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Return of the rentier: Keynes's theory of "the euthanasia of the rentier" revisited

Atsushi Naito[1]

1. Introduction

Until the financial crisis of 2008, the so-called financialization, a phenomenon where finance plays a more significant socioeconomic role, was in progress[2]. This phenomenon has recently been studied actively. Keynes recognized the instability of finance in his investigations. More specifically, Keynes criticized the speculative investor in an argument in Chapter 12 of *The General Theory*, and as a conclusion, developed the theory of "the euthanasia of the rentier."[3] The theory of "the euthanasia of the rentier" has recently been attracting attention; however, few studies have investigated this theory in depth[4]. In this paper, we focus on the "rentier" and explore the significance of this theory.

The theory of "the euthanasia of the rentier" is as follows. It is necessary to increase effective demand in order to reduce unemployment. One of the means for achieving full employment is to increase investment by reducing the interest rate. Therefore, "it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment. ··· this state of affairs ··· would mean the euthanasia of the rentier" (Keynes, 1973a, pp. 375-376). In this manner, Keynes recognized that a high interest rate impedes investment with consequent unemployment, and contended that if the strength of the rentier class who demands a high interest rate diminishes, then the capitalist economy continues to function effectively.

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1 Ohtsuki City College, Associate Professor. E-mail: naito@ohtsuki.ac.jp, QWC03332@nifty.ne.jp
2 In this study, we follow the following definition by Epstein: "financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein, 2005, p. 3). For more on financialization, see Epstein (2005).
3 The theory in Chapter 12 of *the General Theory* influences the theory of financial fragility of Minsky. Although the relationship between the theory of financial fragility and financialization needs to be discussed, it is beyond the scope of this study.
4 Post Keynesians examined the theory of "the euthanasia of the rentier." For further details, see Rochon (2009).

The theory of the euthanasia of the rentier is composed of two components; first component is a relationship between investment and the rate of interest, or low interest rate policy, and second component is Keynes's vision of future capitalism or an ideal society.

There are four aims of the present investigation. More specifically, the relationship between investment and interest rate in Keynes's theory has been studied considerably, but the relationship between the rentier, or investor, and the investment has not attracted much attention. Consequently, the first aim of this study is to investigate how the rentier enters the argument of the effect of the level of the interest rate on the investment.

Keynes rejected the classical notion of the "long term equilibrium," but mentioned the state of the long term and the vision of future society several times (Keynes, 1971a). Hence, the second aim is to examine the relationship between the society without the rentier and Keynes's vision of an ideal society.

The theory of the euthanasia of the rentier needs some prerequisite, and one of the conditions is the closed system, or Keynes's preference for a domestic equilibrium to an international one. This condition is an important characteristic of *The General Theory*; the theory of the euthanasia of the rentier depends on this point. Thus, the third aim is to consider the significance of the emphasis on the domestic equilibrium.

Keynes had already discussed the rentier in *A Tract on Monetary Reform* (1923) and in other studies conducted in the 1920s. However, in these studies, the rentier is used as the argument of the effect of the changes in the value of money. The theory of the euthanasia of the rentier is thought to have emerged out of nowhere. As such, the fourth, and final, aim of this paper is to elucidate the relationship between Keynes's argument on rentiers in the 1920s and the theory of the euthanasia of the rentier in the 1930s.

The remainder of this paper is organized as follows. Section 2 examines the definition of the rentier and the arguments of *A Tract on Monetary Reform*. Section 3 treats the works of Keynes after the publication of *A Tract on Monetary Reform* and primarily discusses the argument linked with investment. Section 4 examines the theory of the euthanasia of the rentier in *The General Theory*, and considers the condition for the euthanasia of the rentier. Section 5 concludes the study.

2. Rentier and the distribution of income: *A Tract on Monetary Reform*-

The term "rentier" first appeared during the period of *A Tract on Monetary Reform*. However, prior to investigating the argument of this period, we have to examine the definition of the "rentier" because the term rentier has a specific meaning. Then, we discuss Keynes's dealings of the rentier in the early 1920s.

(1) Definition of rentier

Although the term rentier is occasionally used interchangeably with the terms "investor" and "bond-holder," the implications of these terms are obviously different[5]. Moreover, the term rentier is often printed in italics because of its French origin and has a specific meaning. The term rentier is used in the normative context; for example, in *A Tract on Monetary Reform*, the transfer of wealth from the entrepreneur and the working class to the rentier at the time of deflation is criticized. In *The General Theory*, the rentier's demand for a high interest rate is criticized. The term rentier clearly has a negative connotation; however, the terms investor and bondholder are rather neutral[6].

