

Keynes and Gesell: Political and Social Philosophy, Epistemology and Monetary Reform

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Abstract

It is conventional now to understand Keynes's economics in terms of his philosophy. The particular connection has been made between his epistemology and his theory of liquidity preference and his approach to policy. Here we widen the scope to include social and political philosophy as well as epistemology and consider how these influenced Keynes's position on monetary reform. We consider monetary reform particularly in terms of Gesell's proposal for stamped money, effectively for a negative rate of interest. It is argued that Keynes and Gesell had much in common in terms of social and political philosophy. But Keynes's epistemology generated a different approach to monetary theory and policy advice, and thus to monetary reform from that of Gesell. In particular Keynes came to different conclusions about monetary reform depending on context.

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Introduction

The contemporary discussion of negative interest rates as a new tool of monetary policy has elicited parallels with Silvio Gesell's (1929 [1916]) proposal for stamped money (see e.g. Skidelsky 2016). Gesell had argued that money was hoarded because, unlike other assets, it could be held with no carrying cost. The resulting undue elevation of the money rate of interest deterred investment and thus effective demand. Gesell's solution was that conventional money should be replaced by state-issued notes which, if held, required a government-issued stamp to be attached at periodic intervals; i.e. the state would impose a carrying cost (a negative rate of interest) to discourage hoarding. These notes would enter circulation by financing government expenditure on goods and services as well as through a national dividend paid directly to the general population. The stamp requirement would encourage the use of notes for consumption and, by driving down the rate of interest, investment.

Keynes (1973f [1936]: 353-8) devoted significant attention to Gesell in *The General Theory*, having recognised that Gesell had anticipated his analysis of effective demand and his critique of the classical theory of money. But, while Keynes (*ibid.*: 357) considered that "[t]he idea behind stamped money is sound", he dismissed Gesell's specific proposal on the grounds that "nevertheless there are many difficulties which Gesell did not face". While Keynes (*ibid.*: 355) included Gesell among the few who recognised the rate of interest as a monetary phenomenon, he nevertheless regarded Gesell's monetary theory as "incomplete". While Callegari (2016) points out that this judgement was not entirely fair, Keynes (*op. cit.*: 356) nevertheless argued that Gesell had failed to develop a theory of liquidity preference. Gesell had also failed to take account of the scope for innovation in alternative assets designed to meet liquidity needs (while not carrying a negative rate of interest) (*ibid.*: 357-8). Indeed, when Gesell's ideas were put into practice briefly in Canada in 1936, the Keynesian League for Social Reconstruction was critical of the policy, favouring rather the socialisation of banks (Dow 2016).

The purpose of this paper is to consider further Keynes's reaction to Gesell in an attempt to understand better the source both of his agreement and also of his disagreement with Gesell's ideas. We focus first on Keynes's social and political philosophy in relation to Gesell, finding much in common between the two. Evidence on Keynes's social and political philosophy is scattered across a wide range of his writings, but these have been drawn together in a range of studies, notably O'Donnell (1989); more recent examples are Backhouse and Bateman (2009) and Lopes and de Almeida (2016). Darity (1995) is particularly pertinent in that he makes an explicit comparison with Gesell.

Differences between Keynes and Gesell arise more clearly when it comes to putting this political philosophy into practice. To understand these differences we turn to Keynes's epistemology, which underpins his monetary theory as well as his views on policy practice. The connection between Keynes's epistemology and monetary theory is now well-established, dating from Carabelli (1988). Further Carabelli and Cedrini (2010, 2014a) have drawn out the way in which Keynes's philosophy and resulting methodology form a consistent thread in his monetary theory and its application to policy practice, from *Indian Currency and Finance* to the *Tract on Monetary Reform*, to the *Treatise on Money*, to his plans for an International Clearing Union. Here we consider these connections in terms of Keynes's views on Gesell's ideas on monetary reform.

