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Retrospectives: Who Said "Debauch the Currency": Keynes or Lenin?

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This feature addresses the history of economic terms and ideas. The hope is to deepen the workaday dialogue of economists, while perhaps also casting new light on ongoing questions. If you have suggestions for future topics or authors, please contact Joseph Persky, Professor of Economics, University of Illinois, Chicago, at ⟨jpersky@uic.edu⟩.

Introduction

One frequently quoted passage from the work of John Maynard Keynes is that "the best way to destroy the capitalist system [is] to debauch the currency." The passage, attributed to Vladimir Ilyich Lenin, appears in Keynes' book *The Economic Consequences of the Peace,* which became an international bestseller when it was published in 1919. Nearly 60 years later, the economist and economic historian Frank W. Fetter (1977, pp. 77, 78) observed that "the story [about Lenin's remarks] has circulated among economists, journalists, businessmen, politicians and bankers" since then. Fetter doubted, however, that Keynes was really quoting Lenin. After extensive inquiries, Fetter reported that no such statement could be found in Lenin's published writings and that the "first attribution in English, and probably in any language," was by Keynes. Fetter suggested that Keynes had heard the story at the Paris peace conference of 1919, convened by the World War I Allies to address the main issues arising from their victory. Having arrived in Paris in January

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as the principal Treasury representative in the British delegation, Keynes had resigned by early June in despair over the hard measures the Allies were prepared to impose on Germany. Keynes returned to England; soon after, he began writing *The Economic Consequences of the Peace* to protest the Treaty of Versailles, which was signed on June 28. Fetter speculated that Keynes "probably heard many stories of what the Soviets were supposed to be saying, and . . . it was then a common practice to attribute all such remarks to either Lenin or Trotsky." Other commentators have gone further, suggesting that Keynes invented the quotation "that has passed into the currency of modern economic discourse" (Moggridge, 1992, p. 332; also Shapiro, 2006, p. 245).

Fetter and other writers were unable to trace the quotation because they sought the source in Lenin's collected published writings. It is now possible to show that Keynes based his remark on a report of an interview with Lenin published by London and New York newspapers in April 1919. Keynes' discussion of inflation in the *Economic Consequences* can then be read as an extended commentary on the remarks attributed to Lenin in the interview. While the report of the interview was not reprinted after 1919, it will be also shown here that Lenin responded to Keynes in a speech that was reprinted in *Collected Works*.

Wartime and Postwar Inflation in Europe

Wars are financed by some combination of taxation, borrowing, inflation, gifts, and plunder. During World War I, the belligerent countries and many nonbelligerents imposed exchange controls, limiting the ability of residents to acquire or spend foreign currency or precious metals. Exchange controls allowed central banks to, in effect, abandon the pegged exchange rates with gold they had had before the war, even if officially the old rates remained on the books. Freed from the discipline of the gold standard, central banks monetized government debt—that is, they bought the debt at higher prices (and hence lower interest yields) than governments would have received from selling debt only to the private sector. Central banks often bought the debt by granting governments credit to withdraw funds, which could be in the form of book-entry transfers or paper money. Governments could then use the funds to pay soldiers and other government employees, or to buy anything the private sector would sell. All major belligerents in World War I created some inflation. Given the expectations of low inflation inherited from the gold standard, the costs of inflation were easier to hide from the public than the costs of taxation and borrowing. Inflation could be accomplished by an administrative decision of the central bank, which under wartime conditions was not independent of the government, whereas taxation, and sometimes also borrowing, required the approval of the legislature.

In many countries, inflation rose rather than fell after the war ended. Price and exchange controls were removed or became harder to enforce. Formerly repressed inflation became evident, as the war had reduced stocks of key agricultural commodities and metals. The end of the war also brought revolutions in several countries, triggered in part by the ways that governments had conducted the war (Read, 2008). Old governments clinging to power or revolutionaries trying to seize power found, either by design or effect, that inflation was the quickest way to supply their spending wants. By the time Keynes wrote *The Economic Consequences of the Peace,* events were in train that by 1923 would lead to hyperinflations in Austria, Germany, Hungary, Poland, and Russia. All fit the definition of a hyperinflation as a period where inflation exceeds 50 percent a month for at least three consecutive months (Bernholz, 2003, p. 8).

