

# The World's Economic Outlook

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The immediate problem for which the world needs a solution to-day is different from the problem of a year ago. Then it was a question of how we could lift ourselves out of the state of acute slump into which we had fallen and raise the volume of production back toward a normal figure. But to-day the primary problem is to avoid a far-reaching financial crisis. There is now no possibility of reaching a normal level of production in the near future. Our efforts are directed toward the attainment of more limited hopes. Can we prevent an almost complete collapse of the financial structure of modern capitalism? With no financial leadership left in the world and profound intellectual error as to causes and cures prevailing in the responsible seats of power, one begins to wonder and to doubt. At any rate, no one is likely to dispute that for the world as a whole the avoidance of financial collapse, rather than the stimulation of industrial activity, is now the front-rank problem. The restoration of industry must come second in order of time. Nowhere, I believe, is this better understood than in the United States.

The immediate causes of the world financial panic—for that is what it is—are obvious. They are to be found in a catastrophic fall in the money value, not only of commodities, but of practically every kind of asset. The 'margins,' as we call them, upon confidence in the maintenance of which the debt and credit structure of the modern world depends, have 'run off.' In many countries the assets of the banks are no longer equal, conservatively valued, to their liabilities to their depositors. Debtors of all kinds find that their securities are no longer the equal of their debts. Few governments still have revenues sufficient to cover the fixed money charges for which they have made themselves liable.

Moreover, a collapse of this kind feeds on itself. We are now in the phase where the risk of carrying assets with borrowed money is so great that there is a competitive panic to get liquid. And each individual who succeeds in getting more liquid forces down the price of assets in the process of getting liquid, with the result that the margins of other individuals are impaired and their courage undermined. And so the process continues. It is, indeed, in the United States itself that this has proceeded to the most incredible lengths. The collapse of values there has reached astronomical dimensions. I scarcely

need to remind American readers of the facts. But the United States only offers an example—extreme, owing to the psychology of its people—of a state of affairs which exists in some degree almost everywhere.

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

We have here an extreme example of the disharmony of general and particular interest. Each nation, in an effort to improve its relative position, takes measures injurious to the absolute prosperity of its neighbors; and, since its example is not confined to itself, it suffers more from similar action by its neighbors than it gains by such action itself. Practically all the remedies popularly advocated to-day are of this internecine character. Competitive wage reductions, competitive tariffs, competitive liquidation of foreign assets, competitive currency deflations, competitive economy campaigns—all are of this beggar-my-neighbor description. For one man's expenditure is another man's income. Thus, while we undoubtedly increase our own margin, we diminish that of someone else; and if the practice is universally followed everyone will be worse off. An individual may be forced by his private circumstances to curtail his normal expenditure, and no one can blame him. But let no one suppose that he is performing a public duty in behaving in such a way. The modern capitalist is a fair-weather sailor. As soon as a storm rises, he abandons the duties of navigation and even sinks the boats which might carry him to safety by his haste to push his neighbor off and himself in.

Unfortunately the popular mind has been educated away from the truth, away from common sense. The average man has been taught to believe what his own common sense, if he relied on it, would tell him was absurd. Even remedies of a right tendency have become discredited because of the failure of a timid and vacillating application of them. Now, at last, under the teaching of hard experience, there may be some slight improvement toward wiser counsels. But through lack of foresight, and constructive imagination the financial and political authorities of the world have lacked the courage or the conviction at each stage of the decline to apply the available remedies in sufficiently drastic doses; and by now they have allowed the collapse to reach a point where the whole system may have lost its resiliency and its capacity for a rebound.

Meanwhile the problem of reparations and war debts darkens the whole scene. We all know that these are now as dead as mutton, and as distasteful as stale mutton. There is no question of any substantial payments' being made. The problem has ceased to be financial and has become entirely political and psychological. If in the next six months the French were to make a very moderate and reasonable proposal in final settlement, I believe that the Germans, in spite of all their present protestations to the contrary, would accept it and would be wise to accept it. But to all outward appearances the French mind appears to be hardening against such a solution and in favor of forcing a situation in which Germany will default. French politicians (and in candid moments American politicians may confess to a fellow feeling) are conscious that it will be much easier for them, vis-a-vis the home political front to get rid of reparations by a German default than to reach by agreement a moderate sum, most of which might have to be handed on to the United States. Moreover, this outcome would have what they deem to be the advantage of piling up grievances and a legal case against Germany for use in connection with the other outstanding questions created between the two countries by the Treaty of Versailles. I cannot, therefore, extract much comfort or prospective hope from developments in this sphere of international finance.