Although the term rentier is used as a synonym of investor, their exact meanings are different. The meaning of the term rentier is almost the same as that of a bondholder because the investor holds not only public and private bonds but also stocks and other types of assets. In Chapter 12 of *The General Theory*, the behavior of the investor, as a shareholder, has been criticized. On the other hand, the rentier is assumed to be a bondholder; therefore, the relationship between the behavior of the rentier and the interest rate becomes an issue[7].

(2) Rentiers and changes in the value of money: The Early 1920s

During the 1920s, Keynes made several observations regarding rentiers. During the first half of the 1920s, his representative argument is the effect of the changes in the value of money in *A Tract on Monetary Reform*. In Chapter 1 of this book, Keynes began classifying the society into three classes[8]. "For the purpose of this enquiry a triple classification of society is convenient – into the investing class, the business class, and

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[5] In *A Tract on Monetary Reform*, Keynes also used the term "investing class". In an article that was published during the same period, he wrote "the *rentier* or bond-holding class" and "bond-holding *rentier* class" (Keynes, 1971a, pp. 47, 48).

[6] The term rentier is used with negative connotations in another context too. For example, "it is extraordinarily important that we as a nation should not become, ･･･ a rentier nation depending on interest from bonds and cut off from the living enterprises of the day, where constructive things are being done and today's wealth is being earned. ･･･ whilst the life offices of Great Britain were diverting the savings of their policyholders almost exclusively into the bonds of the old things, which, as it is politely expressed, 'have stood the test of time'" (Keynes, 1983, p. 160). This argument can be interpreted as a criticism for financialization.

[7] In liquidity preference theory, the choice between money and bonds determines the interest rate; this implies that the rentier is assumed to be a subject who has a liquidity preference. The relationship between the liquidity preference theory and the theory of the euthanasia of the rentier has to be examined; however, this is beyond the scope of this study.

[8] Chapter 1 of *A Tract on Monetary Reform* was originally published in 1922.

the earning class" (Keynes, 1971, p.4). Inflation is unfavorable for both the investing class and rentiers. "We conclude that inflation redistributes wealth in a manner very injurious to the investor, very beneficial to the business man, and probably, in modern industrial conditions, beneficial on the whole to the earner" (Keynes, 1971a, p.29). Deflation is favorable for the investing class, and he uses the term rentier. "On the other hand deflation, ・・・ in these days of huge national debts expressed in legal-tender money, to overturn the balance so far the other way in the interests of the *rentier*, that the burden of taxation becomes intolerable on the productive classes of the community" (Keynes, 1971a, p.30). He concluded the argument in the following manner: "Thus inflation is unjust and deflation is inexpedient. Of the two perhaps deflation is, ・・・ the worse; because it is worse, in an impoverished world, to provoke unemployment than to disappoint the *rentier"* (Keynes, 1971a, p. 36). Keynes regarded unemployment as more important than the interest of the rentier. Although Keynes preferred inflation to deflation, the control over the value of money is the most important means to restrain the detrimental effects of inflation and deflation.

(3) Public debt and the rentier

In *A Tract on Monetary Reform*, another point is made where Keynes dealt with the rentier. In Chapter 2 of the book titled "Public finance and changes in the value of money," he discussed the relationship between public debt and inflation[9]. In the case of accumulated public debt, there are two ways to reduce the burden of debt. Depreciation or inflation and capital levy on bondholders. Keynes first dealt with the measure of inflation or depreciation.

> "But there is a second way in which inflation helps a government to make both ends meet, namely by reducing the burden of its pre-existing liabilities in so far as they have been fixed in terms of money. These liabilities consist, in the main, of the internal debt. Every step of depreciation obviously means a reduction in the real claims of the *rentes*-holders against government" (Keynes, 1971a, pp. 53-55).

Keynes asserted that the depreciation of the currency reduces the real value of the public bonds owned by bondholders. Then he mentioned the capital levy.

> "There is, nevertheless, an alternative to devaluation in such case, ・・・ – namely a capital levy. The purpose of this section is to bring out clearly the *alternative* character of these two methods of moderating the claims of the *rentier*, when the State's contractual liabilities, fixed in terms of money, have reached an excessive

[9] Chapter 2 of *A Tract on Monetary Reform* was originally published in 1922. In the article titled "The Stabilization of the European Exchanges: A Plan for Genoa" (1922), Keynes put forth the same argument (Keynes, 1971b, pp. 358, 9).

