

KEYNES

A Very Short Introduction

Robert Skidelsky

OXFORD
UNIVERSITY PRESS

Introduction: The man and economist

Keynes's fundamental insight was that we do not know – cannot calculate – what the future will bring. In such a world, money offers psychological security against uncertainty. When savers become pessimistic about future prospects they can decide to hoard their savings rather than invest them in businesses. Thus there is no guarantee that all income earned will be spent. This amounts to saying that there is no natural tendency for all available resources to be employed. 'Men cannot be employed', he wrote in *The General Theory*:

when the object of desire (i.e. money) is something which cannot be produced [employ people in its production] and the demand for which cannot be readily choked off. There is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (i.e. a central bank) under public control.

When Keynes talked about money rather than goods being the 'object of desire', was he being frivolous or was he saying something profound in a playful way? How seriously was one to take his suggestion that one should make money go bad, like 'green cheese'?

People have debated these matters ever since. Was Keynes merely a speculator in ideas or was he a saviour who brought a diseased world a new hope of health? The Fabian Beatrice Webb wrote: 'Keynes is not serious about economic problems; he plays a game of chess with it in his leisure hours. The only serious cult with him is aesthetics.' To Russell Leffingwell, a US Treasury official who negotiated with Keynes at the Paris Peace

Conference in 1919, Keynes was ‘always perverse, Puckish... a bright boy, shocking his admiring elders by questioning the existence of God, and the Ten Commandments!’ However, for the economist James Meade, who knew him both as a postgraduate at Cambridge and as a civil servant in the war, Keynes ‘was not merely a very great man; he was a very good man also’. For young economists generally, *The General Theory* shone out as a beacon of light in a benighted world. ‘What we got was joyful revelation in dark time,’ recalled David Bensusan-Butt, who came up to read economics at King’s College, Cambridge, in 1933. ‘Keynes’s reformed capitalism had everything and more the Fabian generation had looked for in socialism: it was morally speaking egalitarian, it was fully employed, it was generous and gay....’ Another student, Lorie Tarshis, wrote: ‘And finally what Keynes supplied was *hope*: hope that prosperity could be restored and maintained without the support of prison camps, executions and bestial interrogations....’

These stereotypes have persisted. To anti-Keynesians Keynes is someone who produced fertile, but ultimately unsound and distracting hypotheses; to Keynesians he offered a profound insight into the way economies behave, permanently valuable tools of economic policy. The stereotypes are true but incomplete. Keynes had many sides; different people saw different aspects of him. He also changed, so that different generations saw him in different lights. He did love to play with ideas in a reckless way, but, as his friend Oswald Falk remarked, ‘in this manner, in spite of false scents, he caught up with the march of events more rapidly than did others’. He was a striking phrase-maker, and used words deliberately to rouse people from their mental torpor. But ‘when the seats of power and authority have been attained there should be no more poetic licence’. About his ultimate seriousness of purpose there can be no real doubt. The real question is whether the concepts he bequeathed were the right ones to make sense of his world, and beyond that, of our world.

Keynes’s ideas were rooted in time and place. He was born in 1883 and died in 1946. He was born into a world which assumed peace, prosperity, and progress to be the natural order of things, and lived long enough to see all these expectations toppled. When he grew up, Britain was the centre of a mighty empire: in the last months of his life he was handing round the

begging bowl in Washington. His life spanned not just the collapse of British power, but the growing enfeeblement of the British economy. It spanned the passage from certainty to uncertainty, from the perfumed garden of his youth to the jungle of his mature years, where monsters prowled. In 1940, he wrote to an American correspondent: ‘For the first time for more than two centuries Hobbes has more message for us than Locke’.

Keynes was a product of decaying Victorian conventions. This is what made the problem of behaviour, personal and social, so central for him. But before the First World War this very decay produced a great surge of cheerfulness in Keynes and his contemporaries. They saw themselves as the first generation freed from Christian ‘hocus-pocus’, the creators and beneficiaries of a new Enlightenment, who could work out their ideals and maxims of conduct in the pure light of reason. Their ideals were aesthetic and personal; public life was rather depressing, because the great victories of progress, it seemed, had all been won. Experiment was the order of the day in the arts, in philosophy, in science, and in life-styles, rather than in politics or economics. Diaghilev was born in 1872, Picasso in 1881, Gropius in 1883, James Joyce and Virginia Woolf in 1882, Russell in 1872, G. E. Moore in 1873, Wittgenstein in 1889, Einstein in 1880. Only Freud, of those who moulded early 20th-century consciousness, comes from an earlier generation, born in 1856.

Then came the First World War, and everything changed. After 1914 there was the management of the world to attend to – a world which, after 1914, seemed to be spinning into chaos. Here the problem was one of control, not liberation. Civilization, Keynes acknowledged in 1938, was a ‘thin and precarious crust’. The men of power took over, determined to impose their versions of order on chaos: Stalin was born in 1879, Mussolini in 1883, Hitler in 1889. Modernism lost its innocence, as playfulness gave way to horror. And Keynes began to wonder about his early creed. ‘I begin to see’, he said to Virginia Woolf in 1934, ‘that our generation -yours & mine... owed a great deal to our fathers’ religion. And the young... who are brought up without it, will never get so much out of life. They’re trivial: like dogs in their lusts. We had the best of both worlds. We destroyed Xty & yet had its benefits.’ But the important point is that he never succumbed to

the politics of cultural despair. Despite everything, that Edwardian cheerfulness survived. Uncertainty could be managed, not by brute force, but by brains, by the exercise of intelligence, and gradually the harmonies might be restored. This was his ultimate credo, his message, if there is one, for our time.

He was well qualified to convey it. Bertrand Russell has written that ‘Keynes’s intellect was the sharpest and clearest that I have ever known. When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool.’ Others, like Kenneth Clark, felt he used his brilliance too unsparingly: ‘he never dimmed his headlights’. But it was his liquidity of mind which chiefly struck his contemporaries: its tendency, as Kingsley Martin put it, to ‘run round and over an obstacle rather than dispose of it. Like a stream he often appears travelling in opposite directions.’ The jibe that wherever five economists were gathered there were six opinions and two of them were Keynes’s was already familiar in his lifetime. ‘But the charges of caprice and inconsistency so often levelled against him signify very little,’ Kingsley Martin wrote, ‘except that his mind deals swiftly and somewhat cavalierly with practical difficulties, offering one possible solution after another in a way that is terrifying and bewildering to the cautious and solidly rooted.’ The irony, as Kurt Singer noted, was that someone who ‘seemed to find rest only in motion... [able] to build and to discard in one afternoon a memorable number of equally attractive conceptual schemes’ should have bequeathed to the world ‘the Book of a new faith’.

Yet it would be wrong to say of him, as he said of Lloyd George, that he was ‘rooted in nothing’. He was born a Victorian, and traces of ‘Victorian values’ remained with him throughout. He had a strong inherited sense of duty, even though, like Sidgwick, he found it difficult to justify it philosophically. He believed in government by a benevolent clerisy, or intellectual aristocracy. There was in this notion a mingling of the social and intellectual which reflects the very Victorian rise of Keynes’s own family, through brains and business acumen, into the circle of the governing class. He was a ‘thinking’ patriot, though his patriotism was free of any trace of jingoism. He was a firm believer in the virtues of the *Pax Britannica* and reluctant to believe that any other country could take on

Britain's world role. He was pro-German, anti-French -another 19th-century inheritance.