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

The outstanding ground for cheerfulness lies, I think, in this—that the system has shown already its capacity to stand an almost inconceivable strain. If anyone had prophesied to us a year or two ago the actual state of affairs which exists to-day, could we have believed that the world could continue to maintain even that degree of normality which we actually have? This remarkable capacity of the system to take punishment is the best reason for hoping that we still have time to rally the constructive forces of the world.

Moreover, there has been a still recent and, in my judgment, most blessed event of which we have not yet had time to gain the full benefit. I mean Great Britain's abandonment of the gold standard. I believe that this event has been charged with beneficent significance over a wide field. If Great Britain had somehow contrived to maintain her gold parity, the position of the world as a whole to-day would be considerably more desperate than it is, and default more general.

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

This means a very great abatement of the deflationary pressure which was existing six months ago. Over wide areas producers are now obtaining prices in terms of their domestic currencies which are not so desperately unsatisfactory in relation to their costs of production and to their debts. These events have been too recent to attract all the attention they deserve. There are several countries of which it could be argued that their economic and financial condition may have turned the corner in the last six months. It is true, for example, of Australia. I think it may be true of Argentina and Brazil. There has been an extraordinary improvement in India, where the export of gold previously hoarded, a consequence of the discount of sterling in terms of gold which no one predicted, has almost solved the financial problem.

As regards Great Britain herself, the world has a little overlooked, I think, the change since last September, which represents, if not an absolute, at least a relative improvement. The number of persons employed to-day exceeds by 200,000 the number employed a year ago—which is true of no other industrial country. This has been achieved in spite of the fact that there has been, even during the past year, a further rise in real wages; for, while money wages have fallen by 2 per cent, the cost of living, in spite of the depreciation of the sterling exchange, has fallen by 4 per cent. And the explanation is an encouragement for the future. For the explanation lies in the fact that over a wide field of her characteristic activities Great Britain to-day is once again the cheapest producer in the world. The forces set on foot last September have by no means had time to work their full effect. Yet even to-day—though, since popular knowledge of a foreign country is always out of date, it may surprise you that I should say so—Great Britain is decidedly the most prosperous country in the world.

But there is a second major consequence of the partition of the countries of the world into two groups, on and off the gold standard respectively. For the two groups roughly correspond to those which have been exercising deflationary pressure on the rest of the world, by having a net creditor

position which causes them to draw gold, and those which have been suffering this pressure. Now the departure of the latter group from gold means the beginning of a process toward the restoration of economic equilibrium. It means the setting into motion of natural forces which are certain in course of time to undermine and eventually destroy the creditor position of the two leading creditor gold countries. The process will be seen most rapidly in the case of France, whose creditor position is likely to be completely undermined before the end of 1932. The cessation of reparation receipts, the loss of tourist traffic, the competitive disadvantage of her export trades with non-gold countries, and the importation of a large proportion of the world's available gold, will, between them, do that work. In the case of the United States the process may be a slower one, largely because the reduction of tourist traffic, which costs France so dear, means for the United States a large saving. But the tendency will be the same. A point will surely come when the current release of gold from India and the mines will exceed the favorable balance of the gold countries.

Thus a process has been set moving which may relieve in the end the deflationary pressure. The question is whether this will have time to happen before financial organization and the system of international credit break under the strain. If it does, then the way will be cleared for a concerted policy, probably under the leadership of Great Britain, of capital expansion and price raising throughout the world. For without this the only alternative solution which I can envisage is one of the general default of debts and the disappearance of the existing credit system, followed by rebuilding on quite new foundations.