> proportion of the national income. The active and working elements in no community, ··· will consent to hand over to the rentier or bond-holding class more than a certain proportion of the fruits of their work. When the piled-up debt demands more than a tolerable proportion, relief has usually been sought in one or other of two out of three possible methods. The first is repudiation. ··· The second method is currency depreciation, which becomes devaluation when it is fixed and confirmed by law. ··· The remaining, the scientific, expedient, the capital levy, has never yet been tried on a large scale ··· But if it has become clear that the claims of the bond-holder are more than the taxpayer can support, and if there is still time to choose between the policies of a [capital] levy and of further depreciation, the [capital] levy must surely be preferred on grounds both of expediency and of justice" (Keynes, 1971a, pp. 53-55).

Keynes believed that capital levy is not only for improving public finance but also for redressing the income distribution of society wherein which the rentier generates excessive income from bonds when the currency appreciates or deflates. It is also noteworthy that foreign exchange appeared to be an important factor; however, after the publication of *A Tract on Monetary Reform*, this problem was intensively tackled by Keynes by debating the return to the gold exchange standard. We treat this subject in the subsequent section.

In the early 1920s, Keynes problematized the notion of the rentier and occasionally regarded the rentier as harmful; however, he did not believe that the rentier would disappear. In this period, the capital levy is the means for removing the effect of the rentier. However, although Keynes clearly agreed to the concept of the capital levy theoretically, politically, he assumed an ambiguous attitude because at that time, unlike during the present day, the capital levy was resisted.

3. Investment and the embargo on foreign issues: Toward *The General Theory*

In *The General Theory,* Keynes referred to the rentier in conjunction with not only the investment and rate of interest but also foreign exchange and foreign investment. In *A Tract on Monetary Reform,* he mentioned the rentier only in relation to the distribution of income and changes in the value of money. Therefore, the topics are different and the argument in *The General Theory* appears to be introduced rather abruptly. In this section, we examine the debate on the return to the gold standard because in this debate, the confrontation between home investment and foreign investment and the relationship between interest rates and investments were the primarily issues.

In the early 1920s, Keynes's perception of the rentier was negative; however, like the capital levy, the treatment of the rentier was only a retrospective regulation. *The General Theory* proposes that the rentier's behavior must be controlled, for example, the euthanasia of the rentier implies that the rentier cannot claim returns on high interest rates by reducing the interest rates. Therefore, the means for the rentier in *The General Theory* is different from that in *A Tract on Monetary Reform*. After the publication of *A Tract on Monetary Reform*, Keynes tackled the debate on the return to the gold standard. In this context, his argument dealt with the relationship between the investment and the rate of interest.

The investment program has attracted attention with respect to *The General Theory*. The importance of home investment was also emphasized. This argument is notable in that Keynes disputed that the resources to investment are available; however, a portion of the savings is invested foreign, not in domestic, investment. He also asserted that foreign bonds were treated favorably in the amendment of the Trustee Acts to stimulate foreign investment. Moreover, to some extent, Keynes approved the embargo on financial bond issues in the London market for checking the "capital flight." This embargo on foreign issues was enforced because the investor, or rentier, purchased foreign bonds that were guaranteed by the Trustee Acts and provided high returns. Although this was not a permanent policy, it was a form of capital control. We examine Keynes's argument in detail.

(1) Home investment vs. foreign investment

We thoroughly examined Keynes's argument on the matter of home investment vs. foreign investment. After the publication of *A Tract on Monetary Reform*, he participated in a debate for evaluating the measures for escaping from a depression. In 1924, he wrote an article titled "Does employment need a drastic remedy?" In this article, he referred to the source of investment.

> "Is there not a chance that we can best achieve this by recreating the mood and the conditions in which great works of construction, requiring large capital outlays, can again be set on foot? Current savings are already available on a sufficient scale – savings which from lack of an outlet home, are now drifting abroad to destinations from which we as a society shall gain the least possible advantage. ･･･ I look, then, for the ultimate cure of unemployment, and for the stimulus which shall initiate a cumulative prosperity, ･･･ and to the diversion of national savings from relatively barren foreign investment into state-encouraged constructive enterprise at home – which will inspire confidence. ･･･ By conducting the national wealth into capital

developments at home, we may restore the balance of our economy" (Keynes, 1981a, pp.221-223).

