



## Note by Lord Keynes

Keynes

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respects progressively, from ideally free competition, there is bound to be some friction in the determination of who gets what, and why. So long, moreover, as we preserve anything whatever of the spirit of free contract, the enterpriser must be as free to reject the demands of workers as are the latter to reject the terms that the enterpriser may offer. Any unemployment that may result from this cause is an inevitable phase of freedom. It would be as fatal to freedom to insist that, to avoid any unemployment whatever, the enterpriser must pay whatever monetary wages organised workers may demand, and that the State must so shape its monetary policy as to make this possible, as it would be to insist, to the same end, that workers must accept whatever monetary wage a fascist group of employers might see fit to impose.

FRANK D. GRAHAM

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#### NOTE BY LORD KEYNES

Prof. Graham's statement of my point of view is a very fair one. But in the note on which he comments I expressed myself much more briefly than the nature of the subject-matter really allowed. So, to diminish the chances of misunderstandings, there are one or two points I should like to re-state and emphasise.

I have no quarrel with a tabular standard as being intrinsically more sensible than gold. My own sympathies have always fallen that way. I hope the world will come to some version of it some time. But the opinion I was expressing was on the level of contemporary practical policy; and on that level I do not feel that this is the next urgent thing or that other measures should be risked or postponed for the sake of it. These are some of my reasons:—

1. The immediate task is to discover some orderly, yet elastic method of linking national currencies to an international currency, whatever the type of international currency may be. So long as national currencies change their values out of step with one another, I doubt if this task is made easier by substituting a tabular standard for gold. Indeed the task of getting an *elastic* procedure may be made more difficult, since a tabular standard might make rigidity seem more plausible. Perhaps unjustly, I was suspecting Prof. Hayek of seeking a new way to satisfy a propensity towards a rigid system.

2. In particular, I doubt the political wisdom of appearing, more than is inevitable in any orderly system, to impose an

external pressure on national standards and therefore on wage levels. Of course, I do not want to see money wages forever soaring upwards to a level to which real wages cannot follow. It is one of the chief tasks ahead of our statesmanship to find a way to prevent this. But we must solve it in our own domestic way, feeling that we are free men, free to be wise or foolish. The suggestion of *external* pressure will make the difficult psychological and political problem of making good sense prevail still more difficult.

3. This does not strike me as an opportune moment to attack the vested interests of gold holders and gold producers. Why waste one's breath on what the Governments of the United States, Russia, Western Europe and the British Commonwealth are bound to reject?

4. The right way to approach the tabular standard is to evolve a technique and to accustom men's minds to the idea through international buffer stocks. When we have thoroughly mastered the technique of these, which is sufficiently difficult without the further complications of the tabular standard and the oppositions and prejudices which this must overcome, it will be time enough to think again. On buffer stocks I can enthusiastically join forces with Professor Frank Graham and Mr. Benjamin Graham. Though even here I am beginning to feel a slight reserve about whether just this moment, when many materials are scarce, is the right moment to start; they can so easily be turned into producers' ramps, and if they start that way the prospect of a brilliant improvement will have been prejudiced.

All this, I agree, is very low-level talk; for which I apologise. But it was in fact from a low level that I was, in the first instance, addressing Professor Hayek on his dolomite.

KEYNES

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#### OFFICIAL PAPER

##### THE UNITED STATES IN THE WORLD ECONOMY<sup>1</sup>

THE Department of Commerce Report gives a detailed account of the U.S. balance of payments from 1919 to 1939, and, inci-

<sup>1</sup> *The United States in the World Economy*. Prepared in the International Economics and Statistics Unit of the Bureau of Foreign and Domestic Commerce, U.S. Department of Commerce. By Hal. B. Larry and Associates; with a foreword by Wayne C. Taylor, Under-Secretary of Commerce. (Government Printing Office, Washington, 1943; reprinted by H.M. Stationery Office, London, 1944. Pp. viii + 216. 2s. 6d.)