Keynes's Social and Political Philosophy

According to Dillard (1942), it was Gesell's social and political philosophy which formed the basis of his ideas for monetary reform and only later the theoretical framework to justify them. Gesell's philosophy arose from his experience as a trader and small-scale manufacturer in Argentina, where he'd migrated in 1886. He had direct experience, during the 1890s Argentinian depression, of the power held by financial speculators and loan providers to impede industry. As a result Gesell self-identified as a socialist driven to eliminate interest earnings not warranted by the return on real capital. But, unlike Marx, Gesell focused his attack solely on finance capital (not capitalism as such), seeing exploitation arising from exchange rather than production. It was the capacity of finance capitalists to earn interest at the expense of businesses and households, worsening the depression, which encouraged his ideas for monetary reform. His agenda is echoed in Keynes's (*op. cit.*: 375-6) analysis of the 'euthanasia of the rentier' as the desired outcome of the low interest rate regime he too advocated (see further Callegari 2016).

Gesell advocated reform rather than revolution as a way of eliminating surplus value. This reform was to be achieved, not only by reforming the monetary system, but also by nationalising land ownership, along parallel Georgist lines of reasoning, to prevent extraction of rent. He called these policies respectively "Free-Money" and "Free-Land". Gesell's monetary (and land) reform required an active role for the state, but with the purpose of creating the best environment for the free play of market forces (Darity 1995: 34). This was a view echoed later by Hayek (1975: 42) when he opined that the role of the economist was:

"to use what knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants".

The role of the state was to ensure the conditions for individualism to flourish. Gesell explicitly contrasted his proposals with communism, which he saw as antithetical to individualism and the promotion of meritocracy (Darity 1995: 35).

Keynes (*op. cit.*: 355) classified Gesell as a 'non-Marxist socialist', steering a course between Marxism and free-market liberalism. In drawing attention to Gesell in *The General Theory*, Keynes (*ibid.*: 355) sympathetically referred to his "moral quality" as providing "the answer to Marxism"; among other things, both were concerned at the consequences of communism for personal liberty. There are further parallels between Keynes shared Gesell's view that capitalism required reform rather than revolution, and his desire to promote individualism and the establishment of meritocracy (Darity 1995). But Keynes did not share Gesell's view that reforming the monetary system (even if possible) was sufficient to stabilise economies at full employment. Keynes (*op. cit.*: 379) envisaged a more active role for the state than Gesell – something which at that time constituted a "large extension of the traditional function of government". Because Keynes was concerned with hoarding within the cyclical process, it required active stabilisation policy. Thus, for example, quite apart from monetary conditions, tax policy might be required to redistribute income and there was a limit to the role for the state:

“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. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society” (*op. cit.*: 378).

For Keynes, assigning functions to the state was more a matter of judgment than for Gesell. “True socialism” for him involved deciding where the individual and where the social spheres apply (Keynes 1981b [1924]: 222). Thus for example Keynes’s attitude to reform of the financial sector was quite pragmatic, at times accepting finance capital as a necessary evil (Keynes 1973d [1930]; see Chick’s 2013 account; see also Keynes 1973f [1936]: ch 24). Further:

“I have said that it is of the essence of state planning to do those things which in the nature of the case lie outside the scope of the individual. It differs from Socialism and from Communism in that it does not seek to aggrandise the province of the state for its own sake. ... Its object is to take hold of the central controls and to govern them with deliberate foresight and thus modify and condition the environment within which the individual freely operates with and against other individuals” (Keynes 1982a [1932]: 88)

With state planning appropriately assigned to those areas outside the scope of the individual, the benefits of individualism could still be enjoyed. “Within this field the traditional advantages of individualism will still hold good” (*ibid.*: 380): efficiency, safeguard of personal liberty and variety of life. While Keynes, like Gesell, distanced himself from classical liberalism (Freedman, Harcourt and Nevile 2016), they also shared an emphasis on individualism (see further Lopes and de Almeida 2016).