Keynes believed that the resources for investment were already sufficiently available; however, plenty of resources were used for foreign, not home, investment. Subsequently, he proposed an investment program for inducing surplus funds. This argument led to the theory of socialization of investment in *The General Theory*.

Same argument was repeated in "Can Lloyd George do it?" (1929): "There are three resources which can enable new investment to provide a net addition to the amount of employment. ··· The third source of supply comes from a reduction in the *net* amount of foreign lending (Keynes, 1972, p. 116)." Subsequently, Keynes proposed an investment program.

> "We conclude, therefore, that, whilst an increased volume of bank credit is probably a *sine qua non* of increased employment, a programme of home investment which will absorb this increase is a *sine qua non* of the safe expansion of credit. The third source of the funds required for the Liberal policy will be found by a net reduction of foreign lending. ··· In relation to our less favourable balance of foreign trade, we are investing abroad to this dangerous extent partly because there are insufficient outlets for our savings at home. It follows, therefore, that a policy of capital expenditure, in so far as it might go beyond the mere absorption of deflationary slack, would serve mainly to divert to home development savings which now find their way abroad" (Keynes, 1972, pp. 119,120).

Investment plans were necessary to increase home investment because the motivation for investment declined during this depression period. This argument is a type of public expenditure policy and led to *The General Theory*.

(2) Criticism of the Trustee Acts and the redemption of War debt

Another measure for stimulating home investment is to identify a certain way for controlling foreign investment. Although there are several measures, Keynes initially referred to the problem of the redemption of the national debt of World War I. In "Does employment need a drastic remedy? (1924)," he mentioned that "The Chancellor of the Exchequer should devote his sinking fund and his surplus resources, not to redeeming old debt with the result of driving the national savings to find a foreign outlet, but to replacing unproductive debt by productive debt" (Keynes, 1981a, pp.221-223). He considered this problem because if the War debt had been redeemed, then the released funds would have been used for foreign investment. He discussed this problem, in detail, in the letter to the *Times* (1924).

> "1. The application of £50,000,000 to £100,000,000 a year to the redemption of War debt throws this amount of funds on the market seeking investment in a similar type of security.
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> 2. Private enterprise at home is not providing an outlet for these amounts *plus* new savings on anywhere near adequate scale.
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> 3. Consequently they find an outlet in foreign and colonial government loans, most of which do little directly to stimulate British industry and can only operate by depreciating our exchanges" (Keynes, 1981a, p.224).

He also indicated that a majority of the foreign investments took on the form of bonds issued by foreign governments and companies. This type of foreign investment did not contribute to the domestic economy. Subsequently, he criticized the Trustee Acts that gave preferential treatment not only to national bonds but also to foreign and colonial government bonds because these Acts accelerated foreign investment. Keynes termed foreign investments as "the flight of capital" (Keynes, 1981a, p. 227) in "A drastic remedy for unemployment: reply to critics" (1924). In an article titled "Foreign investment and national advantage" (1924), he stated the following argument:

> "I call attention in particular to the present operation of the Trustee Acts. These Acts in their present form provide an artificial stimulus on a great scale to foreign investment within the Empire. ・・・ Incidentally, it is worth noting that to pay of our own Government debt out of the proceeds of taxation, without at the same time providing a supply of home trustee investments to take its place, involves taking money by taxation out of the hands of persons who might invest in home enterprises of a non-trustee type and transferring it to another type of person who cannot help investing the proceeds in trustee investments abroad. ・・・ Thus the effect of the Trustee Acts is to starve home developments by diverting savings abroad and, consequently, to burden home borrowers with a higher rate of interest than they would need to pay otherwise" (Keynes, 1981a, pp. 280-284).

Keynes provided evidence to support this argument to the Committee on national debt and taxation in 1924. "If our own national debt is repaid on a large scale, and if the bulk of the new issues of trustee securities consist of colonial obligations, the effect of these two things together, namely repayment of debt and the Trustee Acts, is to afford an artificial stimulation to foreign investment which may be exceedingly contrary to the public interest" (Keynes, 1981a, p.297). Keynes asserted the abolition of the preferential treatment of trustee-type bonds, but the high level of the interest rate for domestic borrowers was also perceived. The argument of Keynes is an effective measure, to some extent, but it is not enough because there were no sufficient domestic investment plans and the yield of foreign bonds might be high. Therefore, Keynes considered other measures to reduce foreign investments.