Nonconformity was a powerful factor in Keynes's formation. It comes out in his frugality. People found his entertainments 'very economical', and at the end of his life he regretted he had not drunk more champagne. He became very wealthy, but he lived comfortably, not grandly or ostentatiously. As an economist, his imagination was much more excited by people's propensity to hoard than to splash; and he would turn this cultural, or psychological, defect in his own class background into a paradoxical explanation of why capitalist economies could run down.

He came from a family of preachers, especially on his mother's side. He was of the first generation of unbelievers untroubled by 'doubts', but theology was in his bones, and the distance between theology and economics much less than it is today. He had to the full the Nonconformist capacity for indignation and protest; his economic essays are secularized sermons. The 'unsurpassed individualism of our philosophy', to which he referred in 1938, rested on the belief that human beings (at least in England) had been sufficiently moralized by Victorian values that they could be 'safely released from the outward restraints of convention and traditional standards and inflexible rules of conduct, and left, from now onwards, to their own sensible devices, pure motives and reliable intuitions of the good'.

Keynes's social sympathies were not wide, though they widened as he grew older. His family had pulled themselves up by their bootstraps, and in general he expected others to do the same, provided there were enough jobs to go round. For the residue there was the Charity Organisation Society, and other typical mid-Victorian associations for helping the unfit and alcoholic. Keynes's hereditary Nonconformity was weakened by social acceptance. He had been to Eton, as a Colleger (as Eton scholars are called), and was increasingly at his happiest in the company of clever Old Etonians. He enjoyed the company of the rich and well-born, though he indulged it sparingly. As he grew older Keynes became more conservative, an apostle of continuity and evolutionary change. The social conclusions to which his economics pointed, he wrote at the end of *The General Theory*, were

‘moderately conservative’. Capitalism, for which he had a moral distaste, could survive, under improved management.

What remained intact from his childhood were his work habits. Keynes was one of the most efficient working machines ever created. Thus he imposed his own order on a disorderly world. It enabled him to lead as many lives as he did, and to show zest for each one. Every nook and cranny of the day was packed with multifarious activities and projects. He got through all his business with astonishing expedition. He had an amazing capacity to switch from one thing to another; and despite all he did he seemed unhurried, with plenty of time for friendship, conversation, and hobbies.

It was Keynes’s ‘queer imaginative ardour about history, humanity’ which endeared him to Virginia Woolf, his ‘mind working always’, overflowing ‘vigorously into byepaths’. He had a universal curiosity, and could not touch any topic without weaving a theory about it, however fanciful. ‘England could not have afforded Shakespeare had he been born fifty years earlier,’ was one favourite saying. This attractive habit of rushing in where slower minds feared to tread, and relying on quick invention to get him out of tight corners, often affronted experts and gave him the reputation of an amateur, even in economics. But it was not all after-dinner chatter. Keynes could get totally obsessed by intellectual concerns apparently remote from the mainstream of his work. Early in life, he tried to work out a formula for predicting colour-blindness, based on Mendelian genetics; in the 1920s, he succumbed repeatedly to his ‘Babylonian madness’ – an essay on the origins of money. ‘It is purely absurd and quite useless,’ he wrote to Lydia Lopokova on 18 January 1924, ‘But just as before I became absorbed in it to the point of frenzy... The result is I feel quite mad and silly. With a lunatic kiss and a wild eye, Maynard.’

Even his efficiency could not save him from constant fatigue. He was always overworked. As a young man he went to spend a restful weekend with the Russells, and twenty-six unexpected guests arrived, most of them, Russell implies, summoned by Keynes. Later in life brief-cases full of paper always accompanied him on his holidays abroad. He spent years of what he himself called ‘Chinese torture’ on college and university committees from which he could easily have escaped. ‘Is it necessary?’ ‘Why do we buzz

and fuzz?’ ‘Why do I do it?’ Did Keynes have any identity in solitude? He does not give the impression of being at ease with himself. He thought he was ugly. He loathed his voice. His Bloomsbury friends complained of his lack of fastidiousness, and mocked his taste in pictures and furniture. The ‘masks’ which he put on were physical as well as mental. The playful eyes and sensuous mouth were covered up by the conventional disguises – the military moustache, the dark suits and Homburgs which he wore even on picnics – of the ‘man of affairs’. He sought his identity in mastery of the external world.

In his attitude to his fellow humans, Keynes was a mixture of benevolence and intolerance. He had a great capacity for affection, and, unlike most fellow members of the Bloomsbury Group, was exceptionally loyal to his friends. He appreciated mental quirks, oddities, obsessions, which he often saw as containing interesting possibilities. He revered genius, a word which he used in its original sense of a ‘free spirit’. Like many intellectuals he respected practical expertise, even of the humblest. He was quick to excuse the faults of youth and inexperience. He was not a patient man, but he could take enormous trouble with the affairs of his friends, and those he thought deserving of it.

At the same time he could be devastatingly rude – especially to those he thought ought to know better. He had the curse of Oxbridge, believing that all the cleverness of the world was located in it and its products. With this went a profoundly Anglocentric view of the world, more typical then than now. He often got away with rudeness because of his ready command of repartee and the technique of *reductio ad absurdum*. But he could also wound. The American economist Walter Stewart wrote that

In conversation Keynes was frequently brilliant and not infrequently unkind. He could not resist scoring a point and would look around the circle of listeners to see whether others had noticed the arrow hit the mark. Some of his sharpest wit was used against those who could not easily defend themselves and even against the absent.

It was not a style calculated to endear. The Americans never took to it. Keynes’s ‘Open Letter’ to Roosevelt in 1933, sounded, writes Herbert

Stein, ‘like the letter from a school teacher to the very rich father of a very dull pupil’. In Savannah, in March 1946, for the inaugural meeting of the International Monetary Fund, Keynes made a speech in which he hoped that ‘there is no malicious fairy, no Carabosse’ who had not been invited to the party. The reference was to Tchaikovsky’s ballet, *Sleeping Beauty*, but Frederic Vinson the US Secretary of the Treasury, took it personally. ‘I don’t mind being called malicious, but I do mind being called a fairy,’ he growled.

Kurt Singer leaves a kinder picture of Keynes in action. He evoked ‘by gesture, eye and word... the figure of a bird, of incredible swiftness, drawing circles in high altitudes but of deadly precision when suddenly sweeping down on some particular fact or thought, able to coin unforgettable word-formulas for what he saw, forcing his intellectual booty with iron grips even on the unwilling’.

It was not predetermined, either by background or abilities, that Keynes would make economics his life’s work. His father was a logician and economist, but his career was not a good omen for his son: it ended in university administration. Keynes’s mind was too wide-ranging, his spirit too active, for highly-specialized academic work. In writing his *Treatise on Probability*, he exhausted his serious interest in logic: it was too narrow for his mind. One must be able to use one’s brains aesthetically and practically. The psychology of money, and stock-exchange gambling, fascinated him from an early age; his administrative talents might have made him a high imperial civil servant; he was a wonderful writer. In the end, he was able to use economics as the vehicle for all his obsessions and talents, but it was the uncertain state of a war-shocked world which made economics his vocation.

