Title: Keynes's message: cheap money

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ABSTRACT

In order to have low unemployment and avoid the arbitrary destruction brought about by the business cycle Keynes prescribed that the authorities set a low bng-term rate of interest. In 1945, at the 'National Debt Enquiry', he summed up his General Theory and set out explicitly the practical techniques and instruments that would allow the authorities to set whatever rate of interest they chose.

This paper follows and elaborates Keynes' theoretical argument put forward at the National Debt Enquiry and argues that his claims and methods at this meeting should be recognised as his fundamental conclusions in the field of economic policymaking. The conventional interpretation that in the General Theory "money doesn't matter" could not be further from the truth. A cheap money policy is a logical consequence of Keynes's theory.

In this way the high level of real long-term interest rates facing businesses since 1979 are testament to both our disregard of these most far reaching conclusions and of the very real potential for disaster. As Keynes wrote: "Unquestionably in past experience dear money has accompanied recovery; and has also heralded a slump. If we play with dear money on the grounds that it is 'healthy' or 'natural', then, I have no doubt, the inevitable slump will ensue. We must avoid it, therefore, as we would hell-fire." (CW, XXI, p. 389)