(3) Embargo on foreign lending and controls over investments

During this period, the return to Britain's gold standard, and Keynes's opposition to the return to the gold standard, at the old parity, is well known. To return to the gold standard at the old parity, the British government enforced a deflationary policy, as well as an embargo on foreign investment, to improve its balance of payments. Keynes referred to this embargo in the article titled "The economic consequences of Mr. Churchill" (1925).

> "The effect of a high exchange is to diminish the sterling prices both of imports and of exports.･･･ The result is both to encourage imports and to discourage exports, thus turning the balance of trade against us. ･･･ The Bank of England has applied, accordingly, two effective remedies. The first remedy is to put obstacles in the way of our usual lending abroad by means of an embargo on foreign loans and, recently, on colonial loans also; ･･･ the adverse trade balance indicates that our prices are too high, and the way to bring them down is by dear money and the restriction of credit. Now what does this mean in plain language? ･･･ *In no other way than by the deliberate intensification of unemployment*(Keynes, 1972, pp.215-218)."

Keynes also criticized the deflationary policy of returning to the gold standard at the old parity because the credit squeeze policy reduces domestic investment and increases unemployment. He also referred to this embargo in the article titled "The autumn prospects for sterling: should the embargo on foreign loans be reimposed?" (1926)

> "We may jeopardise our revival, therefore, if we allow our not very abundant flow of new savings to be drained away into foreign loans, ･･･ if we allow the balance of current international indebtedness to tend against us rather than for us, with the result of pushing the Bank of England, not only towards dear money, but to a restriction of the volume of credit. If this happens, there will be no revival of trade. ･･･ is it sensible to allow foreign investment to proceed unhindered? ･･･ But the remedy will take the form of a reduction in the basis of credit, which will check indiscriminately foreign lending and home business. ･･･ I did not criticise the embargo on foreign investment which preceded and accompanied the restoration of the gold standard. I did not believe that this restoration would obviate the use of the embargo in future. I think that a central control of the volume of foreign investment is a permanent necessity for Great Britain, just as much as a rational Bank rate policy. Meanwhile, I should like to see the embargo reimposed at once"

(Keynes, 1981a, pp. 569, 572, 573).

Keynes appreciated this embargo on foreign investment and emphasized the necessity of controlling foreign investment. Moreover, in the early 1930s, he insisted on the regulation of foreign investment[10]. For example, he stated that "I hope that we shall not return to complete laissez-faire in overseas lending" (Keynes, 1982, p.124).

(4) Cheap money and the British economic situation of the early 1930s

The important aspect of the theory of the euthanasia of the rentier is the low-interest-rate policy. As previously stated, in the 1920s, Keynes already advocated this policy before the publication of *The General Theory*. In the 1930s, he continued to insist applying this policy. For example, in the article titled "A note on the long-term rate of interest in relation to the conversion scheme" (1932), "A reduction of the long-term rate of interest to a low level is probably the most necessary of all measures if we are to escape from the slump and secure a lasting revival of enterprise" (Keynes, 1982, p.114). Before the publication of *The General Theory*, Keynes asserted at the "Annual meeting of the National Mutual Assurance Society" (1934) that the level of the interest rate should be low. "The further we move from the abnormal rates of the War period, the clearer, I believe, will it become to every one that our economic health needs a rate of interest appreciably below, not above, the nineteenth-century level. There is no harm in the fall of the rate of interest being gradual, but it is a necessity for the epoch into which we are now entering that there should be a steady movement in the downward direction" (Keynes, 1982, p. 317).

Keynes asserted that the low-interest-rate policy was effective, but the economic situation in those days was not simple. Keynes interpreted the British economic situation in the article titled "Unemployment" (1930) in the following manner:

> "I think that in our home affairs we are moving in a sort of vicious circle. The trouble is quite as much the lack of investment and enterprise at home. We are trying to invest abroad as much as we can, and our ability to do so leads to loss of gold, the Bank rate is raised, and credit is reduced. This discourages investment and enterprise at home, which leads to more unemployment and low profits. Indeed, profits have got so bad that many investors try to lend their money abroad preferably to at home, which leads to the loss of more gold, again a higher Bank rate,

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[10] Keynes also insisted on the control of foreign investments in *The End of Laissez-faire* (1926). "I believe that some coordinated act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organisation of the investment market distributes savings along the most nationally productive channels" (Keynes, 1972, p.292).

and we are in the vicious circle again" (Keynes, 1981b, p. 323).

This situation is a "vicious circle." To escape this situation, Keynes emphasized the investment program.

