

2 ECONOMIC POSSIBILITIES FOR OUR GRANDCHILDREN

This essay was first presented in 1928 as a talk to several small societies, including the Essay Society of Winchester College and the Political Economy Club at Cambridge. In June 1930 Keynes expanded his notes into a lecture on 'Economic Possibilities for our Grandchildren' which he gave at Madrid. It appeared in literary form in two instalments in the *Nation and Athenaeum*, 11 and 18 October 1930, in the midst of the slump.

I

We are suffering just now from a bad attack of economic pessimism. It is common to hear people say that the epoch of enormous economic progress which characterised the nineteenth century is over; that the rapid improvement in the standard of life is now going to slow down—at any rate in Great Britain; that a decline in prosperity is more likely than an improvement in the decade which lies ahead of us.

I believe that this is a wildly mistaken interpretation of what is happening to us. We are suffering, not from the rheumatics of old age, but from the growing-pains of over-rapid changes, from the painfulness of readjustment between one economic period and another. The increase of technical efficiency has been taking place faster than we can deal with the problem of labour absorption; the improvement in the standard of life has been a little too quick; the banking and monetary system of the world has been preventing the rate of interest from falling as fast as equilibrium requires. And even so, the waste and confusion which ensue relate to not more than $7\frac{1}{2}$ per cent of the national income; we are muddling away one and sixpence in the £, and have only 18s 6d, when we might, if we were more sensible, have £1; yet, nevertheless, the 18s 6d mounts up to as much as the £1 would have been five or six years ago. We forget that in 1929 the physical output of the industry of Great Britain

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was greater than ever before, and that the net surplus of our foreign balance available for new foreign investment, after paying for all our imports, was greater last year than that of any other country, being indeed 50 per cent greater than the corresponding surplus of the United States. Or again—if it is to be a matter of comparisons—suppose that we were to reduce our wages by a half, repudiate four-fifths of the national debt, and hoard our surplus wealth in barren gold instead of lending it at 6 per cent or more, we should resemble the now much-envied France. But would it be an improvement?

The prevailing world depression, the enormous anomaly of unemployment in a world full of wants, the disastrous mistakes we have made, blind us to what is going on under the surface—to the true interpretation of the trend of things. For I predict that both of the two opposed errors of pessimism which now make so much noise in the world will be proved wrong in our own time—the pessimism of the revolutionaries who think that things are so bad that nothing can save us but violent change, and the pessimism of the reactionaries who consider the balance of our economic and social life so precarious that we must risk no experiments.

My purpose in this essay, however, is not to examine the present or the near future, but to disembarass myself of short views and take wings into the future. What can we reasonably expect the level of our economic life to be a hundred years hence? What are the economic possibilities for our grandchildren?

From the earliest times of which we have record—back, say to two thousand years before Christ—down to the beginning of the eighteenth century, there was no very great change in the standard of life of the average man living in the civilised centres of the earth. Ups and downs certainly. Visitations of plague, famine, and war. Golden intervals. But no progressive, violent change. Some periods perhaps 50 per cent better than others—at the utmost 100 per cent better—in the four thousand years which ended (say) in A.D. 1700.