The following, then, is the chapter of events which might conceivably—I will not attempt to evaluate the probability of their occurrence—lead us out of the bog. The financial crisis might wear itself out before a point of catastrophe and general default had been reached. This is, perhaps, happening. The greatest dangers may have been surmounted during the past few months. *Pari passu* with this, the deflationary pressure exerted on the rest of the world by the unbalanced creditor position of France and the United States may be relaxed, through their losing their creditor position as a result of the steady operation of the forces which I have already described. If and when these things are clearly the case, we shall then enter the cheap-money phase. This is the point at which, on the precedent of previous slumps, we might hope for the beginning of recovery. I am not confident, however, that on this occasion the cheap-money phase will be sufficient by itself to bring about an adequate recovery of new investment. It may still be the case that the lender, with his confidence shattered by his experiences, will continue to ask for new enterprise rates of interest which the borrower

cannot expect to earn. Indeed, this was already the case in the moderately-cheap-money phase which preceded the financial crisis of last autumn.

If this proves to be so, there will be no means of escape from prolonged and perhaps interminable depression except by direct state intervention to promote and subsidize new investment. Formerly there was no expenditure out of the proceeds of borrowing that it was thought proper for the State to incur except for war. In the past, therefore, we have not infrequently had to wait for a war to terminate a major depression. I hope that in the future we shall not adhere to this purist financial attitude, and that we shall be ready to spend on the enterprises of peace what the financial maxims of the past would only allow us to spend on the devastations of war. At any rate, I predict with an assured confidence that the only way out is for us to discover some object which is admitted even by the deadheads to be a legitimate excuse for largely increasing the expenditure of someone on something!

In all our thoughts and feelings and projects for the betterment of things, we should have it at the back of our heads that this is not a crisis of poverty, but a crisis of abundance. It is not the harshness and the niggardliness of nature which are oppressing us, but our own incompetence and wrong-headedness which hinder us from making use of the bountifulness of inventive science and cause us to be overwhelmed by its generous fruits. The voices which—in such a conjuncture—tell us that the path of escape is to be found in strict economy and in refraining, wherever possible, from utilizing the world's potential production are the voices of fools and madmen. There is a passage from David Hume in which he says: 'Though the ancients maintained that, in order to reach the gifts of prophecy, a certain divine fury or madness was requisite, one may safely affirm that, in order to deliver such prophecies as these, no more is necessary than merely to be in one's senses, free from the influence of popular madness and delusion.'

Obviously it is much more difficult to solve the problem to-day than it would have been a year ago. But I believe even now, as I believed then, that we could still be, if we would, the masters of our fate. The obstacles to recovery are not material. They reside in the state of knowledge, judgment, and opinion of those who sit in the seat of authority. Unluckily the traditional and ingrained beliefs of those who hold responsible positions throughout the world grew out of experiences which contained no parallel to the present, and are often the opposite of what one would wish them to believe to-day. In France the weight of authoritative opinion and public sentiment is genuinely and sincerely opposed to the whole line of thought which runs through what I have been saying. In the United States it is almost inconceivable what rubbish a public man has to utter to-day if he is to keep respectable. Serious and sensible bankers, who as men of common

sense are trying to do what they can to stem the tide of liquidation and to stimulate the forces of expansion, have to go about assuring the world of their conviction that there is no serious risk of inflation, when what they really mean is that they cannot yet see good enough grounds for daring to hope for it. In Great Britain opinion is probably more advanced. I believe that the ideas of British bankers are on sounder lines than those current elsewhere. What we in London have to fear is timidity and a reluctance to act boldly.

Nothing could be a greater advantage to the world than that the United States should solve her own domestic problems, and, by solving them, provide the stimulus and the example to other countries. But observing from a distance,—a nearer view of the prospect might modify my pessimism,—I am unable to imagine a course of events which could restore health to American industry in the near future. I even fancy that, so far from the United States giving the example, she will herself have to wait for stimulus from outside. I, therefore, dare to hope—however improbable it may seem in the light of recent experience—that relief may come first of all to Great Britain and the group of overseas countries which look to her for financial leadership. It is a dim hope, I confess. But I discern less light elsewhere.

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