"Personally, I believe one could do more for unemployment by some bold measure which would break this vicious circle than anything that one could hope from schemes of rationalisation. That is why I have been in favour for a good long time of a large programme of capital expenditure at home would employ men and would give an outlet for our savings without putting pressure on the gold reserves of the Bank of England, as is bound to happen when the savings find their way abroad" (Keynes, 1981b, p. 323).

The measures to escape this situation were theoretically expressed in *The General Theory*.

4. Theory of "the euthanasia of the rentier": *The General Theory*

Keynes published *The General Theory* in 1936. In this publication, he developed the theory of effective demand, wherein the amount of investment plays an important role. Investment is an important component of effective demand. To achieve full employment, it has to reduce the rate of interest to stimulate investment. Although Keynes endorsed the low-interest-rate policy, the rentier is at a disadvantage and will oppose a low rate of interest. Therefore, Keynes insisted that if the rentier disappears the economy would function well. This is the theory of the euthanasia of the rentier.

"There is, however, a second, much more fundamental inference from our argument which has a bearing on the future of inequalities of wealth; namely, our theory of the rate of interest. ··· But we have shown that the extent of effective saving is necessarily determined by the scale of investment and that the scale of investment is promoted by a *low* rate of interest, provided that we do not attempt to stimulate it in this way beyond the point which corresponds to full employment. Thus it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment. ··· Now, though this state of affairs would be quite compatible with some measure of individualism, yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital" (Keynes, 1973a, pp. 374-376).

The following three points need to be discussed with respect to this theory.

(1) The prerequisites of the theory of the euthanasia of the rentier

It was important for us to examine whether the condition of the euthanasia of the rentier is realized. In the 1920s and early 1930s, Keynes analyzed the situation that low interest rates are favorable for home investment; however, in an open economy, if the foreign interest rates are higher than the domestic interest rates, the available funds are used for foreign investment. Therefore, the closed economy, or control over the capital movement, is necessary for stimulating the investment by reducing the interest rate[11]. Keynes clearly recognized the need for the closed system, or control over the capital movement, before the publication of *The General Theory*. In the article titled "National Self-sufficiency" (1933), he wrote that "Advisable domestic policies might often be easier to compass, if, for example, the phenomenon known as 'the flight of capital' could be ruled out" (Keynes, 1982, pp. 235, 236).[12]

Although *The General Theory* postulates the closed system, the control of the capital movement is another possibility[13]. After the period of *The General Theory,* in the speech of "House of Lords Debates" (1943), Keynes referred to the control of capital movements.

> "In the control of capital movements, ••• each country is left to be its own judge whether it deems this necessary. In our own case, I do not see how we can hope to avoid it. ••• The need, in my judgment, is more fundamental. Unless aggregate of the new investments which individuals are free to make overseas is kept within the amount which our favourable trade balance is capable of looking after, we lose control over the domestic rate of interest. ••• But we cannot hope to control rates of interest at home if movements of capital moneys out of the country are unrestricted" (Keynes, 1980, pp. 275, 276).

Keynes clearly recognized that in an open economy, the regulation of capital movements is necessary for controlling the domestic interest rate.

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[11] Except for a few countries, the closed economy did not become a reality after World War II; however, the low-interest-rate policy was effectuated, to a certain extent, during the period before the liberalization of capital transactions that were induced by the advancement of globalization. For example, Japan experienced high economic growth from 1955 to 1970; during this period, the rate of interest was set as artificially low. This could have been effectuated by the control of capital movements.

[12] In the "National self-sufficiency" (1933), Keynes wrote that "I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement between nations. ••• But let goods homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national (Keynes, 1982, pp. 235, 236)." This point is interesting because Keynes did not think that the liberalization of international capital movements or international finance was desirable.

[13] Keynes already recognized the fact that a closed economy is necessary for implementing a low-interest-rate policy. "So long as there is serious all-round unemployment I consider this proves that equilibrium rate of interest is lower than the ruling rate. ••• I should agree that the figure would not be so low if we were not making ourselves into a closed economy" (Keynes, 1982, pp. 345,6).

(2) Future of capitalism: Capitalist economy without the rentier

Keynes depicted the economy without the rentier as the future of capitalism in *The General Theory*; its vision seems to emerge abruptly. There are, however, several points that would be linked to the theory of the euthanasia of the rentier. We first examine these points and subsequently consider the significance of the Keynes's vision of future capitalism.

