political controversy, the Essays stand unique in economic literature as an almost unbroken series of prophecies come true.

It so happens that the issues which evoked these prophecies had most to do with causing and aggravating the industrial depression from which the world is now suffering. This started in England while we were still riding the waves of prosperity. Because of the light they throw on the origin of our own depression and the part played by reparations, war-debts, tariffs, inflation and deflation, the book calls for more than passing notice.

Writing in 1919 and urging the cancellation of reparation claims and inter-governmental debts, Mr. Keynes dryly remarks that "France would be a loser on paper only, for she will never secure the actual fulfilment of her present claims" (p. 29), a "reckless" assertion in 1919 of a positive fact in 1932. No less prophetic, as our hindsight now tells us, was the statement made at the same time that "the existence of the great war debts is a menace to financial stability everywhere. There is no European country in which repudiation may not soon become an important political issue" (p. 36). Developing the same thought, he concluded: "There may, therefore, be ahead of us a long, silent process of semi-starvation, and of a gradual, steady lowering of the standards of life and comfort" (p. 45).

Writing in 1921 on "War Debts and the United States," and pointing out that the huge excess of exports from the United States over imports was only made possible by the huge loans made by us to Europe, he says: "For a time the policy of loans can meet the situation; but, as the interest on past loans mounts up, it must in the long run aggravate it" (p. 54); "a continuance of them cannot provide a solution for the existing disequilibrium in the balance of indebtedness. . . . Ultimately, and probably soon, there must be a readjustment of the balance of exports and imports. America must buy more and sell less. This is the only alternative to her making to Europe an annual present" (p. 56).

How true and prophetic the last remark proved!

To those who are fond of wandering in the mazes of the theories of overproduction and under-consumption and lack of planning-a-la-Soviet as the cause of our present depression, the following forecast of our present trouble, refreshingly plain in the simplicity of its outline and striking because of the prophetic nature of its utterance, is commended:

> It is useless for the United States to suppose that an equilibrium position can be reached on the basis of her exporting at least as much as at present, and at the same time restricting her imports by a tariff. Just as the Allies demand vast payments from Germany, and then exercise their ingenuity to prevent her paying them, so the American Administration devises, with one hand, schemes for financing exports, and with the other, tariffs which will make it as difficult as possible for such credits to be repaid. . . . By the shipment to the United States of all the bullion in the world and the erection there of a sky-scraping golden calf, a short postponement may be gained (p. 57).

(What a clear forecast, in 1921, of the ephemeral nature of the "New Era" which so many of our financiers and, alas, even economists as late as 1928 and 1929 thought we had achieved!) He continues:

> In any case, the readjustment will be severe, and injurious to important interests. If, in addition, the United States exacts payment of the Allied debts, the position will be intolerable (p. 57).

(What a prophecy of the inevitable collapse into which we are being rushed headlong by our blind political leaders!)

Having thus forecast nearly a decade in advance the coming effects of our tariff and war-debt policies, and having during the ensuing years devoted himself to the criticism of the deflation policy followed by the British Government, he was able to register the following triumphant note ten years later upon the collapse of the gold standard in Great Britain:

> Now . . . we and all the countries following our example will gain the benefits of higher prices. But none of us will secure a competitive advantage at the expense of the others. Thus the competitive disadvantage will be concentrated on those few countries which remain on the gold standard. On these will fall the curse of Midas. As a result of their unwillingness to exchange their exports except for gold their export trade will dry up and disappear until they no longer have either a favorable trade balance or foreign deposits to repatriate. This means in the main France and the United States. Their loss of export trade will be an inevitable, a predictable, outcome of their own action. These countries, largely for reasons resulting from the war and the war settlements, are owed much money by the rest of the world. They erect tariff barriers which prevent the payment of these sums in goods. They are unwilling to lend it. They have already taken nearly all the available surplus gold in the whole world. There remained, in logic, only one way by which the rest of the world could maintain its solvency and self-respect; namely, to cease purchasing these countries' exports. So long as the gold standard is preserved—which means that the prices of international commodities must be much the same everywhere—this involved a competitive campaign of deflation, each of us trying to get our prices down faster than the others, a campaign which had intensified unemployment and business losses to an unendurable pitch.

