

"Knowledge in a Vacuum"

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It was said long ago that theorizing, speculation, the enjoyment of knowledge for its own sake, was the divinest and happiest existence of which man was capable. This utterance came, it is always worth remembering, from one whose teacher had held quite the contrary, viz. that the happiness of the world as well as of individuals in the world was only possible where knowledge found its sanction in action. Either the philosopher must be made King, or the King must be made philosopher. It is worth remembering too that the former of these thinkers had seen a great civilization crumble because the men who shared it had been content to follow the paths of Unreason and Ignorance and national selfishness. His pupil, on the other hand, lived in a world where any one who tried to translate Knowledge into action - at least social or political action - was hunted to death. And it followed soon after this that Knowledge of any kind, no matter how quietly it was pursued, was viewed with suspicion, and that science after science began to perish.

So far as that particular chapter of history is concerned then, it would seem that when Knowledge does not result in action the day is not far distant when there will be no Knowledge among men at all. It is further worthy of remark that in that age those who Knew were perfectly willing to teach - indeed Knowledge has never perhaps been so eloquent since, as it was in that age. It must have been, therefore, that too few were willing to learn. At any rate the younger of the two men I have quoted says somewhere that a wise man learns more from a fool than a fool learns from a wise man.

Now I know very well that in addressing words like this to a university audience I may be subject to much misrepresentation in our newspaper-ridden world. It may be said in headlines and with every kind of emphasis that the head of a university has urged you to study only those subjects which are useful,

or again that I have stressed the superior importance of political and economic studies. If I had time to do so I should like to maintain exactly the opposite thesis to both these statements. But it is time wasted to correct newspapers either after the event or in advance. You, I hope, will not misunderstand me. I am addressing you as the potential knowers of our society, and I am inviting you to reflect on this question: whether it is worth your while to come to know anything - and remember it costs a human soul hellish pain really to know anything - if for all your anguish the world is going to wag on in monotonous stupidity, just as it would otherwise have done? The world will not like you the better for knowing something which it does not. And indeed why should it? The world of men may be ignorant, but they have at least sufficient instinctive wisdom to know that knowledge is the least comfortable possession, and thinking the least comfortable process to which the human mind may be subjected.

That's perhaps what Bacon would have called a "desperate saying". But let me give you a concrete illustration of its truth. I suppose that the career of J. M. Keynes, during the last fourteen years, is as good an example of continuous sound thinking as history shows. At the same time, unfortunately, it is an almost unparalleled example of Knowledge in a vacuum, of prophecies and warnings unheeded even when inch by inch and month by month his earlier prophecies were proving true. This is the more remarkable as Mr. Keynes, unlike most unheeded prophets has not grown sour, nor urged any importunate "I-told-you-so's". He shows still an imperturbable good humour, and still looks forward, not back.

Most will remember that Mr. Keynes predicted, almost from the time of its publication, that the Treaty of Versailles was an economic impossibility. That was not just a stroke of original genius. Few of the thinkers of Europe believed that the Treaty was either wise or feasible. But it was left for Mr. Keynes to set

forth his belief in marshalled comprehensive argument, in which no phase of the matter was overlooked, and in a masterpiece of English prose, while others, amidst nation-wide hatreds and in deference to the whim of the mob, were content to hide behind a wall till the storm was by. Once Keynes stated his thesis no writer of an eminence higher than that of a Northcliffe hack attempted to refute him. It was not a case of "art made tongue-tied by authority", nor of genius being stamped out. Indeed Keynes, who was already known to the British Government, and to the Bank of England, as a great economist, now leaped into public fame. The reasons for this were various. In the first place he had made a mathematical demonstration of the impossibility of the Treaty. Readers who could understand that may have been few. But there were thousands in Britain and elsewhere whose training in academic economics, or whose training in business, or whose solid knowledge of history made them sure, once they had read his book, that Keynes was right and the

politicians wrong. An even wider circle of readers was reached, however, as the hack reviewers of the mob-press denounced him. Others again recognised in Keynes' writing a superb example of masculine style; those who were not persuaded by the argument were charmed, and professed to be persuaded. Its fame was spread even by those who stood aghast at the audacity of Mr. Keynes' utterance. Who was this cocksure young Cambridge don who affected the language of Isaiah! Had his head been turned by dealing with abstruse economic problems at the age of 30, or was he crazed by the War! The concluding sentence of his work on the Treaty ran: "To the formation of the general opinion of the future I dedicate this book".