In "Economic possibilities for our grandchildren" (1930), Keynes delineated the future society. In this society, "The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognized for what it is, a somewhat disguising morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease (Keynes, 1972, p. 329)." The people who love money as a possession might be similar to the rentier. It is difficult to assert that these two arguments have some direct relationship, but considering the theoretical construction of *The General Theory*, it would be true because the fundamental cause of unemployment is the liquidity preference, which is a kind of love of money.

In "National Self-sufficiency" (1933), Keynes depicted the future economy that resembles the vision in *The General Theory*.

> "But I have become convinced that the retention of the structure of private enterprise is incompatible with that degree of material well-being to which our technical advancement entitles us, unless the rate of interest falls to a much lower figure than is likely to come about by natural forces operating on the old lines. Indeed the transformation of society, which I preferably envisage, may require a reduction in the rate of interest towards vanishing point within the next thirty years. But under a system by which the rate of interest finds, under the operation of normal financial forces, a uniform level throughout the world, after allowing for risk and the like, this is most unlikely to occur (Keynes, 1982, p. 240)."

Keynes thought that the low interest rate is a characteristic of the long term state or future society. In this quotation, the theory that supports it is different because, first, the theory of the determination of the interest rate was not the liquidity preference theory, but a kind of loanable fund theory and, second, he did not necessarily think that the low interest state would be realized.

Although Keynes claimed that the capitalist economy without the rentier works unobjectionably, we have to examine the society that Keynes has described as the future of capitalism. The theory of the euthanasia of the rentier is explained in Chapter 24 of *The General Theory*; however, the economy without the rentier is described in Chapter

16.

> "Let us assume that steps are taken to ensure that the rate of interest is consistent with the rate of investment which corresponds to full employment. ··· On such assumptions I should guess that a properly run community equipped with modern technical resources, of which the population is not increasing rapidly, ought to be able to bring down the marginal efficiency of capital in equilibrium approximately to zero within a single generation; so that we should attain the conditions of a quasi-stationary community··· If I am right in supposing it to be comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero, this may be the most sensible way of gradually getting rid of many of the objectionable features of capitalism. ··· Though the rentier would disappear, there would still be room, nevertheless, for enterprise and skill in the estimation of prospective yields about which opinions could differ" (Keynes, 1973a, pp. 220, 221).

Keynes considered the economy without the rentier as an improved form of capitalism. In Chapter 24, he depicted the future of capitalism as follows.

> "I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what have seen recently in Great Britain, and will need no revolution. Thus we might aim in practice ··· at an increase in the volume of capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus" (Keynes, 1973a, pp. 374-376).

According to Keynes, the future economy would be characterized by full employment and a low-interest-rate level that attains full employment, the zero marginal efficiency of capital, and abundant capital. Whether or not Keynes was accurate is unclear, because currently, rentiers or financial asset holders command power. Moreover, the extremely low interest level rates are now commonplace in advanced countries such as Japan and the United States. The reality of the future economy is questionable; however, examining this topic in detail is beyond the scope of this paper.

(3) The concept of the rentier and income distribution revisited: The rentier's propensity to consume

Although Keynes discussed the theory of the euthanasia of the rentier in *The General Theory*, he referred to the rentier in the context of income distribution that is similar to that in *A Tract on Monetary Reform*. He discussed the relationship between the income of rentiers and their propensity to consume or save.

> "We have shown that when effective demand is deficient there is under-employment of labour in the sense that there are men unemployed who would be willing to work at less than the existing real wage. Consequently, as effective demand increases, employment increases, though at a real wage equal to or less than existing one, until a point comes at which there is no surplus of labour available at the then existing wage ··· The next problem is to consider what will happen if, when this point has been reached, expenditure still continues to increase. ··· We have reached ··· a situation in which the crude quantity theory of money ··· is fully satisfied ··· Nevertheless there are certain practical qualifications to this conclusion which must be borne in mind in applying it to an actual case ··· (2) Since the part of [entrepreneur's] profit which the entrepreneur has to hand on to the rentier is fixed in terms of money, rising prices, even though unaccompanied by any change in output, will re-distribute incomes to the advantage of the entrepreneur and the to the disadvantage of the rentier, which may have a reaction on the propensity to consume. ··· If the rentier is less prone to spend than the entrepreneur, the gradual withdrawal of real income from the former will mean that full employment will be reached with a smaller increase in the quantity of money and a smaller reduction in the rate of interest than will be the case if the opposite hypothesis holds. ··· It may be that, as the real income of the rentier is diminished, a point will come when, as a result of his growing relative impoverishment, there will be a changeover from the first hypothesis to the second, which point may be reached either before or after full employment has been attained" (Keynes, 1973a, pp.289-291).