What sort of economist was Keynes? The most striking thing about him is the combination of gifts he brought to the subject. It is impossible to believe that he did not have himself in mind when he wrote, in his essay on Marshall,

the master-economist must possess a rare *combination* of gifts...
He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must

contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.

His wife, Lydia Lopokova, wrote that Keynes was 'more than economist'; he himself felt that 'all his worlds' fertilized his economic thinking. He fits that old-fashioned label, difficult to define, of political economist, someone who sees economics as a branch of statesmanship rather than a self-enclosed discipline with invariable laws. One of his interlocutors on the Macmillan Committee on Finance and Industry asked: had not social security benefits prevented 'economic laws' from working? 'I do not think it is any more economic law that wages should go down easily than they should not,' Keynes replied. 'It is a question of facts. Economic law does not lay down the facts: it tells you what the consequences are.' In middle age, he used to complain bitterly that young economists were not properly educated – they were not able to draw on a wide culture for the interpretation of economic facts. Here is a clue to what has gone wrong with economics, and indeed with the Keynesian revolution. Keynes lit fires in technicians – but they remained technicians. They used his tools, but failed to update his vision.

In his essay on Thomas Malthus, Keynes claimed for 'the first Cambridge economist', a 'profound economic intuition' and 'an unusual combination of keeping an open mind to the shifting picture of experience and of constantly applying to its interpretation the principles of formal thought'. This expressed his own philosophy of economics in a nutshell. Economics, he told Roy Harrod in 1938, is 'a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world... Good economists are scarce because the gift of using "vigilant observation" to choose good models... appears to be a very rare one'. In his essay on Isaac Newton, Keynes quoted de Morgan's verdict of him: 'so happy in his conjectures as to seem to know more than he could possibly

have any means of proving'. Keynes, too, felt sure of the result long before he had supplied the proof.

Keynes was the most intuitive of economists – using ‘intuitive’ as people talk, or used to talk, of ‘feminine’ intuition – a feeling of certainty apart from rationality. (One of his biographers, Charles Hession, traces his creativity to a synthesis of female intuition and masculine logic.) Intuition in this sense must be distinguished from philosophic intuition in which Keynes also believed – the view that knowledge arises directly from introspection. Keynes had an extraordinary insight into the *Gestalt* of particular situations. He had in marked degree the scientific imagination he ascribed to Freud, ‘which can body forth an abundance of innovating ideas, shattering possibilities, working hypotheses, which have sufficient foundation in intuition and common experience’. His favoured objects of contemplation were economic facts, usually in statistical form. He used to say that his best ideas came to him from ‘messing about with figures and *seeing* what they must mean’. Yet he was famously sceptical about econometrics – the use of statistical methods for forecasting purposes. He championed the cause of better statistics, not to provide material for the regression coefficient, but for the intuition of the economist to play on.

A crucial source of Keynes’s understanding of business life was his personal involvement in money-making. ‘It was his understanding of the speculative instinct which made Keynes such a great economist,’ noted his friend and fellow financier Nicholas Davenport.

The academic economist never really knows what makes a businessman tick, why he wants sometimes to gamble on an investment project and why he sometimes prefers liquidity and cash. Maynard understood because he was a gambler himself and felt the gambling or liquidity instincts of the business man. He once said to me, ‘Remember, Nicholas, that business life is always a bet.’

Keynes’s generalizing passion was often at odds with his uncanny sense of the significant particular. He strove always ‘To see a World in a Grain of Sand... And Eternity in an hour’. It was Keynes’s very ability to ‘touch the abstract and concrete in the same flight of thought’ which is such a

dazzling, but also bewildering, feature of his economics. People were never sure at what level of abstraction he was working. In his review of *The General Theory*, his Cambridge colleague Pigou complained of Keynes's desire to 'reach a stage of generality so high that everything must be discussed at the same time'. Schumpeter said much the same thing. *The General Theory* was a book which offered 'in the garb of general scientific truth, advice which... carries meaning only with reference to the practical exigencies of the unique historical situation of a given time and country'; it constructed 'special cases which in the author's own mind and in his exposition are invested with a treacherous generality'.

From another Cambridge colleague, Dennis Robertson, came a related criticism summed up in the phrase 'successive over-emphasis'.

May I suggest that I – managing to keep throughout in touch with all the elements of the problem in a dim and fumbling way – have been a sort of glow worm, whose feeble glimmer lands on all the objects in the neighbourhood: while you, with your far more powerful intellect, have been a light-house casting a far more penetrating, but sometimes fatally distorting, beam on one object after another.

Marshall criticized Jevons in much the same way as many criticized Keynes: 'His success was aided even by his faults... he led many to think he was correcting great errors, whereas he was really only adding important explanations.'

There is obviously room to wonder whether, as Kurt Singer suggests, Keynes's 'general theory' is 'not in fact tailored to fit a very particular situation dominated by the political vicissitudes and their psychological consequences of that uneasy weekend between the two world wars; and whether [Keynes] was not in fact dealing with a phenomenon not likely to recur'. On the other hand, it is hard to explain the American collapse of 1929 in these terms; the extent of the 'uncaused' American depression, as we shall see, was the overwhelming fact which *The General Theory* was designed to explain.

In the final analysis, the shift from ‘classical’ to ‘Keynesian’ economics cannot be isolated from the larger transitions in politics, international affairs, science, philosophy, and aesthetics through which Keynes lived. They were all refracted in Keynes’s luminous and mysterious mind. He remained an Edwardian, in the sense that his beliefs about the world were crystallized in the early years of the century. He adapted his creed to the grimmer realities which followed. In his economics, he strove not for the truth but for the attainable idea necessary to the conduct of lives in a world which had lost its moral bearings. He never succumbed to despair. In his darkest moments, cheerfulness kept breaking though. Shortly before his death, he gave a toast to economics and economists - ‘trustees, not of civilisation, but of the possibilities of civilisation’. Only someone with a fine sense of language, and an Edwardian sense of life’s purpose, would have chosen exactly those words.

Chapter 1

The life

Keynes set out to save what he called ‘capitalistic individualism’ from the scourge of mass unemployment, which, he saw, if left unchecked, would make ‘authoritarian state systems’ the norm in the Western world. He was born on 5 June 1883 into a very different era of ‘capitalistic individualism’: one in which economic progress was taken for granted; a liberal oligarchy of land and money manned the state; and Britain’s position seemed secure as the head and heart of a world trading system. That this was an age which was dying was apparent only to a few. The doubts of the Victorians were still more religious than material, though there were premonitions of danger to the established order of things - the rise of the mass democracy at home, the challenge of Germany abroad, a certain loss of economic vitality, the growing amplitude of industrial fluctuations. The word ‘unemployment’ first appeared in the *Oxford English Dictionary* in 1888 – a sign of things to come

Maynard Keynes was the product of a not unusual Victorian success story. He was the eldest of three children of a well-off Cambridge academic family, living at 6 Harvey Road. The Keynes family traced their descent back to a Norman knight who had come over with William the Conqueror. But it was Maynard Keynes’s paternal grandfather who rescued the family from poverty by making a small fortune as a market gardener in Salisbury. His only son, John Neville, established himself at Cambridge in the 1870s as a Fellow of Pembroke College. He was a philosopher and an economist who wrote standard texts on logic and economic method; later he became Registrar of the University. In 1882, he married Florence Ada Brown, daughter of a well-known north-country Congregational minister, and a schoolmistress mother devoted to the cause of women’s education. Both families’ antecedents were ‘chapel and trade’: the move to Cambridge was

part of the assimilation of provincial Nonconformity into the Establishment of Victorian England.

