22 Consumption and money-making in Keynes

Enjoyments of life or morbid instincts?

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(Joan Robinson 1964, p. 73)

Premise

In his most famous and influential book, The General Theory, Keynes assigned a central role to expenditure on consumption goods, but unlike certain others who had praised the virtue of spending, for instance Mandeville or Malthus, we also have evidence that Keynes denounced the pursuit of money-making as an end in itself; this is particularly apparent in Economic Possibility for our Grandchildren, but it also surfaced in several other parts of his work, especially in the mid- and late 1920s.

As the role of expenditure in determining income and employment came to occupy a central role in the development of his mature theory, probably from 1932 onwards, his condemnation of the money-making pursuit — which was the focus of several of his Essays in Persuasion — took a different turn. Individual thriftiness and hoarding were stigmatised, not only as psychological pathologies or heritage of Victorian values but as obstacles to solving the problems of unemployment and Depression. They were seen as detrimental to a pursuit of the aggregate level of expenditure necessary to generate a sufficient level of employment and preserve the cultural and moral values that will make a ‘better’ society. This was indeed a revolutionary approach that was not too easy to digest. As Joan Robinson (1964, p. 73) nicely put it, ‘Worse than private vices being public benefits, it seems that the new [i.e. The General Theory] doctrine was the still more disconcerting proposition that private virtues (of thriftiness and careful husbandry) were public vices.’

So, rather than two opposite views, Keynes’s position in regard to consumption and money-making became two parts of the same whole. The point I will argue in my contribution is that in Keynes, the need both to maintain high-level consumption expenditure and, at the same time, to ‘manage’ the money-instinct of individuals in such a way as to attain a society in which...
abundance of material goods is general and not a privilege of the few are complementary components of Keynes's vision, serving the same purpose in his policy recommendations.

The ‘fundamental truth’

In The General Theory, consumption is seen as the necessary means for the well-being of society; the propellant, so to speak, in the machinery to boost employment and income. However, Keynes sees two major problems related to consumption. The first is satiety, which he believed derived from a ‘fundamental psychological law’, according to which ‘men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income’ (CWK VII, p. 96). It follows that because ‘the larger our incomes, the greater, unfortunately, is the margin between our incomes and our consumption’, the government must find ways to fill the gap unless it accepts a level of unemployment sufficient ‘to keep us so poor that our consumption falls short of our income by no more than the equivalent of the physical provision for future consumption which it pays to produce to-day’ (CWK VII, p. 105).

The second problem associated with consumption is how best to bring about the desired increase in the propensity to consume in order to sustain aggregate demand. The means could be found in a fiscal policy aiming at more equitable distribution of incomes, thereby increasing aggregate consumption. However, this is a policy that is bound to come up against opposition and is by no means easy to implement. Alternatively, fiscal policy can be directed to boosting aggregate consumption through public expenditure, entrusting the government with ‘the task of adjusting to one another the propensity to consume and the inducement to invest’ (CWK VII, p. 380).

This policy recommendation — boosting public expenditure through deficit spending — has been ridiculed as if based on the ‘digging holes in the ground’ argument: it does not matter how public money is spent as long as it is spent because it will generate income and, through the multiplier, the savings necessary to finance the initial expenditure.

However, Keynes's 'digging holes' suggestion is a paradox meant to illustrate a principle, not to provide an instance in the blueprint of public work schemes; it shows how expenditure on goods that have no useful purposes may nevertheless produce the desired effects on income and employment.

Gold-mining, which is just another form of unearthing bottles dug in the ground, or pyramid-building had positive effects on income and employment because they yielded fruits that 'could not serve the needs of man by being consumed' and did not 'stale with abundance'. (CWK VII, p. 131)

There are two points to note here. The first is that 'it would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing'.

(CWK VII, p. 129). The political difficulties arise mainly from 'the education of our statesmen on the principles of the classical economies' (Ibid).

Keynes has many scathing comments on the prevailing attitude against deficit spending, which might well be applied to today's defenders of the austerity programs: 'the man who regards all this [loan-financed public works, particularly public expenditure on housing] as a senseless extravagance which will impoverish the nation, as compared with doing nothing and leaving millions unemployed, should be recognized for a lunatic' (CWK XXI, p. 338).