By the close of 1917, Russia had had two revolutions, both related to the unpopularity of losses of territory and the heavy casualties suffered fighting against Germany. In February 1917, the Russian army sided with antigovernment protestors and the czar abdicated, to be succeeded by a government that stayed in the war. In October 1917, the Bolsheviks, led by Lenin, seized power. The Bolsheviks signed a peace treaty with Germany and the other Central Powers, ceding what are now Poland, most of the Baltic states, part of Belarus, and most of Ukraine. However, the Bolsheviks quickly found themselves besieged by a wide range of armed groups, including monarchists, democrats, anarchists, ethnic minorities, local strongmen, and the Allies, who supported anti-Bolshevik regional governments. The Bolsheviks and almost all their opponents relied heavily on inflation to finance their war spending. By the end of 1920, the Bolsheviks had vanquished their major opponents, but inflation continued to rise, culminating in a hyperinflation that persisted until the currency reform of 1924. Over the decade from entry into World War I until the currency reform, Russia's currency depreciated by a factor of five billion.[1]

Profiteers or Entrepreneurs?

In Chapter 6 of *The Economic Consequences of the Peace*, Keynes (1919 [1971], p. 143) argued that the framers of the Treaty of Versailles were uninterested in the "fundamental problems of a Europe starving and disintegrating before their eyes." Europe's problems were aggravated by high inflation, which he discussed in a "necessary digression" that accounted for most of the chapter. A complete quotation of the digression's opening paragraphs (pp. 148–49; all emphases in quotations appear in the original material) will facilitate comparison with the Lenin interview:

> Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, govern-

[1] For a general account of Russian monetary history in the early Soviet period, see Arnold (1937, pp. 53–243). An exception to the rule of inflationary finance was North Russia, the region around Archangel and Murmansk, where the anti-Bolshevik government maintained a currency with a fixed exchange rate against the British pound from 1918 to 1920. Keynes was the originator of the currency scheme (Hanke and Schuler, 1991).

> ments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily*; and while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become 'profiteers', who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.
>
> Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and it does it in a manner which not one man in a million is able to diagnose.

Keynes (1919 [1971], pp. 144, 149) laid responsibility for the inflation at the door of the "belligerent governments" during the war, most of whom were continuing to monetize their debts, rather than to pay for their expenditure by raising taxes or issuing loans. Whether due to "necessity or incompetence," it was a policy which "a Bolshevist might have done by design." The problem with ongoing inflation was that, with the arbitrary "rearrangement of riches" and wild fluctuations in prices it brought, confidence in the credit system would collapse, thereby undermining the "ultimate foundation of capitalism." The disintegration would be accelerated by the way that governments were attacking "profiteers" in an attempt to shift the blame for the inflation: "These 'profiteers' are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot help but get rich quick whether they wish it or desire it or not." The European situation was now dire. Facing starvation, "Men will not always die quietly . . . in their distress [they] may overturn the remnants of organisation, and submerge civilisation itself."

"The Great Illusion of Money"

A report of an interview with Lenin was published on April 23, 1919, by the *Daily Chronicle* in London and the *New York Times*.[2] Dated April 22 and cabled from Geneva, the article claimed to be based on "authentic notes of an interview with

[2] The quotations here are taken from that report. The *New York Times* report noted that its source was the dispatch to the *Daily Chronicle*. The *Daily Chronicle* became the *News Chronicle* in 1930 and ceased publication in 1960 when it was absorbed into the *Daily Mail*, which continues in existence today.

Vladimir Ulianoff Lenin, the high priest of Bolshevism, which were communicated to me by a recent visitor to Moscow."[3] Attributed to the *Chronicle*'s unnamed "Special Correspondent," the visitor was also unidentified. One section of the article recorded: "Lenin is obsessed at present by a plan for the annihilation of the power of money in the world." A long series of quotations attributed to Lenin began as follows:

> Hundreds of thousands of rouble notes are being issued daily by our treasury. This is done, not in order to fill the coffers of the State with practically worthless paper, but with the deliberate intention of destroying the value of money as a means of payment. There is no justification for the existence of money in the Bolshevik state, where the necessities of life shall be paid for by work alone.
>
> Experience has taught us it is impossible to root out the evils of capitalism merely by confiscation and expropriation, for however ruthlessly such measures may be applied, astute speculators and obstinate survivors of the capitalist classes will always manage to evade them and continue to corrupt the life of the community. The simplest way to exterminate the very spirit of capitalism is therefore to flood the country with notes of a high face-value without financial guarantees of any sort.
>
> Already even a hundred-rouble note is almost valueless in Russia. Soon even the simplest peasant will realise that it is only a scrap of paper, not worth more than the rags from which it is manufactured. Men will cease to covet and hoard it so soon as they discover it will not buy anything, and the great illusion of the value and power of money, on which the capitalist state is based will have been definitely destroyed.
>
> This is the real reason why our presses are printing rouble bills day and night, without rest.