> But as soon as the gold exchange is ruptured the problem is solved. For the appreciation of French and American money in terms of the money of other countries makes it impossible for French and American exporters to sell their goods. The recent policy of these countries could not, if it was persistently pursued, end in any other way. They have willed the destruction of their own export industries, and only they can take the steps necessary to restore them. The appreciation of their currencies must also embarrass gravely their banking systems. The United States, had, in effect, set the rest of us the problem of finding some way to do without her wheat, her copper, her cotton, and her motor-cars. She set the problem, and, as it has only one solution, that solution we have been compelled to find (pp. 292-293).

History having thus vindicated Keynes' brilliant analysis and forecasts of a decade, he was far from happy at the results, which no one was more anxious to avert. Indeed his premonitory utterances were devoted to their prevention. He, therefore, winds up his discussion of the situation with the following admonition:

> Yet this is quite the opposite of the note on which I wish to end. The solution to which we have been driven, though it gives immediate relief to us and transfers the strain to others, is in truth a solution unsatisfactory for every one. The world will never be prosperous without a trade recovery in the United States. Peace and confidence and a harmonious economic equilibrium for all the closely inter-related countries of the globe is the only goal worth aiming at (pp. 293-294).

From these extracts, the reader will see that Keynes' mind deals with world-wide movements and the economic forces which tend to maintain world economic activities on an even keel. The balance wheel of these activities is the price equilibrium which governs the economic relations between different countries as well as between different groups in each country. Anything that disturbs this price equilibrium upsets in turn the smooth working of the economic machine and brings about disturbances which may range from a temporary interruption to a major depression.

Writing in 1927 he says: "Unemployment and trade depression in Great Britain have been due to a rupture of the previous equilibrium between the sterling price level of articles of international commerce and the internal value of sterling for the purposes on which the average Englishman spends his money-income." And that this is true not only of Great Britain is expressed in his "belief that fluctuations of trade and employment are at the same time the greatest and the most remediable of the economic diseases of modern society, that they are mainly diseases of our credit and banking system" (pp. 232-233).

This is brought about by the workings of our unstable standard of value, gold. Since the value of an ounce of gold varies just as that of any other commodity, and the value of every possession and every service is expressed in that unstable medium, it follows that all business activities are influenced not only by every change, but by any *expected* change in the price level.

> If, for any reason right or wrong, the business world *expects* that prices will fall, the processes of production tend to be inhibited; and if it expects that prices will rise, they tend to be over-stimulated. A fluctuation in the measuring-rod of value does not alter in the least the wealth of the world, the needs of the world, or the productive capacity of the world. It ought not, therefore, to affect the character or the volume of what is produced (p. 98).
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> The fact that the expectation of changes in the *general* price level affects the processes of production, is deeply rooted in the peculiarities of the existing economic organisation of society (p. 99).
>
> There is also a considerable risk directly arising out of instability in the value of money. During the lengthy process of production the business world is incurring outgoings in terms of *money*—paying out in money for wages and other expenses of production—in the expectation of recouping this outlay by disposing of the product for *money* at a later date. That is to say, the business world as a whole must always be in a position where it stands to gain by a rise of price and to lose by a fall of price. Whether it likes it or not, the technique of production under a regime of money-contract forces the business world always to carry a big speculative position; and if it is reluctant to carry this position, the productive process must be slackened (p. 100).
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> Now it follows from this, not merely that the *actual occurrence* of price changes profits some classes and injures others . . . but that a *general fear* of falling prices may inhibit the productive process altogether. For if prices are expected to fall, not enough risk-takers can be found who are willing to carry a speculative "bull" position, and this means that entrepreneurs will be reluctant to embark on lengthy productive processes involving a money outlay long in advance of money recoupment—whence unemployment. The *fact* of falling prices injures entrepreneurs; consequently the *fear* of falling prices causes them to protect themselves by curtailing their operations; yet it is upon the aggregate of their individual estimations of the risk, and their willingness to run the risk, that the activity of production and of employment mainly depends (p. 101).

Such being the cause of the ups and downs of business,

> The remedy would lie . . . in so controlling the standard of value that whenever something occurred which, left to itself, would create an expectation of a change in the general level of prices, the controlling authority should take steps to counteract this expectation by setting in motion some factor of a contrary tendency. Even if such a policy were not wholly successful, either in counteracting expectations or in avoiding actual movements, it would be an improvement on the policy of sitting quietly by whilst a standard of value, gov-