Keynes's parents embodied the Victorian virtues in relaxed form. John Neville Keynes indulged himself in a variety of hobbies. From him Maynard Keynes took intellectual precision and administrative efficiency combined with a certain playfulness, though he was mercifully free from his father's anxiety. Florence Keynes took up 'good causes' but never at the expense of her family. She – and the Browns generally – represented the 'preaching' and 'do-gooding' side of Maynard's inheritance; they also had a streak of intellectual fancy. Keynes's genius was his own, but he felt he had a social and intellectual tradition to live up to.

The family atmosphere at 6 Harvey Road was high-minded. The Keynes circle included some of the foremost economists and philosophers of the day – Alfred Marshall, Herbert Foxwell, Henry Sidgwick, W. E. Johnston, James Ward. As a young man Maynard played golf with Sidgwick, and wrote of him with wicked accuracy (to his friend Bernard Swithinbank on 27 March 1906): 'He never did anything but wonder whether Christianity was true and prove that it wasn't and hope that it was.' Cambridge was less worldly than Oxford. Although Maynard would mingle with the world, his standards remained unworldly. He judged his own life, and others', by intellectual and aesthetic criteria. He imposed himself on the world of affairs by force of intellect and imagination, but was not absorbed by it.

He accepted without question the high value his father and mother placed on academic excellence. Indeed, he never rebelled against his parents, though he had a larger range of sympathies. His family home, where Neville and Florence Keynes continued to live after Maynard had died, gave his life stability and continuity. His social thinking had a precise reference to his family's circumstances. He saw himself as a member of the 'thinking' middle class. He thought that escape from poverty was always possible in pre-war Europe 'for any man of capacity or character at all exceeding the average'. And he never lost his belief in the duty of a capable and right-thinking clerisy to give leadership to the masses.

In 1897, he gained a scholarship to Eton, Britain's top school. He was an outstanding schoolboy, though in no narrow way, winning an enormous

number of prizes, being elected to ‘Pop’, Eton’s exclusive social club, and even performing creditably in the College’s incomprehensible Wall game. What is already noticeable is the extraordinary range of his interests and aptitudes. Mathematics was his best subject, but he excelled in classics and history too. He got through his work at lightning speed. He won the respect of scholars *and* athletes, just as later he would win over both academic economists and practical men. Keynes realized from an early age that cleverness guilefully deployed was the road to success in dealing with adults. Cleverness was the alternative to submission or rebellion: through cleverness one could manipulate any situation to one’s advantage. What was also noticeable was a certain mismatch between his capacities and his sympathies. He was developing into the logical, statistical, administrative, arrogant Keynes; but he was also the ‘Maynard’ whom his intimate friends knew, craving affection, drawn to writers, artists, and dreamers, losing himself in medieval poetry or abstruse speculations. Later he would see the practical purpose of economics as providing a protective belt for civilization against the forces of madness and ignorance.

In 1902, he went up to King’s College, Cambridge, on an open scholarship in mathematics and classics. Mathematics, his best subject, had never given him much pleasure, and he gave it up with relief after gaining a first-class degree in Part I of the Mathematical Tripos. He had spent most of his undergraduate time doing other things – studying philosophy, writing a paper on the medieval logician Peter Abelard, speaking at the Cambridge Union (he became its president in 1905), playing bridge, and indulging his passion for friendship. In 1906, he came second to Otto Niemeyer in the Civil Service Examination, entering the India Office as a junior clerk. In two years of routine work, he picked up a sound knowledge of India’s financial system, which led to his appointment as a member of the Royal Commission on Indian Finance and Currency in 1913. But he spent most of his office hours writing a dissertation on probability which, after one failure, got him his fellowship at King’s College in 1909. Cambridge University remained his academic home for the rest of his life.

While he was thus laying the foundations of his career, a shift in values had been taking place which carried him far beyond the confines of his parents’ relaxed Victorianism. Victorian morals had been sustained by religious

beliefs which were collapsing. Keynes and his undergraduate friends were militant atheists; but, as with so many thinking Nonconformists, the loss of beliefs which they regarded as false had not removed the need for beliefs which they could regard as true. They looked to moral philosophy to tell them how to live their lives. The philosopher G. E. Moore gave them what they wanted – a justification for breaking with the social and sexual codes of their parents. His *Principia Ethica* (1903) was the manifesto of modernism to Keynes's generation: later Keynes described it as ‘the opening of a new heaven on earth’.

Keynes had fallen under Moore's influence when, in his second undergraduate term, he was elected a member of the Cambridge Apostles, a selective and (at the time) secret philosophical discussion society. Through the Apostles he made some of the great friendships of his life, notably with Lytton Strachey; in the late 1900s he became a member of the Bloomsbury Group, a London commune of Apostles, their friends, and male and female relations. It was a circle of young writers and artists who found in the freer life of the unfashionable Bloomsbury district of London an escape from the stuffy conventions of their parents' households. In this partly admiring, partly disapproving, frequently malicious group of talented friends, Maynard Keynes found his emotional home before his marriage.

Moore convinced them of the supreme value of aesthetic experiences and personal friendship. He swept away the melancholy of the previous generation who could find no convincing reasons for doing their duty. He reintroduced cheerfulness into moral discussion, erecting a new argument for unworldliness on the foundation of Cambridge analytical philosophy. It was a shift possible only for those in privileged circumstances, and for whom politics was a minor interest, lacking the power to disturb ‘good states of mind’ – something certainly true of Keynes before 1914. But it was immensely liberating.

‘One’s prime objects in life’, wrote Keynes in 1938 of his pre-war days, ‘were love, the creation and enjoyment of aesthetic experience and the pursuit of knowledge. Of these love came a long way first’. To Keynes and most of his Apostolic friends, love meant homosexual love, initially of a somewhat spiritualized kind. Keynes's lover from 1908 to 1911 was the

painter Duncan Grant, a cousin of Lytton Strachey, whom he ‘stole’ from the latter to much perturbation in Bloomsbury. Until after the First World War all his emotional attachments were to young men. But Keynes was no more an extremist in love than in economics or politics. His homosexuality did not exclude the capacity to fall in love, and enjoy a happy sexual relationship, with the right woman; and she duly appeared after the First World War.

Beauty for Keynes and his friends meant chiefly Post-Impressionist painting, Russian ballet, and the new styles of decorative art influenced by both. For those with money, taste, and domestic servants (and one did not have to have much money to afford servants), London just before the First World War was an exciting place. The British philistinism of which Matthew Arnold had complained was being undermined by the artistic *avant-garde*. The idea that preposterous figures in Central Europe might be able to close down civilization in pursuit of great power ambitions and ethnic rivalries seemed unthinkable. It was a world, also, completely cut off from the ordinary experience of the masses, for whom, nevertheless, automatic economic progress was believed to be producing a better life, too.