Keynes (1973a [1925]) himself addressed the question of his political identity with respect to political parties in the UK, implying that he was closest to Liberalism, given his distaste for Conservatism and the Labour Party; as in other respects, Keynes pursued a “middle way”, which he put as steering a course between “Fascism” and “Bolshevism”. As O’Donnell (1989: 322ff) discusses, Keynes ([1982b] 1932: 500) advocated:

“liberal socialism, by which I mean a system where we can act as an organised community for common purposes and to promote social and economic justice, whilst respecting and protecting the individual – his freedom of choice, his faith, his mind and its expression, his enterprise and his property.”

Keynes elaborated on the constituents of his political philosophy with explicit reference to economic efficiency (as well as economic outcomes):

“The political problem of mankind is to combine three things: *economic efficiency, social justice, and individual liberty*. The first needs criticism, precaution, and technical knowledge; the second, an unselfish and enthusiastic spirit, which loves the ordinary man; the third, tolerance, breadth, appreciation of the excellencies of variety and independence,

which prefers, above everything, to give unhindered opportunity to the exceptional and to the aspiring” (Keynes 1973c [1926]: 311, emphasis added).

Pursuing this political philosophy therefore required the capacity to balance different types of consideration, combining moral and technical arguments (O’Donnell 1989: 287). “The transition from economic anarchy to a régime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability, will present enormous difficulties both technical and political” (Keynes 1973a [1925]: 305).

While considerations of economic efficiency are seen as separable from social and political goals according to the mainstream economic approach, neither Gesell nor Keynes shrank from their interdependencies: efficiency takes its meaning from the goals to which it is applied. This is evident in Keynes’s (tongue-in-cheek) assessment: “Gesell’s main book is written in cool, scientific language; though it is suffused throughout by a more passionate, a more emotional devotion to social justice than some think decent in a scientist” (Keynes 1973f [1936]: 355).

For Keynes, economics was, in the Classical tradition, a moral science and his stance on social justice was a moral one which imbued his economic analysis. Thus for example the first chapter of the *Tract on Monetary Reform* (Keynes 1971 [1923]) focuses on income distribution: inflation damages the position of the rentier, but is preferable on grounds of social justice to deflation because it is associated with unemployment. He returned to questions of income distribution

in the final chapter of *The General Theory*. Indeed Keynes’s critique of a monetary system which rewarded financial accumulation was, as for Gesell, a moral one:

“It seems clearer every day that the moral problem of our age is concerned with the love of money, with the habitual appeal to the money motive in nine-tenths of the activities of life, with the universal striving after individual economic security as the prime object of endeavour, with the social approbation of money as the measure of constructive success, and with the social appeal to the hoarding instinct as the foundations of the necessary provision for the family and for the future” (Keynes 1973b [1925]: 268-9).

Keynes’s Epistemology and Monetary Reform

For all the similarities between Gesell and Keynes’s social and political philosophy, there were important differences when it came to its application. In this section we explore how these differences arose from differences in epistemology.

Gesell only developed his theoretical justification *after* setting out his policy proposals (Dillard 1942). The initial proposals were thus, in Keynesian terms, the result of intuition, but they were only later given a theoretical justification. Significantly, Gesell presented his proposals as having general application: “No separate economic problem ... has hitherto been brought to my notice which could not be satisfactorily solved by application of the formulae, Free-Land and Free-Money” (Gesell 1929 [1916]: 441). Gesell implicitly adopted a positivist approach, believing in

the demonstrative truth of his argument as one with universal application. This belief was encouraged by the apparent success of small-scale, local experiments with stamped money, regardless of whether or not the same mechanisms could be held to apply in a different, large-scale, context or a context of financial innovation (Dow 2016).

