full employment is in eventual destruction of private property, the establishment of state ownership of property, and equalization of incomes by progressive taxation.

In short, Keynes was a thoroughgoing socialist, at heart. However, he had a complex and seemingly moderate and qualified way of saying what he said.

Have you ever heard of Keynes's ideas being vigorously attacked in any Christian college in the United States or elsewhere?

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