The second point is that expenditure on 'useful things' may not be as effective: 'Two pyramids, two masses for the dead, are twice as good as one; but not two railways from London to York' (CWK VII, p. 129).

The argument is that the decreasing marginal efficiency of investment, unless the rate of interest is falling pari passu sets a limit on the possibility of increasing the stock of wealth by means of 'useful' forms of loan expenditure. Waste results not when expenditure is channelled to objects that are not 'useful' but when they are not 'economically' viable. Financial availability is not so much the constraining factor in the augmentation of objects that 'could serve the needs of man'; the constraints are implied by their diminishing marginal utility and supplementary costs to maintain them.

It is not the uselessness of consumption goods that matters but rather their being the outlet of expenditure and therefore of somebody's else income. This is the 'fundamental truth' that we see Keynes invoking again and again to persuade the economists and the public at large.

The ‘real values of life’

Keynes's standing on the vital importance of boosting consumption via creation of inducement to private investment and public spending raises the question of what we should make, then, of his remarks in Economic Possibilities for our Grandchildren, an essay published only six years before The General Theory in which the pursuit of material objects of wealth is seen as a private and public vice and the love of money as 'possession' or as the by-product of a morbid instinct? Should we interpret these remarks as superseded by his advocacy of deficit spending? Or by his later understanding of the necessity of sustaining effective demand?

In fact, consumption took on a prominent role for Keynes when he was devising tools to raise income and employment. This intuition came quite early in the development of his ideas, although it later became a cornerstone in his theory and policy recommendations.

Between 1928 and 1930 — after the conception of Economic Possibilities for our Grandchildren — a notable advance towards advocacy of public expenditure as a way to increase private expenditure can be clearly detected in Keynes's thought. Although he was to make full use of the multiplier only in the Means to Prosperity (1933), when his theory of effective demand was also
beginning to take shape, there is abundant evidence that his thinking was moving in that direction much earlier.\(^7\) As Mogridge explains, *Economic Possibilities for our Grandchildren* was conceived in a particular phase in the development of Keynes's ideas:

> [It] was first presented in 1928 as a talk to several small societies including the Essay society of Winchester College and the Political Economy Club at Cambridge. In June 1930 Keynes expanded his notes into a lecture on the 'Economic Possibilities for our Grandchildren', which he gave in Madrid. It appeared in literary form in two instalments in *The Nation and Athenaeum*, 11 and 18 October 1930, in the mid of the slump. (Editorial notes, CWK IX, p. 321)

It was published a few months after the publication of *Can Lloyd George Do It!* (10 May 1929) and just before the publication of *The Treatise of Money* (31 October 1930) – two milestones in Keynes's journey towards the views expressed in *The General Theory* – and is therefore to be evaluated bearing in mind the background and the evolution of Keynes's beliefs at the time.

Similar expressions can be found in *The End of Laissez-Faire*, as in 'the dependence upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine' (CWK IX, p. 293), and in *A Short View of Russia*:

> 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. (CWK IX, p. 268)

Keynes's denunciation of 'the money-making instincts of individuals' as a 'somewhat disgusting morbidity' may have been influenced by his reading of Freud at the time. The evidence shows that in the late 1920s, Cambridge had become a centre of interest for psychoanalysis, and several of Keynes's friends went to Vienna to be analysed by Freud himself.\(^8\) In August 1925, Keynes wrote a letter to *The Nation and Athenaeum*, defending Freud from his English critics and calling him 'one of the great disturbing, innovating geniuses of our age' whose theories 'appeal to our intuitions as containing something new and true about the way in which human psychology works' (quoted in Winslow 1986, p. 550).

But of course, it was his Moore and Bloomsbury credo that drove him to the point a 'better' society is a society where the money instinct is eradicated and substituted by the pursuit of other – more valuable – objectives.\(^9\)

However, nothing is said against consumption in *Economic Possibilities for our Grandchildren*. Rather, Keynes made it clear that 'The love of money as a possession [is] distinguished from the love of money as a means to the enjoyments and realities of life' (CWK IX, p. 329).

