

glossery

Smith1

"As every individual, therefore endeavors as much as he can both to employ his capital in the support of domestic industry, as so to direct that industry that its produce may be of the greatest value; every individual necessarily labors to render the annual revenue of society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it...and by directing that industry in such a manner as its produce may be of the greatest value, he is intending only his own gain, and he is in this, as in so many other cases, led as if by an invisible hand to promote an end which was no part of his intention.

Adam Smith
The Wealth of Nations

keynes 6

"The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be regarded as one of the outstanding triumphs of laissez faire capitalism ..."¹

Keynes 5

"... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.I am sure the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. ... Soon or late it is ideas, not vested interests, which are dangerous for good or evil."²

1. J.M. Keynes. The General Theory, p. 159

Keynes 4

"If I may be allowed to appropriate the term speculation for the activity of forecasting the psychology of the market, and the term enterprise for the activity of forecasting the prospective yield of assets over their whole life, it is by no means always the case that speculation predominates over enterprise. As the organization of investment markets improves, the risk of the predominance of speculation does however increase. Speculators do no harm as bubbles on a sea of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill done."

John Maynard Keynes
The General Theory of Employment
Interest and Money p159

Keynes3

The following analysis registers my final escape from the confusions of the Quantity Theory, which once entangled me. I regard the price level as a whole as being determined in precisely the same way as individual prices; that is to say under the influence of supply and demand. Technical conditions, the level of wages, the extent of unused capacity of plant and labour, and the state of markets and competition determine the supply conditions of individual products and of products as a whole. The decisions of entrepreneurs, which provide the incomes of individual producers and the decisions of those individuals as to the disposition of their incomes determine the demand conditions. And prices - both individual prices and the price-level - emerge as the resultant of these two factors. Money and the quantity of money are not direct influences at this stage of the proceedings. They have done their work at an earlier stage of the analysis. The quantity of money determines the supply of liquid resources, and hence the rate of interest. and in conjunction with other factors (particularly that

of confidence) the inducement to invest, which in turn fixes the equilibrium level of incomes, output and employment and (at each stage in conjunction with other factors) the price level as a whole through the influences of supply and demand so established.

Intro to the French edition. Reprinted in Collected Works
Vol 13 pp.

Keynes2

This role of money in the capitalist financial structure was well stated by Keynes:

"There is a multitude of real assets in the world which constitutes our capital wealth - buildings, stocks of commodities, goods in the course of manufacture and of transport, and so forth. The nominal owners of these assets, however, have not infrequently borrowed money (Keynes' emphasis) in order to become possessed of them. To a corresponding extent the actual owners of wealth have claims, not on real assets, but on money. A considerable part of this financing takes place through the banking system, which interposes its guarantee between its depositors who lend it money, and its borrowing customers to whom it loans money wherewith to finance the purchase of real assets. The interposition of this veil of money between the real asset and the wealth owner is an especially marked characteristic of the modern world.³

Keynes fr

I have called this book the General Theory of Employment, Interest and Money; and the third feature to which I may call attention is the treatment of money and prices. The following analysis registers my final escape from the confusions of the Quantity Theory, which once entangled me. I regard the price level as a whole as being determined in precisely the same way as individual prices; that is to say under the influence of supply and demand. Technical conditions, the level

3.J.M. Keynes, Essays in Persuasion, The Collected Writings of John Maynard Keynes, Volume IX MacMillan, St. Martins Press, for the Royal Economic Society, London and Basingstoke, 1972, p 151

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friedman

The fundamental neo-classical article of faith is nowhere better stated than by Milton Friedman when he asserts that

"...despite the important role of enterprise and of money in our actual economy. and despite the numerous and complex problems they raise, the central characteristic of the market technique of achieving coordination is fully displayed in the simple exchange economy that contains neither enterprises nor money."⁴

⁴ MILton Friedman: Capitalism and Freedom, University of Chicago Press, 1962 p. 14 my emphasis.