Keynes's specific proposals, and analysis of Gesell's proposals, arose from a process of reasoning (albeit including intuition) which could not yield demonstrative truth or universal policy solutions. As Carabelli and Cedrini (2014a: 1065) put it, Keynes saw economics as a branch of logic: "of probable logic, where logic means a contingent (to cognitive circumstances) form of non-demonstrative reasoning relative to contexts of shifting reality". Demonstrative classical logic was ruled out by the nature of the subject matter, which is open, organic and interdependent. The inability to establish quantifiable probabilities was thus general, such that some degree of uncertainty was attached to most propositions. This was the case for economists as well as for economic agents, yet both are (usually) able to make decisions and act on the basis of beliefs arrived at by a process of practical reason. Economics was a particular case of practical reason – a "way of thinking". Keynes's "human logic" involves the application of reason to such evidence as is available, combined with conventional beliefs and intuition. Since the result is a series of chains of reasoning which cannot be combined into a formal closed system, the policy advice which arises is a matter of judgment rather than demonstrable truth, succeeding or not by a process of persuasion. Keynes thus focused on meritocracy as the route towards good policy design, while Gesell focused more on the individualistic benefits of a meritocratic society.

For Keynes policy advice was an exercise in practical reason, drawing on ideas on their own merits, not because they accorded with class distinctions or the manifestos of particular political parties. His objections were not so much to the policies that arose from these entrenched political positions (indeed Keynes borrowed from a range of political positions) as to the way in which set positions reduced the role for reasoning. For Keynes, the merits of particular policies depended on the circumstances and were conditioned by the potential for changing circumstances which rendered the prospective outcomes of policy uncertain. For him the difference between small-scale and large-scale application of reform ideas, for example, would have been highly significant.

Keynes thus took a more pragmatic approach to reform measures than Gesell's more utopian approach. O'Donnell (1989: 288-94) classifies Keynes's concern to erode the dominance of the money-making motive as a utopian political philosophy. But Keynes approached economic reforms as a more technical matter requiring attention to context and the exercise of judgment. Keynes was more wary of bold changes in social structure than Gesell because of his distrust of radical change (*ibid.*: 307). Thus for example he argued for expansion as providing a better context for addressing structural problems in the labour market than forcing relocation and retraining of labour, breaking unions, and so on (Keynes 1981b [1924]: 221). More generally, as Backhouse and Bateman (2009: 664) put it:

"If capitalism, then, was unsatisfactory, creating high interest rates, inequality, unemployment, and unedifying behavior on the part of capitalists, what was the solution? Keynes's answer was to reinstate the idea of progress, arguing that if progress could be taken far enough, these evils would be ameliorated if not removed."

Further, gradual institutional change was preferable because it was less socially disruptive and the effects were less uncertain. Implicitly employing a positivist epistemology, Gesell was confident that his monetary reform and land reform were all that was required to create the ideal liberal society. But for Keynes the reforms required of capitalism were more complex and evolved as capitalism itself evolved, with outcomes subject to varying degrees of uncertainty.

This complexity arose from interdependencies in society, which posed challenges for the application of theory which abstracted from many of these interdependencies. In order to theorise, abstraction is required. But then, in order for policy conclusions to be reached, consideration has to be given to the implications of this abstraction not applying in practice, inevitably requiring different, additional, forms of reasoning in order to assess how and how far the theory required modification. Carabelli and Cedrini (2014a, 2014b) explain this two-stage methodological approach, arguing persuasively that it forms a continuous thread from Keynes's early philosophical work to the development of his economics, and particularly to his work on monetary reform.

Keynes's epistemology applies not just to economic advisers but also to the beliefs on which economic agents act (Dow 2003). His concern with confidence in expectations as an important factor for spending plans was evident at an early stage in his thinking about economics. Thus for example in 1924 he was arguing for price stability in terms of expectations: 'What chiefly causes unemployment is the *anticipation* of falling prices' (Keynes 1981a [1924]: 190, emphasis added). Also he was arguing for deficit finance with the aim to "remove fear" and "inspire confidence" (Keynes 1981c [1924]: 223). But it was not until *The General Theory* that Keynes fully developed the implications of his open-system ontology and epistemology, with its focus on confidence in expectations, for his monetary theory.

As we have noted above, Keynes had already developed a moral position on money in terms of the goal of monetary accumulation. Accumulating money for Keynes flew in the face of reason, failing to serve the higher goal of the good life:

"The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease" (Keynes 1973d [1930]: 329).