In fact, among the 'enjoyments' of life, we may find many objects of consumption, which need not be acquired with monetary expenditure and could be made available in greater abundance after a solution to the so-called economic problem. It could indeed have been that it was the promise of a solution to the economic problem in a not too distant future – in Keynes's wishful thinking – that would make money-making a distasteful and useless pursuit in life. But until the 'economic problem' was solved, expenditure on consumption goods was a vital receipt for the survival of society.\(^10\)

Just a couple of months after *Economic Possibilities for our Grandchildren* was published, in a radio talk that appeared in the *Listener* (14 Jan 1931), Keynes made a passionate plea for more consumption to fight the Depression:

> O patriotic housewives, sally out tomorrow early into the streets and go to the wonderful sales which are everywhere advertised. You will do yourselves good – for never were things so cheap, cheap beyond your dreams. Lay in a stock of household linen, of sheets and blankets to satisfy all your needs. And have the added joy that you are increasing employment, adding to the wealth of the country because you are setting on foot useful activities, bringing a chance and hope to Lancashire, Yorkshire, and Belfast. (CWK IX, p. 138)

At the end of Keynes's intellectual journey, in *The General Theory*, the money-making motive is no longer depicted as the dark side of the soul but rather as the prerequisite for the full fruition of certain valuable human activities. 'There are valuable human activities', he writes, 'which require the motive of money-making and the environment of private wealth-ownership for their full fruition'. He even warned that

> dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth; which if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannize over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative. (CWK VII, p. 374)

Consumption as an end, and not as a means to possession, can therefore be accommodated within Keynes's early and mature philosophy. The question
remains, however, as to whether the structure of needs will be modified when the Age of the Abundance – deriving from the solution to the economic problem – comes about.

According to Economic Possibilities for our Grandchildren’s taxonomy, human needs fall into two classes:

those needs which are absolute in the sense that we feel them whatever the situation of our fellow human beings may be, and those which are relative in the sense that we feel them only if their satisfaction lifts us above, makes us feel superior to, our fellows.

(CWK IX, p. 326)

While absolute needs may soon be satiated, the desire for positional goods could remain insatiable. But what are the needs underlying the ‘real values of life’? They are exemplified in the famous passage of Economic Possibilities for our Grandchildren: “to pluck the hour and the day virtuously and well [...] taking direct enjoyment in things, the lilies of the field who toil not, neither do they spin” (CWK IX, p. 331).

Does ‘taking direct enjoyment in things’ preclude buying objects of consumption, or does it simply require that we buy things to enjoy the use, not the possession of them? How seriously should we take the scenario presented in Economic Possibilities for our Grandchildren?

Skidelsky has argued that Economic Possibilities for our Grandchildren is a provocation, a jeu d’esprit [...] typical, in its ratio of fancy to hard argument, of his table talk [...]. It sums up many of the ambivalences in Keynes’s own thinking and psychology (Skidelsky 1992, p. 237).

Others disagree, claiming that Economic Possibilities for our Grandchildren is an important piece of Keynes’s philosophy. For instance, Carabelli and Cedrini (2011, p. 354) state that, ‘Keynes focuses on economic possibilities, not on certainties about morals. In other words, he believes that the end of the economic problem will grant human beings the possibility of moral renaissance and the chance of a happy life’. In fact, according to Robinson,

what made the General Theory so hard to accept [was] its shocking implications [...]. Keynes seemed to be upholding a ‘licentious system’ that was even more objectionable than Mandeville’s had been to Adam Smith. And, of course, Keynes, like Mandeville, was a dreadful tease.

(Robinson 1964, p. 73)

The Essay was an attempt to fight the pessimism of the heart and the untruthfulness of received ideas about the virtue of money-making rather than money-spending. In this respect, Economic Possibilities for our Grandchildren should be understood as truly Keynesian, in spirit rather than in the letter.