Pursuit of knowledge for Keynes meant philosophy and economics, and more the first than the second. Most of his intellectual energy before 1914 went into turning his dissertation into the *Treatise on Probability*, not published till 1921, in which he tried to widen the field of logical argument to cover those cases where conclusions were uncertain. This work spilled over importantly into his economics. At Cambridge he lectured on money. He was an orthodox Marshallian quantity theorist, and did little to extend the frontiers of the subject, though his first (and only pre-war) book, *Indian Currency and Finance* (1913), was a lucid attempt to apply existing monetary theory to the reform of India’s currency system. It was notable for its expert knowledge of the working of financial institutions, its endorsement of the gold-exchange standard, and its advocacy of an Indian central bank – details of which Keynes worked out as a member of the Royal Commission on Indian Finance and Currency the same year.

He was just as interested, though, in the problem of knowledge in economics, engaging, in 1911, in an acrimonious debate with Karl Pearson

about the influence of the alcoholism of parents on the life chances of their children. Keynes rejected Pearson's use of inductive methods to establish social truths. This reflected his more general scepticism about the value of statistical inference, in line with his rejection of the statistical, or frequency, theory of probability. Economics could not be an exact science, because the number of variables was too great, and stability of variables over time could not be guaranteed. As he was to put it later, it is better to be roughly right than precisely wrong.

Keynes was 31 when the First World War broke out. The war changed his life-style, career, and ambitions, though not his ultimate values. After playing an important part in averting the collapse of the gold standard in the banking crisis of August 1914, he joined the Treasury in January 1915, remaining there till his resignation in June 1919. In January 1917, he became head of a new 'A' division, managing Britain's external finance. Over the period he helped build up the system of Allied purchases in external markets, which were being largely financed by Britain. He proved, in fact, to be a great Treasury official, adapting naturally to Whitehall, endlessly fertile in applying basic principles to concrete situations, able to turn out, at lightning speed, short, lucid memoranda, so invaluable to overworked ministers. Whitehall also satisfied that part of his nature which craved for mastery over the material world. He enjoyed his work and delighted in the company of the great and powerful which his position as a Treasury mandarin, brilliant, personable, single, good at bridge, full of amusing gossip, gave him.

Yet this, the face displayed by Sir Roy Harrod in his official biography, was a mask which hid a profound inner conflict. Keynes and his circle had been shocked by the outbreak of the war, which extinguished their hopes for a 'new civilization'. As it progressed, they came to believe in it less and less. Keynes played his part in the war effort to growing criticism from his Bloomsbury and pacifist friends, and with growing unease of conscience. He justified his position in a number of ways. From the summer of 1915 to January 1916, he provided the chancellor of the exchequer, Reginald McKenna, with economic arguments against conscription. His case, set out in powerful memoranda, was that Britain should concentrate on subsidizing its Allies by earning foreign exchange, rather than squandering men and

munitions on the Western Front. This was a rational argument, based on the principle of the division of labour. But underlying it was a growing hatred of the war, and a desire to keep it away from his friends. It also earned him the hostility of Lloyd George, who believed in the ‘knockout blow’.

When conscription came in January 1916, Keynes wanted McKenna, Runciman, and other leaders of Asquithian liberalism to quit the government, and proposed to go into opposition with them. When they stayed on, he stayed on too, but not before he had applied for exemption from the Military Service Act as a conscientious objector – a symbolic gesture, as he was automatically exempted by his Treasury work. Over the next six months he used his official position to help Duncan Grant and others get exemption from military service by testifying, as he put it, ‘to the sincerity, virtue and truthfulness of my friends’. Keynes and his circle were not pacifists on principle, but they were liberals who held that the state had no right to make people fight. They had also come to believe that this war was not worth fighting, and that every effort should be made to end it by a compromise peace. In December 1916, Lloyd George became prime minister, in the midst of a financial crisis which threatened to deprive Britain of the means of paying for any more war purchases in the United States. Keynes wrote to Duncan Grant on 14 January 1917: ‘God curse him [Lloyd George] ... I pray for the most absolute financial crash and yet strive to prevent it – so that all I do is a contradiction to all I feel.’

Keynes’s growing hostility to the war was influenced by the fact that it was making Britain dependent on the United States. With the depletion of its own assets it needed to borrow from America to supply its own Allies, especially Russia. On 24 October 1916, above the initials of Reginald McKenna, chancellor of the exchequer, appeared the words, almost certainly drafted by Keynes: ‘If things go on as at present...the President of the American Republic will be in a position... to dictate his own terms to us.’ This fixes the moment when financial hegemony passed across the Atlantic. The same story was to be repeated in the Second World War. Consciousness of Britain’s (and Europe’s) decline relative to that of the United States gave an added urgency to Keynes’s quest for a negotiated peace; it shaped much of his post-war thinking.

In September 1917, Keynes went to Washington for the first of his loan negotiations, and did not like the experience. ‘The only really sympathetic and original thing in America is the niggers, who are charming,’ he wrote to Duncan Grant. He was not a success with the Americans either, making ‘a terrible impression for his rudeness out here’, according to Basil Blackett, a Treasury colleague at the British Embassy. It was the start of a troubled relationship which lasted till Keynes died.

By the end of 1917, Keynes was convinced, as he told his mother, that the continuation of the war would mean ‘the disappearance of the social order we have known hitherto... What frightens me is the prospect of *general impoverishment*. In another year’s time, we shall have forfeited the claim we have staked out in the New World and in exchange this country will be mortgaged to America.’ This summarizes the mood which dominates his *Economic Consequences of the Peace*, his elegy on a vanished age and polemic against the Treaty of Versailles, published in December 1919. By that time, Russia had succumbed to Bolshevism, revolution had broken out in Germany and Hungary, inflation was rampant, much of Europe was starving. Yet all the peacemakers could think about was ‘frontiers and sovereignties’. As chief Treasury representative at the Paris Peace Conference, Keynes had tried hard to get Lloyd George to agree to a moderate figure for German reparations. When he failed, he resigned in disgust on 7 June 1919. He wrote his book in the summer of 1919 at Charleston, the Sussex home of Vanessa Bell and Duncan Grant.

The Economic Consequences of the Peace denounced the folly of the peacemakers in trying to extort from Germany an indemnity it could not possibly pay. He foresaw that attempts to make it pay would destroy the economic mechanisms on which the pre-war prosperity of Continental Europe had depended. He predicted a war of vengeance by Germany. There were memorable portraits of the leading peacemakers, Georges Clemenceau and Woodrow Wilson, though he left out the sketch of Lloyd George on Asquith’s advice.

Keynes’s main proposals were to cancel all inter-Ally war debts; limit Germany’s liability for reparation to a modest annual sum, payable to France and Belgium; and restore Germany as the economic powerhouse of

the Continent – Russia would be rebuilt ‘through the agency of German enterprise and organisation’. The cancellation of inter-Allied war debts was designed to de-couple American finance from Europe. Keynes supported American loans to get European industry restarted, pay for essential food imports, and stabilize currencies. But he was adamantly opposed to Europeans borrowing from the United States to service deadweight debt.