Keynes saw the consequences of such behaviour as socially costly and inefficient. Since efficiency was one of the three pillars of Keynes's political philosophy, much of his thinking on monetary reform was therefore addressed to making the monetary system more efficient in serving social goals. This was evident in Keynes's (1971 [1923]) *Tract on Monetary Reform*, where he outlined how a stable price level (in terms of goods and services) might be achieved at lowest cost. In his writings over the years on monetary reform (from the *Tract* to the Keynes plan for Bretton Woods), Keynes put an ongoing focus on hoarding as a prime example of economic inefficiency.

In early (1933) drafts for *The General Theory*, Keynes had included a discussion in terms of Marx's monetary circuit of the difference between a monetary production economy and a neutral economy as forms of economic organisation (Rotheim 1981). In the neutral economy model,

money is simply a means of payment, but in the monetary production economy money is also a store of value. Rather than money being simply a mechanism for oiling the wheels of trade, production is geared to generating a monetary surplus instead of to facilitate demand for goods. The circuit C-M-C' is replaced by M-C-M' (where C represents commodities, M money; C' represents real growth over C while M' represents growth in monetary value). Gesell can be thought of as attempting to change economic organisation from M-C-M' to C-M-C'.

But in chapter 17 of *The General Theory* Keynes further distinguishes his view of money from the Classical view of it as a means of payment by highlighting the more economically significant roles of money, not only as a store of value, but also as a unit of account, in a monetary production economy. Where there is uncertainty about the valuation of other assets, debt, labour and trade contracts can more readily be established in terms of a safe asset, money. Money as a unit of account thus performs a core socio-economic function.

But further money as a store of value performs a core socio-economic function. He saw the store of value function represented in the long-term goal of monetary accumulation as a driving force of capitalism. But money also plays a key role in helping society deal with uncertainty. In general future returns cannot be known with certainty (even within a probability distribution), but uncertainty may increase (as weight of evidence falls and/or new realms of ignorance revealed). Then expenditure plans are put on hold and there is a demand for wealth to be held in the form of the safest asset, money. As uncertainty increases, so does the preference for liquidity:

“Money as a store of wealth is a barometer of the degree of our distrust in our own calculations and conventions concerning the future. ... The possession of actual money lulls our disquietude and the premium which we require to make us part with money is the measure of the degree of our disquietude” (Keynes 1973g [1937]: 116).

Yet by providing refuge from uncertainty money also causes economic damage by elevating the rate of interest above the level required for full employment. But imposing a negative interest to discourage hoarding might either be ineffective if uncertainty is very high, or might drive liquidity preference to alternative assets; this was the essence of Keynes's critique of Gesell's stamped money proposal.

For Keynes, money is by definition the safest asset, whatever that is. Traditionally, state liabilities have been the safest assets, except in times of high inflation. But there is a limit to how far the state can influence what is held as money if a negative interest rate is imposed. History shows that, when what is conventionally used as money becomes less safe (its value is less certain), or if the supply of a particular safe asset is restricted, society seeks alternative assets to use as money. This safety is represented by liquidity. Comparing all assets in terms of their return, carrying costs and liquidity, Keynes (1973f [1936]: 227) echoed Gesell in singling out money as bearing no carrying cost:

“it is an essential difference between money and all (or most) other assets that in the case of money its liquidity-premium much exceeds its carrying cost, whereas in the case of other assets their carrying cost much exceeds their liquidity-premium.”

As a result the money rate of interest which reflected this high liquidity premium relative to carrying costs “ruled the roost”, impeding the achievement of a full employment level of output. But Keynes pointed out that this would be the case for any asset “whose own-rate of interest is reluctant to decline as output increases” (*ibid.*: 229).

