

A Managed Currency

From Mr J. M. Keynes [Baron 1942]

Sir,

I hesitate to trespass upon your space yet again. This most fundamental problem of modern economic society requires a wider flight of thought and speech than I can expect you to accommodate. Confined within the birdcage of a column, one can but hop helplessly from one small perch to another.

But when Mr Wynnard Hooper gives, with your aid, much prominence to the statement that it is my policy to hand over to the Treasury the future management of our currency, I am compelled to send you a disclaimer. The passage in my 'Tract on Monetary Reform', which Mr Hooper detaches from its context, concludes an argument in which I maintain that he who manages the volume of credit is master, that the note-issue merely follows suit, and that, therefore, when credit is managed note-issue needs no management at all and may just as well be left in the hands of the Treasury, who are anyhow entitled to the profit. Mr Hooper is so steeped in the old idea, that the management of the note-issue is the essential thing, that he does not notice how I have deposed it by substituting the management of credit.

So far from wishing to diminish the authority of the Bank of England, I regard this great institution as a heaven-sent gift, ideally suited to be the instrument of the reforms I advocate. We have here a semi-independent corporation within the State, with immense prestige and historical traditions, not (in fact) working for private profit, with no interests whatever except the public good, yet detached from the wayward influences of politics. In the last resort the Cabinet and the Chancellor of the Exchequer must have their way - in the future, as now and always. But it must be the Bank of England which manages our credit system day by day and takes its orders from no one except in the most public way and under public protest.

The Bank of England is a type of that socialism of the future which is in accord with British instincts of government, and which - perhaps one may hope - our Commonwealth is evolving within its womb. The universities are another example of the semi-independent institutions divested of private interest which I have in mind. The State is generally sterile and creates little. New forms and modes spring from the fruitful minds of individuals. But when a corporation, devised by private resource, has reached a certain age and a certain size it socializes itself, or it becomes an abuse, or it falls away in decay. As time goes on not a few of the institutions which a hundred years ago were individualistic experiments are socializing themselves. But none, perhaps, except the Bank of England - and (should I add?) *The Times* newspaper - has yet completed the process. I differ from the immediate policy of the Bank of England; but it is on the greatness and the prestige of this institution, which no one has done more to increase than the Governor who now holds office, that I rest my hopes for the future.

We still pretend to manage our currency as though we did all our business with lumps of sacred metal. But the pretence wears thinner and thinner. Those who advocate the deliberate management of our credit system from the point of view that our credit-money represents not gold but the actual working capital of our industries must not be in a hurry; for they are proposing a big change in a sphere where those who must settle the matter are necessarily unfamiliar with the intricate reasons for the change. The reformers are impugning an orthodoxy and must expect, therefore, at this stage to be met with 'moral' objections, with 'psychological' prejudices, and with appeals to the immutability of human nature as exhibited in the fashions of today. At present, to debate monetary reform with a City editor (or an ex-City editor) is like debating Darwinism with a bishop 60 years ago. But even bishops - so why not City editors? - move in the end.*

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For full version of abbreviations click 'Abbreviations' on FB's website.

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