His book became an international best-seller, had a profound effect on post-war thinking, and made Keynes world-famous. It would be far too simple to say it *created* the mood of appeasement of Germany: revulsion against wartime propaganda had already started. What it did was to turn attention from Great Power politics to the conditions of economic prosperity. Keynes put economics on the map for the informed general public, and it has been there ever since. The view that capitalism needed managing also started to sink in. Keynes did not emerge from the war a socialist, much less a Bolshevik. Socialism, he started to say, was for later – after the economic problem had been solved: a curious link with classical Marxism. He remained a Liberal till he died. The task he set himself was to reconstruct the capitalist social order on the basis of improved technical management.

The war also brought about a rearrangement in his personal life, which finally shed the undergraduate flavour which had persisted till 1914. He was now a great man, a world authority on international finance, whose writings caused currencies to tremble, whose counsel was sought by financiers, politicians, and public officials in all countries. He returned to Cambridge in October 1919, but Cambridge was no longer the centre of his life. He was resident only in term-time, and even then only for long weekends (usually Thursday evenings to Tuesday mornings) into which he packed his much-reduced teaching duties, his College committees, and a social life which revolved round his family at 6 Harvey Road and a few close friends among the younger dons. Between the wars he was the spectacularly successful investment bursar of King’s College, boosting the capital of the college ‘Chest’ from £30,000 in 1920 to over £300,000 by 1945.

His London base was 46 Gordon Square, the Bloomsbury Group’s *monument historique*. Here he spent mid-weeks in term-time, and the first part of each vacation. London life was even more packed with activity. At

various times he was on the boards of no less than five investment and insurance companies, the chief one being the National Mutual Life Assurance Company, whose chairman he was from 1921 to 1937. From 1923 to 1931, he was chief proprietor and chairman of the board of the weekly journal, the *Nation and Atheneum*, working closely with its editor, Hubert Henderson. His editorship of the *Economic Journal* (1911–37) was also conducted from London. London was crucial to Keynes as a base of influence. He had direct access, for much of the interwar years, to prime ministers and chancellors. In the 1920s, his evolving ideas on economic policy permeated the official mind through monthly meetings of the Tuesday Club, a dining club of bankers, Treasury officials, economists, and financial journalists started by the stockbroker Oswald Falk in 1917; in the 1930s he sought to influence policy through his membership of the prime minister's Economic Advisory Council.

In the 1920s, Oswald Falk was Keynes's main partner in moneymaking. They started speculating on currencies immediately after the war, and continued in commodities. Despite three major reverses – in 1920, 1928–9, and 1937–8 – Keynes increased his net assets from £16,315 in 1919 to £411,238 – £10m in today's values – by the time he died. Over the interwar years, his investment philosophy shifted from currency and commodity speculation to investment in blue-chip companies in line with his changing economic theory. The failure of his 'credit cycle' investment theory to make him money led him to the 'animal spirits' theory of investment behaviour of *The General Theory*, and to a personal investment philosophy of 'faithfulness'. (To counter investment volatility he urged that the relationship between an investor and his share should be like that of husband and wife.) Journalism was another major source of money-making, especially in the early 1920s. Three major coups between 1921 and 1922, plus other journalistic earnings, netted him today's equivalent of £100,000. His successes in money-making in turn financed his activities as a collector of pictures and rare books, in homage to his youthful ideal of the good life.

The most dramatic sign of the reorganization of his life was his marriage. He first met the ballerina Lydia Lopokova in October 1918, when the Diaghilev ballet returned to London; he started wooing her at the end of 1921 when she danced in Diaghilev's magnificent, but commercially

unsuccessful, production of Tchaikovsky's *Sleeping Beauty* at the Alhambra theatre. Diminutive and pert, with a turned-up nose, and a head which reminded Virginia Woolf of a plover's egg, Lydia was an outstanding artist in her own right, with a bawdy sense of humour, a genius for refashioning the English language (she once referred to 'Jesus fomenting water into wine at Cannes'), and strong and secure intuitions, directly expressed. Keynes was captivated by her, and they were married on 4 August 1925. Possibly only a woman as exotic as Lydia, and coming from right outside his own social milieu, could have won the heart of a man whose affections were basically directed towards his own sex. Despite much Bloomsbury foreboding, she proved a perfect wife for him. She gave his life the emotional stability it had lacked for many years, and which provided the necessary background to sustained intellectual effort. In 1925, he acquired the lease of Tilton, a farmhouse in East Sussex, close to Charleston. Here he and Lydia passed his vacations, with friends and relations coming to stay; in a rather damp annexe to the main house he wrote most of his two major theoretical works, *A Treatise on Money* and *The General Theory of Employment, Interest, and Money*.

Keynes had always been a busy man. In the interwar years, his activity spilt out in masses of new directions. Contemporaries knew him as the man with the bulging brief-case, hurrying from one place, one meeting, to another. His life was embedded in a dense mass of miscellaneous activities which both fertilized and distracted him from his writing. His failure to produce a major work of theory till 1930, when he was almost 50, was the price he paid. But perhaps it was just as well, in the 1920s, to keep one's intellectual investments reasonably liquid. Economic theory was in a state of flux. It took the interwar 'shocks' to the capitalist system to crystallize the indictment of old-fashioned understandings of economic behaviour. Keynes's growing fame and involvement in public affairs also narrowed the circle, and quality, of his friendships. Outside his marriage, there was less time for 'personal moments'. 'Doing good' took precedence over 'being good'. But he never renounced the ideals of his youth; and though he was always busy, the speed and efficiency with which he got through his work gave the impression of unhurried calm.

The spur to Keynes's theoretical and practical efforts between the wars was his fear for the future. The pre-war mood of sexual and cultural freedom, made possible by the expectation of 'automatic' progress, had given way to a sense of the extraordinary precariousness of capitalist civilization. This was reinforced by the catastrophes of the interwar years – especially the Great Depression of 1929–33 and the triumph of Hitler in Germany. Belief in the stability and resilience of the market system was replaced by the view that the 19th-century era of *laissez-faire* was a unique episode in economic history, dependent on special conjunctures which were no more; that, despite technical progress, mankind was in danger of retrogressing from the plateau of prosperity and civilization it had achieved in the Victorian age. One way of interpreting Keynes's forebodings is to see them as a delayed reaction to the 19th-century fear of life without God. In 1925, after a visit to Soviet Russia, Keynes wrote that 'modern capitalism is absolutely irreligious... Such a system has to be immensely, not merely moderately, successful to survive.' This was the spiritual and psychological background to the Keynesian 'mood'.

In the years immediately following the war, Keynes's attention focused on two things: the international financial disorganization which the war had brought about, and which the peacemaking at Versailles had worsened, and the deterioration in the equilibrium terms of trade between Europe and the New World. At existing productivity levels, Europeans would have to accept a lower standard of life than before the war, since a given quantity of manufactured exports was buying less food and raw materials from abroad than hitherto. This range of concerns can be followed in Keynes's contributions to the *Manchester Guardian Commercial*' Reconstruction Supplements, the twelve issues of which he edited between 1922 and 1923. The 'neo-Malthusian' strand in Keynes's thinking has not been sufficiently noticed. It was at the heart of his argument for a devaluation of the main European currencies against the dollar.