The first half of this argument is identical to the argument in *A Tract on Monetary Reform*, but the latter half of the argument considers a new factor that relates to the rentier's propensity to consume. The noteworthy argument is that if the rentier's propensity to consume is lower than that of the entrepreneur, the economy reaches full employment faster than that in the opposite case. This argument is similar to the article titled "Unemployment as a World Problem: Reports of Round Table" (1931).

> "Let us take first of all the case where the employer passes on the whole of the wage reduction in the price. In that case there will be a transfer of purchasing power from the wage earners to the people whose money incomes are not cut, because since wages do not take up the whole of the cost, a ten percent reduction in wages will not cause, even if the whole of it is passed on, a ten per cent reduction in price. ··· you

will be simply transferring purchasing power from the wage earner to the rentier class. Are we to assume that the wage earner or the rentier is the most likely to save? Probably the rentier. If you enable him to sustain his existing standard of life by a smaller expenditure of money, there is a certain presumption that you will increase the quantity of his savings. If that happens, then pro tanto, you will be diminishing prime profit, and you will be throwing more people out of work by your reduction of wages" (Keynes, 1973b, p. 369).

In this argument, during the deflationary phase, if the rentier's propensity to save is higher than that of the earner's, the depression worsens. This argument is not exactly the same as that of *The General Theory*; it is more similar to the argument in *The General Theory*. Hence, it is also the reason for criticizing the rentier.

5. Conclusion

In this study, we examined the theory of the euthanasia of the rentier and its theoretical development in the works of Keynes. Consequently, we obtained the following four conclusions.

First, Keynes's attitude toward the rentier is consistent in that the rentier class could be harmful to society; however, if we examine the works of Keynes in detail, he changed his evaluation of the rentier. In *A Tract on Monetary Reform*, Keynes appreciated the rentier, to some extent. In *The General Theory*, he formulated the capitalist economy without the rentier. The reason that Keynes changed his thought is not evident, however, it is assumed that in the argument during the 1920s, he faced the situation that the existence of the rentier, or investor, disturbed domestic investment.

In *A Tract on Monetary Reform*, the measures for the excessive income of the rentier are to restrain the changes in the value of money and the capital levy. Although the capital levy is a retrospective method for rectifying the distorted income distribution at the time of deflation, it is not a measure for changing the behavior of the rentier. In the theory of the euthanasia of the rentier, the low interest rate is a method wherein the rentier is compelled to invest in domestic plans; the claim of the rentier for high interest rates is rejected. This difference is large; however, there is another measure for regulating the behavior of the rentier in Keynes's argument after the publication of *A Tract on Monetary Reform*, an embargo on foreign investment implemented for the return to the gold standard at the old parity. Although this embargo was a temporary policy, Keynes emphasized the necessity of the regulation of foreign investment during this period. The regulation of foreign investment subsequently appears in the form of the control of capital movements.

Second, the future of capitalism without the rentier, that Keynes depicted in the theory of the rentier, is important; however, whether or not he is accurate depends on the recognition that this description is still not realized or his prospect is wrong; further analysis into this topic is beyond the scope of this paper. Under all circumstances, the theory of the euthanasia of the rentier is not a superfluous or gratuitous argument in *The General Theory* because the low-interest-rate policy could be necessary for maintaining full employment.

Third, a closed economy, or the regulation of capital movements, is the prerequisite for the low-interest-rate policy in the theory of the euthanasia of the rentier. In *The General Theory*, although a closed economy is assumed, it is a theoretical assumption. Keynes mentioned the control of capital movements as the necessary means after *The General Theory*.

Fourth, although the theory of the euthanasia of the rentier appeared suddenly, the factors that constitute the theory already existed in his arguments in the 1920s and early 1930s. Although the theory of effective demand, especially the underinvestment theory, was shaped later, the importance of investment and cheap money was stressed during the 1920s. The negative assessment for the rentier arose in the early 1920s; this evaluation was enhanced in the argument that the surplus funds were invested in foreign, not home, investment. To stimulate home investment, a low-interest-rate policy and the control of foreign investment are necessary. In *The General Theory*, a closed economy is assumed, but it is theoretically equivalent to the control of capital movements. Moreover, the vision of future society without the rentier appeared abruptly in *The General Theory*, but a similar long-term vision was presented in the early 1930s, to some extent. Therefore, the components of the euthanasia of the rentier theory were already prepared by the time *The General Theory* was published.

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