While Lenin's reference to "the capitalist state" was concerned with the Bolsheviks' struggle to establish a socialist state, the underlying rationale for the argument was subsequently explained by the historian E. H. Carr in a brief memorandum for Fetter (1977, p. 78): "None of the Bolsheviks wanted, or planned, inflation. But, when that happened (since the printing press was their main source of revenue) they rationalized it ex post facto by describing it as (a) death to the capitalists and (b) a foretaste of the moneyless Communist Society. Talk of this kind was widely current in Moscow in 1919 and 1920" (for discussion, see Carr, 1952, pp. 140–41, 256–63; Davies, 1958, pp. 38–45).

Immediately following the statement that "our presses are printing rouble bills day and night without rest," the article quoted Lenin as saying:

[3] Ulianoff (also spelled Ulyanov) was Lenin's family name; "Lenin" was his alias as a revolutionary.

> . . . this simple process must, like all the measures of Bolshevism, be applied all over the world in order to render it effective. Fortunately, the frantic financial debauch in which all Governments have indulged during the war has paved the way everywhere for its application . . . .
>
> Capitalism carries on a more effective propaganda for us among the masses than we ourselves could ever hope to achieve by our own efforts.
>
> The international profiteer is our best propagandist. It is true that we owe much to the war, but I do not fear peace, for the incurable avidity and corruption of the capitalist classes will survive it and paralyze its healing effects.
>
> The cost of living, instead of diminishing, is still increasing steadily in most countries. The lust of gain of the international exploiters—bourgeois financiers, manufacturers, and tradesmen—is still unslaked, and they are conspiring to prevent the return of normal conditions, totally unconscious of the fact that they are preparing their own destruction.

Keynes could have read this newspaper report, as the *Daily Chronicle* had the second or third largest circulation of the London dailies (McEwan, 1982, p. 129).[4] It is also possible that Keynes saw or was told of the *New York Times* report (1919a) by American acquaintances in Paris (as described in Skidelsky, 1986, p. 375). There was also further newspaper commentary on the matter in an editorial in the *New York Times* (1919b) and an article in the (New York) *Commercial and Financial Chronicle* (1919), a weekly magazine read by the U.S. business elite.[5] Although the *Commercial and Financial Chronicle* had little international circulation, its quotations from Lenin were subsequently published in the annual report of the U.S. Mint (1919, p. 225).

Keynes' phrase "Lenin is said to have declared" may have been an acknowledgement that the author of the article and the source for the interview were anonymous. However, the congruence of the language and the arguments indicate that the article was Keynes's source for the digression in Chapter 6 of *The Economic Consequences of the Peace.* The article quoted Lenin as using the word "debauch" with regard to government financial policies and, like Keynes, Lenin noted the destabilizing effects high inflation had on confidence, as profiteers gained at the expense of the rest of the population. Indeed, much of Keynes's digression reads as a commentary on Lenin's statements. This is particularly evident in his discussion of the effects of government attacks upon "profiteers" or, as Keynes (1919 [1971], pp. 149–50) preferred, "entrepreneurs."

> By directing hatred against this class . . . the European Governments are carrying a step further the fatal process which the subtle mind of Lenin had

[4] In 1918, the paper had been sold to a syndicate, whose members were, in effect, agents of the Prime Minister, David Lloyd George.

[5] There was no mention of the interview in the London *Times* or the *Economist.*

> consciously conceived . . . Perhaps it is historically true that no order of society ever perishes save by its own hand . . . [Current policies may] bring in the revolution no less inevitably . . . than by the intellectualisms, too ruthless and self–conscious for us, of the bloodthirsty philosophers of Russia.

Lenin Replies to Keynes

That Lenin did not think that deteriorating economic conditions would make revolution inevitable was apparent in his "Report on the International Situation" in July 1920 to the Second Congress of the Third International (also known as the Communist International, or Comintern). For our purposes, what is noteworthy about that report is that the first half, which discussed the effects of the Treaty of Versailles, was an extended commentary on *The Economic Consequences of the Peace*. Citing Keynes's statistics on government debt, Lenin argued that Keynes had concluded that "Europe and the whole world are headed for bankruptcy. He has resigned, and thrown his book in the government's face with the words: 'what you are doing is madness.'" Lenin (1920 [1966], pp. 220, 227) approved of Keynes's proposals for settling intergovernmental debt, sardonically suggesting that they were equivalent to the Soviet government's: "As you know . . . these [Russian] debts do not disturb us, because we followed Keynes's excellent advice just a little before his book appeared—we annulled all our debts (*Stormy applause*.)"

If Lenin thought Keynes was correct on those matters, however, he did not let Keynes's barbed comments about himself go unremarked (p. 219): "He has arrived at conclusions which are more weighty, more striking and more instructive than any a Communist revolutionary could draw, because they are the conclusions of a well–known bourgeois and implacable enemy of Bolshevism, which he, like the British philistine he is, imagines as something monstrous, ferocious, and bestial."