Despite his resignation from the Treasury, and the odium which *Economic Consequences of the Peace* had aroused in some 'official circles', Keynes played a far from negligible role in sorting out the mess left by the peacemakers. He contributed directly to the British Treasury plan for settling the reparation problem at the end of 1922; and, through his

friendship with the Hamburg banker Carl Melchior, acted almost as unofficial adviser to the German government in 1922–3, a curiously under-researched role.

Until 1923, Keynes was not specially concerned with British problems, which seemed trivial in comparison with those of the Continent. However, the emergence of persisting mass unemployment turned his attention to this unique feature of the British situation. He attributed the bulk of the abnormal British unemployment of the 1920s to monetary mismanagement. Refusal to raise bank rate soon or high enough had allowed the inflationary boom of 1919–20 to get out of hand; the maintenance of punitive real rates of interest right through the subsequent period of falling prices, output, and employment had made the depression far deeper than it need have been. Keynes attributed the second phase of policy to the desire not just to eliminate the post-war inflation (which he shared), but to lower the price level sufficiently to put the pound back on the gold standard at its pre-war parity with the dollar: £1 = \$4.86. Like all economists, Keynes expected British employment to recover to ‘normal’ (as measured by pre-war standards) when prices ‘settled down’ in 1922. But unemployment remained obstinately stuck at above 10%. It was its failure to come down much below this rate for the rest of the 1920s which alerted Keynes to the possibility that the employment costs of a savage deflation might be more than ‘transitional’, with the economy remaining ‘jammed’ in a low-employment trap. To explain how such an ‘underemployment equilibrium’ could occur would be the main object of his theoretical writing.

A Tract on Monetary Reform (1923) was an attempt to design what would now be called a monetary ‘regime’ which would allow reasonable steadiness of economic activity. Keynes rejected the gold standard as the appropriate regime. The requirement that domestic currency should be convertible into gold at a fixed official price did not guarantee the stable domestic price level which Keynes considered essential for stable business expectations, because the value of gold itself was liable to fluctuate in terms of goods, depending on its scarcity or plenty. Further, given the actual and prospective distribution of the world’s gold reserves, returning to the gold standard would be to surrender Britain’s control over its own price level to the Federal Reserve Board in Washington. Britain should remain free to

manage its exchange rate in accordance with the needs of its domestic economy. Such a system of domestic monetary control would, Keynes argued, be consistent with short-run exchange-rate stability. But exchange-rate stability would be a consequence of stable domestic prices, not an independent, much less overriding, objective of policy.

A Tract on Monetary Reform identified Keynes as the foremost intellectual opponent of the ‘official’ policy of returning sterling to the gold standard at the pre-war parity with the dollar. But his plea for a ‘managed’ currency found little favour. Winston Churchill, the chancellor of the exchequer, put sterling back on the gold standard at \$4.86 on 20 April 1925. Keynes immediately attacked the decision in a memorable pamphlet, *The Economic Consequences of Mr. Churchill*. He argued that the revaluation of sterling required a 10% reduction in British wage costs, which could be achieved only by ‘intensifying unemployment without limit’. Implicit in this argument was the notion that the cost of labour was the main influence on the price level: under modern conditions of trade-union-led wage bargaining, a reduction in the quantity of money led directly to a reduction in the quantity of employment. He predicted that actual monetary policy would shrink from the attempt to restore equilibrium by this method. Interest rates would be kept high enough to attract foreign funds to London; but not pushed so high as to break trade-union resistance to a reduction in the money-wage per worker employed. The result would be a low-employment economy. So it proved. Despite the defeat of the General Strike in 1926, employers made little effort to reduce money-wages, which remained steady for the rest of the 1920s although the price level sagged. Keynes was the first to realize and state clearly that an overvalued currency would be a weak, not a strong, currency.

The events surrounding the General Strike shifted Keynes’s political allegiance from Asquith to Lloyd George, as well as bringing about a greater sympathy for the Labour Party. Between 1926 and 1929, he played a notable part in shaping the policy of the Lloyd George Liberal Party. Lloyd George looked to Keynes to provide the economic programme which would win the Liberals at least a share of power; Keynes saw Lloyd George as the most promising instrument for ‘conquering unemployment’. Keynes’s service on the Liberal Industrial Inquiry in 1927–8 marked the high point in

his involvement in politics. It was also the one period of his life when he thought deeply about the structural problems of British industry. The product of this phase was his political philosophy of the Middle Way, first outlined in his pamphlet *The End of Laissez-Faire* (1926).

Keynes spent the years 1925–8 partly writing his *Treatise on Money*, which started as a development of the ideas of the *Tract*. His main intellectual companion at this time was Dennis Robertson, Fellow of Trinity College, a retiring man, but tenacious controversialist. Keynes had no disciples in the mid-1920s: Kurt Singer remembers him as ‘a lonely figure, pathetic, rebellious and fond of dominating; but not yet in possession of the watchword that establishes leadership’. But a younger generation of those who helped make the Keynesian Revolution were starting to take root in Cambridge: the Italian émigré Piero Sraffa; Joan and Austin Robinson; above all Richard Kahn, whom Keynes described as his ‘favourite pupil’. Keynes struck one of his students, H. M. Robertson, as ‘more like a stockbroker than a don’, with his City suits and City gossip.

A Treatise on Money, published in 1930, is an excellent example of Keynes’s passion for generalization. In essence, Keynes built an exceedingly complicated conceptual apparatus to show how an economy on the gold standard could, under certain conditions, fall into a low-employment trap. If the monetary authority was prevented from lowering the long-term interest rate to a level consonant with investors’ expectations, and if domestic costs of production prevented the achievement of an export surplus equal to what people wished to lend abroad, the result would be an ‘excess’ of saving over investment, a sagging price level, and a ‘jammed’ economy. This was Britain’s fate in the 1920s. The revolutionary thought, brought out more clearly in *The General Theory*, was that there was no automatic mechanism in a modern economic system to keep intended saving in equilibrium with intended investment. As Hayek alone discerned, this was equivalent to saying that there was no automatic mechanism in the system to adjust aggregate demand to supply. It was in the notion of domestic savings unmatched by domestic or foreign investment that Keynes found his rationale for a programme of loan-financed public works to increase employment within the constraints of the gold-standard system.

Keynes's public endorsement, in April 1929, of the Lloyd George policy of loan-financed public works, in *Can Lloyd George do it?*, written jointly with Hubert Henderson, was notable for the argument that spending on public works would produce a 'cumulative' wave of prosperity. His chance to influence the policy of Ramsay MacDonald's second Labour government came with his appointment to the Macmillan Committee on Finance and Industry set up in November 1929, and to the government's Economic Advisory Council, established in January 1930. His nine-day exposition of the theory of the *Treatise* and possible remedies for unemployment to the Macmillan Committee in March 1930 marks the real start of the Keynesian revolution in economic policy. But his proposals for public works and protection made little headway at the time. The collapse of the world economy and business confidence strengthened the forces of orthodoxy. The pressure for retrenchment in the public finances brought about the replacement of the Labour government by a National government on 25 August 1931. On 21 September, the financial collapse in Central Europe, together with a burgeoning British current account deficit, forced sterling off the gold standard. That autumn Keynes set out to write a new book of theory designed to emphasize the role of output changes in the adjustment to a new position of equilibrium.