Keynes proceeded to set out the attributes of any asset which might serve as money: low elasticity of production, low elasticity of substitution for other assets, and low carrying costs relative to liquidity. Money is whatever has these characteristics. While this is open to influence by the state, it is not under the state’s control; experience of attempts to control the money supply by one definition in the 1980s simply diverted demand to alternative assets which the banking system ensured were more money-like. This illustrates Goodhart’s Law, that when a measure becomes a target, it ceases to be a good measure (Goodhart 1975). It also means that the introduction of stamped money would shift the balance between the return on that money and on alternatives, diverting demand to these alternatives, thus defeating the purpose of the reform. (Indeed this was the experience with the Alberta experiment in 1936; see Dow 2016.) Keynes (1973f [1936]: 357) pointed out that the negative interest rate would need to be extended from notes to bank deposits to limit diversion of demand. But that would simply shift diversion down the evolving line of eligible money assets.

For Keynes the rate of interest was a monetary rate, distinct from the return on real capital. It was a core argument of *The General Theory* that attempting to encourage saving with a higher interest rate would increase unemployment rather than reduce it. Keynes singled out Gesell as one of the few who similarly rejected the Classical conflation of the two rates. But he argued that Gesell lacked a theory of liquidity preference, and could therefore not explain how the monetary rate is set (indeed, why it should be positive in the first place). Further, while Gesell was concerned with the hoarding of money as a drain on planned expenditure, he could not explain how much was hoarded or what might change that demand. Yet, if the value of the stamp were to be set at a level to remove the difference between the money rate of interest and the real return on capital, an understanding of the level of difference was required.

Callegari (2016) argues that Gesell did have a theory of the rate of interest determined by the demand for cash relative to its supply. Gesell saw the demand for money as a vehicle for saving (relative to alternative savings media) as setting the floor to the rate of interest and the demand for money as a means of exchange setting its ceiling. The key to his reform proposal was to eliminate money as a savings medium by imposing a carrying cost. The savings demand might change over long periods as a result of changes in institutional arrangements such as the emergence of savings banks. But Gesell’s concern was with the long-term rate of interest, not with the short-run fluctuations in liquidity preference which concerned Keynes. While both saw inadequacy of effective demand as a general problem, Keynes focused on the particular problem of slumps when “the paradox of starving in the midst of plenty is most striking and outrageous” (Keynes 1982a [1932]: 87). For Keynes, then, addressing the problem of high liquidity preference in times of slump was the proper focus, rather than trying to change the form of money.

Keynes’s two-stage methodology applied to questions of monetary reform required consideration, in the relevant context, of the assumptions underlying the formal analysis – in this case that the demand for money was a given function of the rate of interest, and that a certain money asset

covered the full range of money assets. Gesell presumed that if money could be monopolised by the state, hoarding could effectively be eliminated and market interest rates could be driven down, all serving to encourage full-employment investment. But Keynes was much more aware of the complexities involved. Keynes (*ibid.*: 173) warned of the many interdependencies which intruded on the implementation of monetary policy and its effect on expenditure, including the following:

“For whilst an increase in the quantity of money may be expected, *cet. par.*, to reduce the rate of interest, this will not happen if the liquidity-preferences of the public are increasing more than the quantity of money; and whilst a decline in the rate of interest may be expected, *cet. par.*, to increase the volume of investment, this will not happen if the schedule of the marginal efficiency of capital is falling more rapidly than the rate of interest; and whilst an increase in the volume of investment may be expected ... to increase employment, this may not happen if the propensity to consume is falling off.”

Keynes’s alternative to Gesell’s approach was to use monetary and fiscal policy together to moderate economic downturns, promote stability and diffuse uncertainty, thus reducing the tendency for liquidity preference, and thus interest rates, to rise in downturns. This would also serve to erode the difference between the rate of interest and the return on real capital over the cycle, reducing the reward for hoarding. In the long run, the increasing stock of capital, encouraged further by economic stabilisation policies, would reduce the rate of return on capital itself, leading eventually to the euthanasia of the rentier. As Backhouse and Bateman (2009: 665) put it:

“capitalism could become free of its most objectionable features. However, even though the rate of profit would fall to zero, there would still be scope for enterprise: it would only be the riskless rate that would fall to zero, positive returns being available to those who took risks.”