There was nothing tongue-tied then about Mr. Keynes. Any one in the publishing business would have said that he had caught the ear of the public. But he had not caught their heads, nor even what is easier to catch, their hearts.

Indeed the Lord hardened their hearts and blinded their minds.

Hardly was the ink dry on this great manifesto to the world when Mr. Keynes reverted to his academic studies, Cambridge academic studies at that, and produced a work on what is generally thought to be one of the most abstruse of the upper reaches of mathematics: The Theory of Probability. This was early in 1921. Perhaps there were hardly more than a hundred people in England capable of understanding this work, but Northcliffe's hirelings were by this time instructed from above that they had made an indecent exposure of their minds about the book on the Treaty. It could not be concealed from the public that it had been translated into every language and dialect of Europe, and that it had received the approbation of every economist of note in the world. Accordingly a "Times" reviewer now wrote of the abstruse mathematical work: "This will certainly add to Mr. Keynes' reputation. In our opinion

this is the best book he has yet written."

Later on in the same year he returned to the public arena to write a sequel on the Treaty of Versailles. It sold like a novel all over the world. And perhaps one should add that it was read like a novel; certainly it was not read by those in political authority as a document to which they must give heed.

It was about this time, I think, that some of Mr. Keynes' acquaintances in Threadneedle Street (he had for some time been acting as expert for the Bank of England) who recognised that one of the practical applications of mathematical "probability" is Insurance, challenged him to apply his academic mind, of which the "Times" complained, to the insurance business. He accepted the challenge, and, so I have been informed, with marked success.

His next undertaking was in my opinion his most difficult. His



writing had brought him into direct touch with the first economists of the world. Among his acquaintances were Moritz Bonn, professor of the subject in Berlin, and an authority on the economic history of Ireland, Gustav Cassel of Sweden, with his almost unrivalled knowledge of gold supply and currency, and others of note, besides many fairly obscure men, like R. C. Leffingwell of the Mint in Washington, who had been the brains of the organisation of credits during the munitions period before and after the United States had entered the War. To Keynes, therefore, these brilliant but hard heads, who were at this time editing the Manchester Guardian Commercial Supplement, turned, and asked him to edit a series of supplements to the Supplement, under the title of "Reconstruction in Europe". Really these numbers were an Economic Survey of the post-war world. Even Keynes could not have done such a thing by himself. The work would have been impossible but for the long

tradition of the School of History and Economics at Cambridge. It would have been impossible but for the European standing of the Manchester Guardian. But it would also have been impossible but for the affiliations which Mr. Keynes had now made for himself. And so Brazilians wrote for him about their coffee, and East Indians about their rubber. The whole economic structure lay below his glance. He was the magnet that drew into contribution, for example, all the uncanny skill of the Greek money-changers who financed the Levant, and who became articulate in the Economics professor at the University of Athens. Keynes, himself, by one of his Napoleonic mental excursions, became the articulate mouthpiece of that marvellous cotton industry which has for its centres Manchester, Rouen and Lodz, with instant and hourly cable connection with Texas, India, the Caucasus, Egypt and China. The whole textile business of Britain presently asked him for advice in rationalising their industry.

But Keynes showed his divination into things by still keeping clear the difference between economic survey and practical advice, and the difference between giving practical advice and getting things done. The first number of the Supplements was devoted to the stabilising of the Exchanges (it was early in 1922). Keynes' first paragraph of the introduction is on the sad difference between chemists, mathematicians, physicians and astronomers on the one hand, and economists on the other.

