I Hope Keynes is Happy!

For anyone who was forced to read Keynes' *General Theory of Employment, Interest and Money*, yet gleaned very little except the passing grade in Macroeconomics, this thought is for you.

But, there are a few details you must recall about Keynes' ideas of central banking in order to really understand his underlying concept of the General Theory, and if it's been a while since you read it, let me refresh your memory.

Detail #1: In the Conclusion, Chapter 24, of *The General Theory,* Keynes allows that since the nineteenth century 'significant progress towards the removal of very great disparities of wealth and income has been achieved through the instrument of direct taxation—income tax and surtax and death duties—especially in Great Britain.' But you need to remember that taxes in these forms were exactly what Marx wanted to have installed in order to propagate his ideal society.

Keynes knew that only when the money supply was controlled and generated through a central bank (which is also a Plank of Marx's) could the State take control of the citizens. And he says this much in the Conclusion of his General Theory: "The central controls necessary to ensure full employment will, of course, involve a large extension of the traditional functions of government. Furthermore, the modern classical theory has itself called attention to various conditions in which the free play of economic forces may need to be curbed or guided. … Whilst, therefore, the enlargement of the functions of government, …, would seem to a nineteenth-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, *I defend it, …* "

Keynes knew that as long as gold was used as money that a centralized government would never have control of its citizens. Using gold as money allowed anyone to be commander of his money supply.

Detail #2: Now you must remember that the Federal Reserve Act of 1913 was instituted in order to make the money supply infinitely elastic. No one ever bothers to mention any more that when you remove gold from the control of individuals the ultimate result is the transfer of ownership of the money supply from the citizens of the United States, who originally earned and owned it, to a body of bankers.

The Federal Reserve Act forced gold (a real asset; a luxury; a homogeneous material; must be clawed out of the ground; cannot be counterfeited, therefore is real money) to be replaced by fiat money (NOT a real asset; NOT a luxury; NOT a homogeneous material; NOT difficult to counterfeit, therefore = fake money). If you are a student of history, you'll recall that Ben Strong (the very first chairman of the Federal Reserve) was a apostle of Keynes', knew all about Keynes' theories about money supply and fiat money, and absolutely *knew* how to control fiat money supply via interest rates - so he was a very good choice for Fed Chairman-at least until he died in 1928.

Detail #3: Hardly anyone remembers that Fiat money is fake, and it's this particular achievement which Keynes never lived to see. At the writing of his General Theory, in 1936, the financial collapse of 1929 was still being felt. He states, "At the present moment people are unusually expectant of a more fundamental diagnosis; more particularly ready to receive it; eager to try it out, if it (Keynes' idea of central banking) should even be possible. …the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood." So, Keynes knew that in the financial devastation of the credit crisis wherein the world was still living, people could be herded in a direction without even realizing it. AND, he knew that it would take time for his ideas to take root and be accepted.

Keynes was pretty sure that we'd eventually get to the place where the money supply would have to be replaced since devaluing the currency is the result of printing money, what Keynes often referred to as lowering the interest rate. "Thus we might aim in practice at a increase in the volume of capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus; and at a scheme of direct taxation which allows the intelligence and determination and executive skill of the financier (the entrepreneur) to be harnessed to the service of the community on reasonable terms of reward. At the same time we must recognize that only experience can show how far the common will, embodied in the policy of the State, ought to be directed to increasing and supplementing the inducement to invest; and how far it is safe to stimulate the average propensity to consume, without foregoing our aim of depriving capital of its scarcity-value within one or two generations."

So, he wasn't sure how long his scheme would go until people figured out that all the stimulation of consumption (in the present) at the expense of future generations: "And it would remain fir a separate decision on what scale and by what means it is right and reasonable to call on the living generation to restrict their consumption, so as to establish, in the course of time, a state of full investment for their successors."

He also knew that if the public woke up to the fact that their money was worth less (and if in the case of massive quantitative easing, *significantly worth less*, i.e., worthless) that the money bosses would be in serious trouble: "For in such matters it is rash to predict how the average man will react to a changed environment." But, no worries - no one has woken up to the fact that all currencies of the world are now worthless.

So, he must be ecstatic! Except that he's been dead for nearly 50 years, so he never got to see his baby all grown up.

On the other hand, he's probably glad that he's not here to see the last stand of fiat money. Because, what's about to happen all over the world is the end of fiat money.

How do I know this? Because money, in the physical, is representative of the energy of exchange. And all exchanges must be equal, otherwise the trade is unbalanced, and the Nature abhors a vacuum, which is what's created with imbalance. (Ask a physicist if you don't believe me.)

So, how does a planet that uses fiat money right the imbalance of fiat money? Well, think about what's been happening the last 5 years-all of the financial pruning that's been going on is part of the money system righting itself. On the Microeconomic level, money schemers and scoundrels have been found, or outted, with increasing frequency. On the Macroeconomic level, governments the world over searching for the answer to the failed fiat currency situation have been using Keynes' quantitative easing as a solution. And companies are being exposed for their failed promises of fiduciary responsibility resulting in bankruptcy.

At its roots the righting of the money system is the result of the replacement of an illusory system of money with a correct system of money. The old, faulty system of money was based on power and control, while the correct, new system of money is based on integrity and honesty. Fiat money at its foundations is based on a lie and therefore represents the old system of power and control. While the correct system of money is based on honesty and integrity, or one could say, truth.

How fast will this replacement take place? I'm not sure, but I think it depends on how stubborn people choose to be. The more stubborn, the longer and more drawn out and more painful the whole change for the financial system will be. The sooner people decide to be honest with themselves, their citizens, and their customers, the faster and less painful the change will be. In other words, the sooner people (all people) start being people of integrity and honesty, stop lying to themselves about money, the faster things will change. So, you see? - it could take a while for this new system of money to be instituted.