

**John Maynard Keynes,  
The Economic Transition in England\*  
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Great Britain, not less than Russia, is suffering an economic transition in the early stages of which we are now living. An American economist, Professor Commons, one of the first to recognise the nature of this transition, distinguishes three epochs, three economic orders, upon the third of which we are entering.

The first is the epoch of scarcity, whether due to inefficiency or to violence, war, custom or superstition. In such a period there is the minimum of individual liberty and the maximum of communistic, feudalistic or governmental control through physical coercion. This was, with brief intervals in exceptional cases, the normal economic state of the world up to (say) the sixteenth or seventeenth century.

Next comes the era of abundance. In a period of extreme abundance there is the maximum of individual liberty and the minimum of coercive control through government; and individual bargaining takes the place of rationing. During the eighteenth and early nineteenth centuries Europe won its way out of the bondage of scarcity into the free air of abundance, and in the latter nineteenth century this epoch culminated gloriously in England in the victories of *laissez-faire* and historic liberalism. It is not surprising or discreditable that the veterans of the Liberal Party cast backward glances on that easier age.

But England is now entering on a third era, which Professor Commons has called the period of stabilisation and has truly characterised as the actual alternative to Marx's communism. In this period, he says, there is a diminution of individual liberty, enforced in part by governmental sanctions, but mainly by economic sanctions through concerted action, whether secret, semi-open, open or arbitral, of associations, corporations, unions and other collective movements of manufacturers, merchants, labourers, farmers and bankers.

The extremes of this epoch in the realm of government are Fascism on the one side and Leninism on the other. For my part, I accept neither. Yet state socialism offers no middle course, because it also is sprung from the presuppositions of the era of abundance, just as much as *laissez-faire* individualism and the free play of economic forces. Therefore I direct all my mind and attention to the development of new methods and new ideas for effecting the transition from the economic anarchy of the individualistic capitalism which rules today in Western Europe towards a regime which will deliberately aim at controlling and directing economic forces in the interests of social justice and social stability. I still have enough optimism to believe that to effect this transition may be the true destiny of a New Liberalism.

It happens that England has today in the position of her coal industry an object lesson of the results of the confusion of ideas which now prevails. On the one side the Conservative Government is pursuing an orthodox nineteenth-century policy based on the assumption that economic adjustments can and ought to be brought about by the free play of the forces of supply and demand. They still assume that the things, which would follow on the assumption of free competition and the mobility of capital and labour, actually occur in the economic life of today.

On the other side not only the facts, but public opinion also, have moved a long distance away towards the epoch of stabilisation. The trade unions are strong

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enough to interfere with the free play of the forces of supply and demand; whilst public opinion, albeit with a grumble and with more than a suspicion that the trade unions are growing dangerous, supports the trade unions in their main contention that coalminers ought not to be the victims of cruel economic forces which they never set in motion.

The idea of the Conservatives, that you can, for example, alter the value of money and then leave the consequential adjustments to be brought about by the forces of supply and demand, belongs to the days of fifty or a hundred years ago when trade unions were powerless, and when the economic juggernaut was allowed to crash along the highway of progress without obstruction and even with applause.

The orthodox economics, which we have inherited from the nineteenth century, assumes a high degree of fluidity of the economic organism. It depends on what I would term the *principle of diffusion*—the principle that, when any disturbance is introduced at any point in the economic organism, it diffuses itself fairly rapidly through the whole organism until a new position of equilibrium has been reached. It has always been admitted that the economic organism is partly rigid and that friction may delay the process of diffusion. But it has been supposed that the organism has sufficient fluidity and mobility to allow the principle of diffusion to be a good working hypothesis.

That a great measure of diffusion still takes place, I do not deny. But the ease and rapidity of diffusion is—in England at least—much less than it used to be. I put this down to three main influences:

1. A rapidly progressive community possesses much more mobility than a stationary or slowly progressive community. In the case of the former equilibrium can be restored by (for example) a particular industry growing more or less fast. It is much easier to retard the rate of growth than actually to drive capital and labour, which are already in an industry, out of it. I attach immense importance to this. I do not think that Englishmen sufficiently realise to what an extent their nineteenth-century methods depended on the fact that the country was living in a continuing economic crescendo. The orthodox economic assumptions work much better in the United States than in England precisely because in the United States the crescendo of progress still continues.
2. The growth in the power and authority of the trade unions both to maintain wages and to exclude the entry of new labourers into a trade.
3. The growth of a sort of humanitarianism, exemplified in the 'dole' to the unemployed, which interferes with the natural pressure of economic forces on individuals.

These influences have, between them, introduced a considerable degree of rigidity into the British economic system. Yet the authorities still frame their policies on the assumption that a high degree of mobility and diffusion still exists. Hence our tears and troubles.

It is not an accident that our first difficulties, which will last long and take many different forms, should centre about monetary policy. For no feature of our pre-war system depended more fundamentally on the principle of diffusion than did our pre-war gold standard regulated by means of Bank rate. The first and most important step, in my judgement, is to establish a new monetary system based on a stable level of internal prices, which will not ask from the principle of diffusion more than it can perform.

But this is not the only item in my new economic programme. I believe that there are many other matters, left hitherto to individuals or to chance, which must become in future the subject of deliberate state policy and centralised state control. Let me mention two--(1) the size and quality of the population and (2) the magnitude and direction of employment of the new national savings year by year.

Some of you in Russia will not agree with me in seeking help in these matters from a reformed and remodelled Liberalism, which above all, shall not, if my ideal is realised, be a class party. Leninism--so it seems to me--is at the same [time] a persecuting religion and an experimental technique. Capitalism too is at the same time a religion, which is much more tolerant, however, than Leninism is, and a technique which, from having been experimental, is now perhaps in danger of becoming obsolescent. On the religious side it is not for me, who am a free-thinking heretic, to speak. But the experimental technique is necessarily a matter of most high interest. We in the West will watch what you do with sympathy and lively attention, in the hope that we may find something which we can learn from you. For we too have new problems to solve.

\* Second of two lectures delivered by John Maynard Keynes in Russia as the official representative of the University of Cambridge at the Bicentennial Celebration of the Academy of Sciences held in Leningrad and Moscow between 5 and 14 September 1925. Scanned from Donald Moggridge (ed), *The Collected Writings of John Maynard Keynes, Volume XIX, Activities 1922-1929, The Return to Gold and Industrial Policy, in Two Volumes, Part I*, London: Macmillan (Cambridge University Press) 1981, pp. 438-442.