"If it were crypton, harmonics, kidneys, or nebulae we sought to stabilize, we should contemplate the best plan and carry it out to scientific conclusion, without ever troubling to make it clear to you, my intelligent but unscientific friends, the readers of this article. But an economist must be humble. He cannot accomplish except by persuasion".

So wrote Keynes eleven years ago, and hence the irony of the title of his last book; "Essays in Persuasion", made up of a selection of his writings since 1919.

Since 1922, Mr. Keynes has essayed chiefly to persuade the obvious authorities that currency is a job for experts, and also that experts must take a world-wide view of things, hard as that is to do in times like these. The Bank of England is no longer the sole arbiter as it was in the decades following 1870. And so Keynes in his book of 1923 on Monetary Reform tries to give the Bank of England the advice we should give to a budding motorist: "You must not only drive your own car, you must proceed on the assumption that any other driver may be an unmitigated ass." He points out, for example, that the United States is positively throwing away \$ 300,000,000 a year, by its failure to allow Harvard economists to instruct Washington economists, and adds that that is all right for a country that can afford it - for a while. He hopes that the Bank of England can steer its own course and avoid collision with these other courses.

It was about this time, in another bit of writing, that Keynes demonstrated by arithmetic that it was costing Washington more to put gold under ground than it was British engineers to extract the same gold from mines a mile and a half deep in South Africa.

However, neither the Bank of England nor the Federal Reserve Board accepted the advice so humbly offered to them. Besides they had the politicians always with them. Mr. Churchill was at this time and later Chancellor of the Exchequer. No one denies that Mr. Churchill can pick the brains of military writers. But not his warmest admirer will pretend that he can follow the brains of economic thinkers. At this time, as Chancellor of the Exchequer, he was assuring the House of Commons that currency management had no more to do with the coal industry than had the Gulf Stream. And so he persuaded the Banking Authorities that they might enter the Dardanelles of deflation. Never has

economic prediction been more justified by subsequent events than the prediction Keynes made in his brilliant little pamphlet of 1925, called the "Economic Consequences of Mr. Churchill". Incidentally he there dealt Mr. Baldwin and his so-called "settlement" with the United States an unforgettable back-hand stroke.

It is worth stopping to recapitulate Mr. Keynes' forecasts, and the failure of his fellow men to give heed in time to his warnings.

About the gigantic reparation bill claimed of Germany by her victorious enemies, Mr. Keynes showed conclusively that it was an economic impossibility: that, stripped of her ships, her mines, her colonies, she could not do it. The proof given was carefully documented, and worked out mathematically. In addition Mr. Keynes warned the Allies that the attempt to squeeze the money out of Germany would bring her to a desperate pass, and endanger the prosperity of her

enemies as well. Now, perhaps only a few of us know what has happened in Germany, and I am sure that an even smaller number of us know how intimately the German social and political convulsion threatens the whole stability of the world. But certainly all of us know that ever since the predictions of Mr. Keynes about the Versailles Treaty most of the great politicians and bankers of the world have spent most of their time tinkering that Treaty, and that it has refused to be tinkered. And every scheme that so-called experts have tried to build upon it - the Dawes Plan, the Young Plan, and other plans, have sunk in the same quagmire. The only period during which Germany paid any large portion of the sum demanded was the period during which the United States was lending her more money than she was paying out.

From the first, also, Mr. Keynes was one of those who insisted that reparations, and inter-allied debts, were one and the same question. Fourteen years ago Mr. Keynes wrote that these debts in their entirety could not be paid, and that none

of them could be paid very long. The attempt to exact them would lead, he predicted, to a heightening of tariff barriers between nations, to instability of exchanges, and to general ill-will. What else has happened in the intervening fourteen years? Has not the prediction been fulfilled to the letter? Furthermore, wrote Mr. Keynes in 1919, the inter-allied debts will have to be given up, not so much because of their economic impossibility, as because "they do not square with human nature". I like that remark. It shows the English economist at his best. Economics is not the "dismal science" with Englishmen as it is with some others. English economic thinkers, since the time of Hume in the 18th century, have studied especially the matter of international gold movements, and of national gold hoarding. But they do not believe, at least the great men among them - Hume and Bagehot and Keynes - do not believe that gold is as powerful as human nature. Those of us who were reading American and European