Conclusions

The question of whether the personal accumulation of wealth is a boon or bane for society has a long tradition in the history of economic thought. In reviewing a book on this topic (Perrotta 2008), in which the condemnation of wealth is aptly described as the ‘fear of goods’, Faccarello reminded us that the debates on this question reach back to antiquity. We also know how much they were lively, opposing those who, for moral, philosophical and political reasons were fearful of enrichment (either in general or for particular class(es) of citizens) to those who believed the accumulation of wealth to be clearly positive in its effects and thus to be welcomed.

(Faccarello 2009, p. 111)

He then argues that there are two ways to understand the ‘fear of goods’ in the history of economic thought. The first is connected with the idea that generalised high-level consumption will put pressure on wages, thereby increasing costs of production and reducing competitiveness; the second understanding is connected to the consequences of the increased affluence for the moral and ethical values of society. These two views have been updated and refined in the course of more than four centuries, and we find them again and again in present times.

The counterarguments to the first case point to the function of wages as demand and not just cost, and to the second case, to the beneficial social effects of the pursuit of self-interest in a market society. It seems to me that Keynes’s position is peculiar because, while stressing the need for an affluent society to keep wages high to guarantee sufficient levels of consumption and, at the same time, denouncing the fallacy of the self-interest-based view of the market as a mechanism bending the action of individuals to the pursuit of aims of general interest, he opposes the individual money-making pursuit as an obstacle to the possibility of the acquisition of material goods by society at large. This needs to be accomplished within a market economy where individual choices are guaranteed.

In the final chapter of The General Theory, Keynes warns us that ‘The task of transmuting human nature must not be confused with the task of managing it’ (CWK VII, p. 374), and that the money-making instinct can hardly be expected to be eradicated from the human soul. We can, however, try to confine it and not let it loose:

Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion.

(Ibid)
So, the Keynesian prescription for a better society is the appeal to setting rules and limitations in the market arena, to not letting individual self-interest prevail and to putting some governing bodies in charge of filling the gap when deficient aggregate demand occurs so that the acquisition of material goods and the fruition of the enjoyments of life are not a privilege of the few but the conquest of civilisation.

Notes

1. For the evolution of Keynes’s ideas on the importance of expenditure in his journey towards The General Theory, see Marcuzzo (2002, 2014).

2. On 24 March 1936, he wrote to R.G. Hawtrey, ‘I favour a scheme of direct taxation in order to redistribute incomes in such a way as to increase the propensity to consume’ (CW X, p. 16); quoted in Garcia-Lizana and Pérez-Moreno (2012).

3. ‘The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways’ (CW VII, p. 378).

4. ‘If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is.’ (CW VII, p. 129)

5. It has rightly noted that: ‘In the context of the great Depression where saving was seen by many as the greatest virtue, Mandeville’s paradoxical statements [promoting sumptuary, luxurious and ‘vicious’ consumption] was for Keynes a colourful way to utter his own paradoxical views’ (Lagueux 1998, p. 260). See also Robinson (1964, p. 91): ‘Keynes fired off his paradoxes to penetrate the thick walls of obscurantism of the old laissez-faire orthodoxy’.

6. See also: ‘When we have unemployed men and unemployed plant and more savings than we are using at home, it is utterly imbecile to say that we cannot afford these things. For it is with the unemployed plant, and with nothing else, that these things are done. To have labour and cement and steel and machinery and transport lying by, and to say that you cannot afford to embark on harbour works or whatever it may be is the delirium of mental confusion’ (CW XIX, pp. 765–766).

7. On the basis of some unpublished notes of a speech during the electoral campaign in support of the Liberal Party, Kent convincingly argues that ‘although he did make an error in his development [..] Keynes’s arithmetic in his 28 May 1929 speech is a multiplier analysis’ (Kent 2007, p. 538).

8. ‘There was a specific group for whom psychoanalysis became of fundamental importance in the period immediately after the First World War up until the end of 1925. In early 1925, this group – James Strachey, John Rickman, Arthur Tansley, Harold Jeffreys, Lionel Penrose and Frank Ramsey – took to meeting to present papers to one another. Half of them were Apostles […] the distinctive and principal condition of belonging to this informal Society was entirely novel: having been analysed oneself.’ (Forrester 2004, p. 4).


References


CW XIV, The General Theory and After;

CW XIX, Activities 1922–29, Part II;