"Such Profound Pessimism"

If the apocalyptic imagery in *The Economic Consequences of the Peace* might now seem overwrought, it was symptomatic of the mood of alarm which pervaded at least one of the elite circles in which Keynes moved as he was writing the book. That mood was vividly illustrated in a July 1919 letter from Herbert Somerton Foxwell, the Cambridge and London University economist, to the publisher George Macmillan. Writing in the context of inflation and strikes in key industries, Foxwell (1919) noted that he had published a "couple" of articles on Marx in "the old days."[6] While

[6] Foxwell (1887a; 1887b) had reviewed the first English translation of the first volume of Marx's *Capital* in two articles for the London *Pall Mall Gazette* in 1887. That he wrote the unsigned articles is indicated by some notes in Richard Freeman's (2006) collection of Foxwell's papers and correspondence (9–10/643).

the "sensible socialists" now rejected Marx, "That is what makes the present situation so ominous." Referring to the attempts to restore real wage rates and changes in working conditions, Foxwell continued:

> They are out for anarchy. Possibly some of them believe they can build a better system on the ruins of the old. Some are simply bitter, with the Bolshevist bitterness, & don't care. Some are inflated with self–conceit, & want to pose as terrorists. They are a rather bad lot, from Ramsay MacDonald, the dear friend of our Premier [Prime Minister], downwards.
>
> If we had such a thing as a Government many of them would have been hanged as traitors long ago.
>
> I was at a dinner of very able City men & others on Thursday, when I never saw such profound pessimism. Keynes (junior) said 'you talk of what the position of the country will be after five years. The question is will it hold together for two years'.[7]

In the *Economic Consequences*, Keynes (1919 [1971], p. 160) was more sanguine, arguing that there was not "the slightest possibility of catastrophe or any serious likelihood of a general upheaval of society" in Britain. Keynes was, however, a vehement supporter of the increases in interest rates the Bank of England implemented in November 1919 and April 1920 (Moggridge, 1992, pp. 354–60). Indeed, when consulted by the Chancellor of the Exchequer in February 1920, Keynes (1920 [1977], p. 184) argued for an even tighter monetary policy, on the ground that continuing high inflation would "strike at the whole basis of contract, of security, and of the capitalist system generally." As Donald Moggridge (1992, p. 359) subsequently observed in his biography of Keynes, the "argument was that of the author of the *Economic Consequences*."

Conclusions

It seems clear that Keynes' statement, in *The Economic Consequences of the Peace*, that Lenin was "said to have declared that the best way to destroy the capitalist system was to debauch the currency," was based on a report of an interview with Lenin that was published by prominent London and New York newspapers. There are grounds for questioning the veracity of the interview. The *Daily Chronicle*'s Special Correspondent in Geneva was very hostile to the Bolsheviks and tended to

[7] Foxwell always referred to John Maynard Keynes as "Keynes junior" to distinguish him from his father, John Neville Keynes. (James) Ramsay MacDonald (1866–1937), subsequently Prime Minister, had been defeated as a Labour Member of Parliament in the 1918 election. Foxwell's phrasing of "traitors long ago" suggests that he was referring, in part, to MacDonald's opposition to the war.

report gossip as if it were substantiated evidence (for example, *Daily Chronicle*, 1919a). Moreover, it seems odd that the correspondent and the interviewer were both anonymous, as Lenin gave a number of interviews to the Western press in 1919 that were signed when they were published (for example, Goode, 1919). Nevertheless, the remarks in the interview were consistent with a number of arguments emanating from Moscow at the time—specifically, the rationalization of inflation as the harbinger of a moneyless economy and the belief that the revolution would soon spread to the rest of Europe. Moreover, Lenin did not question the statement attributed to him in *The Economic Consequences of the Peace* when he addressed the Third International in 1920.

The context of Keynes's statement in *The Economic Consequences of the Peace* was the immediate danger of postwar hyperinflations in Europe. Keynes made the point clear in *A Tract on Monetary Reform* ([1923] 1971) when he concluded that both inflation and deflation "are evils to be shunned." Nevertheless, Keynes (p. 36) wrote, "perhaps deflation is, if we rule out exaggerated inflations such as Germany, the worse; because it is worse, in an impoverished world, to provoke unemployment than to disappoint the *rentier*." Modern mainstream economic practice agrees with Keynes on this point. To invoke Keynes's quotation of Lenin on debauchment as applying to modern advanced economies, with their typically single-digit annual rates of inflation, is anachronistic, but in a few poorer economies—notably Zimbabwe, suffering a hyperinflation as of late 2008—the quotation continues to have "currency."

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