newspapers last month saw a good deal of human nature peeping through. And when the 15th came the world realised that once again the unbelieved prophet had spoken truth. But meantime what misery has ensued, in shattered fortunes and unemployment, and world-wide despair! There is a certain coolness of temper in Mr. Keynes which I very much admire - the coolness which goes with Quakers, and with a certain type of English Liberals - and yet he has always put the question of unemployment, and the evils of sudden redistribution of wealth, in the very forefront of his appeal to his countrymen.

I observe that many who follow Mr. Keynes' reasoning about the Treaty of Versailles, and about the exchanges, and the balance of trade, find him difficult to follow in his reasoning about the gold standard, and about currency generally. These subjects are, I admit, quite technical. But they are not

a mystery. And they are not impossible to understand on the part of those who have studied European history since 594 B.C. Currency questions have been understood thoroughly well by some Europeans during that long period, as the manipulations of currency by Greek states, by mediæval Italian cities, and by the long line of English Kings, abundantly testify. But after the writings of the Greeks, we do not come on any articulate written demonstration of the currency question until the days of Hume.

Now, Mr. Keynes won his first glory by tackling an especially difficult currency question, namely, the currency of India. He was barely thirty years old when he made himself an authority on this matter. Perhaps I can suggest something of its difficulty to any economic student here present, by saying that it is complicated by this fact: that after the Boer War, India began annually to absorb more than the annual output of gold prior to the opening of the Rand mines.

But that is a very special and technical question. I cite it only to show that in the year before the War, and when he was only thirty years of age, Mr. Keynes had shown his title to be heard on the questions of gold standard and currency. More of you will be interested to know that in a discussion of that question, twelve years later, Mr. Keynes foresaw the mad course, and the painful consequences, of the American (and Canadian) boom.

In an article published in the Nation and Athenaeum, February 21, 1925, that is just about eight years ago, Mr. Keynes showed that it still lay in the power of the Federal Reserve Board to allay a boom condition which was becoming chronic, but he also hazarded the prophecy that it was unlikely that they would do so, and he besought "the Chancellor of the Exchequer, the Governors of the Bank of England, and the nameless others who settle our destiny in secret" to remove

London from the orbit of the American catastrophe, which would ensue, by forsaking the gold standard of their own choice, so as to provide an interval for readjustment, instead of being forced off the gold standard in a moment of crisis, as they would certainly be later.

It is sometimes said now that Mr. Keynes couched his prophecies in language that politicians could not understand, and so I shall quote from this article and leave you to judge whether Mr. Keynes' language or the politicians' understanding is to seek:

"Once more the Bank chairmen have held up for our inspection their financial fashion-plates. The captions vary; but the plates are mostly the same. The first displays marriage with the gold standard as the most desired, the most urgent, the most honourable, the most virtuous, the most

prosperous, and the most blessed of all possible states. The other is designed to remind the intending bridegroom that matrimony means heavy burdens from which he is now free; that it is for better, for worse; that it will be for him to honour and obey; that the happy days, when he could have the prices and the bank-rate which suited the housekeeping of his bachelor establishment, will be over - though, of course, he will be asked out more when he is married; that Miss G. happens to be an American, so that in future the prices of grape-fruit and pop-corn are likely to be more important to him than those of eggs and bacon; and, in short, that he had better not be too precipitate. Some of our chairmen were like him, who being asked whether he believed that, when he was dead, he would enjoy perfect bliss eternally, replied that of course he did, but would rather not discuss such an unpleasant subject."