Having considered Gesell’s plan in the 1930s, Keynes had argued that it was unworkable for reforming a domestic monetary system. Yet, consistent with his methodology, he was prepared to consider it in other circumstances, in particular in the international context. In devising a plan for an International Clearing Union, Keynes proposed that both debit and credit balances over one-quarter of a country’s quota would carry a 1% charge, and be subject to overall limits (Keynes 1980 [1942]: 118-20). (The system was not altogether symmetrical in that deficit countries would be subject to conditionality while surplus countries would only be required to “discuss” adjustment measures.) Keynes was concerned that surplus countries hoarded excess reserves, impeding the adjustment and rebalancing which would have been more efficient for the global economy. The charge on these surplus balances was to be an inducement to keep surplus balances low, contributing to a rebalancing of international payments. (The provision survived to some extent in the Articles of the IMF as the “scarce currency clause”, but, to my knowledge, it has never been used.)

What was different about this situation from the domestic situation analysed by Gesell? First, at that time it was conceivable to require all international transactions to be routed through central banks. There was no scope then for alternative international monies to emerge to meet any excess demand for liquidity. Further it was feasible to keep abreast of payments imbalances between a discrete number of national economies, and therefore to have a sense of demand for liquidity. Even

in recent decades there were discussions, in relation to the supply of SDR, about the global demand for money. Finally, Keynes envisaged controls on speculative capital flows (de Cecco 1979), which would have limited the scope for wild swings in payments imbalances and thus international money holdings. The system of international payments approximated a closed system. In other words the interdependencies abstracted from in this case were less significant than in the case of a domestic monetary system.

But events have overtaken the Bretton Woods system, with private sector transactions and alternative monies limiting the power of central banks in the international arena. Yet the hoarding of reserves is again a problem, particularly for developing countries (Carabelli and Cedrini 2010). Meanwhile negative interest rates have returned to the policy agenda; given the globalisation of finance negative domestic rates have international repercussions. Would Keynes regard modern domestic circumstances as warranting negative interest rates? Clearly there is a problem with a sustained high level of liquidity preference depressing effective demand. As a temporary measure Keynes might have supported the idea; given the shortage of safe assets there would be limited diversion of demand. But in line with Keynes's analysis there has not so far been a noticeable effect on spending. In any case, as a measure to deter hoarding more generally, Keynes's critique of Gesell would still apply. Keynes was dubious about the effectiveness of monetary policy in a recession compared to the less uncertain stimulative scope of fiscal policy.

Conclusion

It has been argued here that Keynes was drawn to Gesell's writing by a shared social and political philosophy. Both occupied the middle ground between classical, free-market, liberalism on the one hand and communism on the other, a position captured in Keynes's term "liberal socialism". Both identified a fundamental problem with unfettered capitalism: the urge for financial accumulation being rewarded by a higher rate of return than was warranted by the return on real capital, resulting in an unjust maldistribution of income. Both sought to reform capitalism rather than to eradicate it.

But their very different epistemologies led Gesell and Keynes to different policy conclusions. Gesell saw the solution in a negative interest rate on money, whose supply would be controlled by the state; he presented this solution in positivist terms as having universal application. However, based on his non-positivist epistemology, Keynes had developed a theory of liquidity preference which underpinned his theory of the rate of interest as a monetary rate. While money served a useful social function in appearing to provide protection from uncertainty, he saw the consequences of high liquidity preference during recessions as preventing investment reaching its full-employment level.

While Keynes found the idea of a negative rate of interest appealing as a way of counteracting this tendency, it would be insufficient to deal with fluctuation in liquidity preference. In any case it would simply encourage diversion of demand for liquidity to alternative liquid assets beyond the scope of control by the authorities and would thus be unworkable. Keynes instead favoured a combination of stimulative fiscal policy during recessions, supported by a monetary policy

addressed to maintaining low, stable long-term interest rates as providing the best climate for capital investment. Reducing uncertainty in itself would promote the reduction in the money rate of interest. Because Keynes's epistemology meant that he saw policy advice as provisional and contextual, he was nevertheless prepared to promote the idea of a negative rate of interest when it came to the very different context of reform of the international monetary system.

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