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"What is going to happen next? There are two leading alternatives. It may be that the Federal Reserve Board will come to the conclusion that the incipient boom conditions in the United States are getting dangerous, and will take the position firmly in hand, just as they did two years ago. This, almost certainly, is what the Board ought to do. In this event, the situation would be back again very nearly where it was eighteen months ago, and we should be faced, as we were then, with the alternative of relatively steady sterling prices with the dollar exchange below parity, or of stern Deflation in the effort to keep exchange at parity. A premature announcement of the removal of the embargo on the free export of gold would commit us in advance to the latter alternative, - the alternative which we deliberately rejected two years ago. This is what the fanatics desire. But with our unemployment figures what they still are, it would not be wise.

The other alternative is that the Federal Reserve Board will allow matters to pursue their present course, in which event we may expect that dollar prices will advance a good deal further. During part of 1924 the Board's open-market policy was decidedly inflationary, and has been largely responsible for the sharp rise of prices already experienced. at the present moment their policy is more cautious; but there is no clear indication that they have any steady or considered policy. It may be that misplaced sympathy with our efforts to raise the sterling exchange will be a factor tending to postpone action on their part; and if they delay much longer, boom conditions may become definitely established. In this event we need have no difficulty in raising sterling to pre-war parity. A firm monetary policy, designed to check a sympathetic rise of sterling prices, ought, without any positive

Deflation, to do the trick. But it does not follow that the embargo should therefore, be removed. To link sterling prices to dollar prices at a moment in the credit cycle when the latter were near their peak as the result of a boom which we had not fully shared would ask for trouble. For when the American boom broke we should bear the full force of the slump."

We know now that boom conditions did become chronic in the United States (and in Canada) - so chronic that even Canadian investment bankers said between 1928 and 1929 that there was after all no proof that the boom would ever break, and that investors need not look to dividend returns, but only to capital increase. A few months after this appeal to him, the British Chancellor of the Exchequer resumed the gold standard, thereby precipitating the coal crisis, among other things, exactly as Mr. Keynes predicted; and London clung to the gold standard until the crisis of 1931.



a crisis which Ramsay MacDonald described as being just as serious as the World War. The electorate of England were asked to return a National Government so that the gold standard could be maintained. They did so, and still England was forced to suspend the payment of gold, September 21, 1931.

I do not wish to convey the impression that, in all this, it was Mr. Keynes against the world, or that he alone had a divine inspiration. At this point I am moved to do justice to a great Canadian, and a keen economic student, the late Sir Edmund Walker. I remember him using very similar language, in 1922, about the possibility of a prolonged and wholly artificial American and Canadian boom, and of its disastrous consequences. The boom had not yet commenced, but he saw that it was coming. I remember distinctly his concluding words on the matter, and they remind me strongly of Mr. Keynes' phrase about human nature: "The Americans are unused to the present situation, in which they are creditors and Europeans debtors, and they

will not know what to make of it. They tell me in London that the greatest danger to the world is a boom in America".

There is my illustration then, as good a one as I can find, of the difficulty with which we set out at the beginning. In some respects it might almost appear as a dilemma: Knowledge, for its own salvation, must result in action; yet the purer and richer it is the less likely is it to have any such result. Or at the best, is it like this:

"When all its work is done the lie shall rot,

The truth is great, and shall prevail

When none cares whether it prevail or not"?

Just what did Lord Halifax mean by saying: "A man that shall call everything by its right name would hardly pass the streets without being knocked down as a public enemy"?

And was it just the waywardness of Samuel Butler to define Art as "Knowing how much Untruth to wrap around the little pill of Truth"? Halifax you will remember as the chief of Trimmers; but Butler never trimmed. Nor will you forget the career of Socrates.

It would doubtless be easier and pleasanter to do something else than to be an embarrassing person, posing awkward questions. But so many at present are gathering up statistics of attendance at school and college on the assumption: so many students, so much education; or, so many graduates, so much progress, that it is just as well for us to reflect whether life moves to such a logic. You may fairly demand of me, perhaps, if not an answer for the questions I have asked, at least a philosophic precept for a life so difficult, and if I had to give one briefly it would be this: Be sceptical of loud words, which are generally pretence, but tolerant of humanity, and remember that there is still as much comedy in life as tragedy.