Although Keynes wrote one policy pamphlet, *The Means to Prosperity*, in 1933, the bulk of his 'spare time' between 1931 and 1935 was spent not advising governments, but writing his *General Theory of Employment, Interest, and Money*, published in February 1936. Two books of essays also appeared – *Essays in Persuasion* (1931) and *Essays in Biography* (1933). The first collected what Keynes, in his introduction, called 'the croakings of twelve years – the croakings of a Cassandra who could never influence the course of events in time'. A notable feature of the second is Keynes's use of short lives of men of science to ponder and delineate the character of scientific genius.

In the period 1931–2, Keynes engaged in intermittent, but intense, correspondence on points of theory with Hawtrey, Robertson, and Hayek. He was also helped by a 'Cambridge Circus' of young economists, the chief of whom, Richard Kahn, supplied him with the theory of the multiplier. Evidence of the progress of the book is given not only by *The Means to*

Prosperity, but by early drafts of chapters, fragments of lectures, and a complete set of lecture notes taken by some of Keynes's students from 1932 to 1935. One of them, A. C. Gilpin, described the Cambridge atmosphere in 1933 in a letter to his parents:

Economics lectures this year seem mainly to insist of elaborations or refutations of theories taught us last year. Shove dissects Marshall; Keynes attacks Pigou; Robertson disagrees with Keynes, and leaves it to his audience to decide who is right; an intense lady, Mrs. Joan Robinson, tries to explain why they disagree. It is interesting but confusing.

At the final proof stage in the summer of 1935, Roy Harrod made important suggestions.

Keynes was never a person to be doing one thing at a time. In addition to work on the book, he spent much of 1934–5 planning and supervising the building of the Cambridge Arts theatre, in fulfilment of a pre-war dream of endowing Cambridge with a permanent centre for the dramatic arts. As bursar of King's College, Cambridge, and as 'squire of Tilton', he became involved in ever more extensive farming operations. These are reflected in two articles he wrote in 1933 in praise of 'National Self-Sufficiency', which combined a moral attack on the international division of labour with the argument that 'most modern mass-production processes can be performed in most countries and climates with almost equal efficiency'. There were two visits to the United States, in 1931 and 1934. On the second, Keynes met Roosevelt, and most of the architects, as well as some of the critics, of the 'New Deal'. The influence of his presence and writing on the first phase of the 'New Deal' has been underestimated.

The General Theory changed the way most economists understood the working of economies. In that sense, it was explicitly, and successfully, revolutionary. It also had a revolutionary effect on policy. Not immediately, but after the Second World War, Western governments openly or implicitly committed themselves to maintaining a high level of employment. *The General Theory* itself is a profound exploration of the logic of economic behaviour under uncertainty, combined with a short-period model of

income determination, which emphasized quantity, rather than price, adjustment. These two loosely linked strands gave rise to much subsequent dispute concerning the ‘real meaning’ of *The General Theory* between what Alan Coddington called the ‘fundamentalist’ and the ‘hydraulic’ Keynesians. It was the income-determination model, based on the multiplier, together with the consequent development of national income statistics, which made Keynesian economics acceptable to policy-makers, since it offered them a seemingly secure method of forecasting and controlling the movement of such ‘real’ variables as investment, consumption, and employment.

Keynes’s own first attempt to apply *The General Theory* to policy came in three articles he wrote for *The Times* in January 1937 on ‘How to Avoid a Slump’ – a notably cautious assessment of the possibility of reducing unemployment below its then current rate of 12% by injecting ‘greater aggregate demand’ into the economy. Keynes had never enjoyed robust health. In May 1937, at the age of 53, he suffered a coronary thrombosis, from which he recovered only slowly. By the time war broke out, on 3 September 1939, a Hungarian physician, János Plesch, had restored him to something like his old vigour.

Following the publication of *The General Theory*, Keynes became the most influential figure in British economic policy. He achieved this by force of mind and personality, rather than by political position. Despite many offers, he never stood for Parliament. In June 1940, he was made a member of a Consultative Committee set up to advise the chancellor of the exchequer on war problems; in August he received a room at the Treasury and a part-time secretary. He had ‘no routine duties and no office hours... but a sort of roving commission plus membership of many high up committees, which allow me to butt in in almost any direction where I think I have something to say’. Keynes used his anomalous position to intervene, often decisively, on the whole range of economic business, great and small. He became the most powerful civil servant at large Whitehall has ever had, ‘less the servant and more the master of those he served’. His elevation to the peerage in 1942, as Baron Keynes of Tilton, would have given him the opportunity to enter the government, but this was never suggested, probably because he was too useful where he was. It did, however, give him the rank

to represent the government on several important missions to the United States, his last as joint head (with Lord Halifax) of the British delegation to Washington in September 1945 to negotiate the American loan.

Keynes's most important service in the last period of his life was to help build the domestic and international foundations of the managed capitalism to which his theory pointed. Three of his contributions to post-war statesmanship deserve particular mention.

The first arose in the context of wartime finance. One possible implication of Keynesian theory is that the government's budget should be used to balance the accounts of the nation, not just the government, to ensure that aggregate supply and demand are equal at full employment. In wartime, the problem was not to achieve full employment – which was reached in 1940 – but to prevent inflation – total demand rising higher than total supply. The specific task of wartime finance was to make sure that the extra demand created by full employment was spent by the government not by the private consumer. In three articles to *The Times*, published in October 1939, and reproduced as a pamphlet, *How to Pay for the War*, Keynes put forward a scheme for compulsory saving or 'deferred pay', in which excess purchasing power would be mopped up by a progressive surcharge on all incomes (with offsets to the poor in the form of family allowances), part of which would be given back in instalments after the war in order to counteract the anticipated post-war slump. Although this scheme was adopted only in part, Keynes's analytical approach, together with the estimates of national income which he used to calculate the size of the 'inflationary gap', became the basis of the budgetary strategy for the whole war, starting with Kingsley Wood's budget in 1941. But its importance went beyond that. In 1939, Keynes had doubted whether 'capitalistic democracy' would ever be willing to make the 'grand experiment' which would prove his theory. In war the experiment was made, and the theory worked. The economy was run at full capacity with only very moderate inflation. What could be done in war could be done in peace – or so it seemed.

Keynes's second major contribution to the post-war order was his part in establishing the Bretton Woods system. This was unfinished business left over from the collapse of the old order. Even in his *Tract* period Keynes

was not a currency floater. He wanted a ‘managed’ exchange-rate system – something consistent with *de facto* stability of exchange rates for long periods.

His famous Clearing Union plan of 1942 provided for a link between each national currency and a new reserve asset ‘bancor’. Surplus countries would accumulate ‘bancor’ balances in the Union’s Clearing Bank; overdraft facilities would be made available to deficit countries up to the total of the surpluses. The scheme was designed to discourage countries from running persistent balance of payments surpluses. If they nevertheless did so, debtors could automatically draw on the creditors’ bancor balances. Despite the defeat of this plan by Harry Dexter White’s alternative scheme for a gold-exchange standard backed by a small ‘adjustment’ facility (the International Monetary Fund), Keynes none the less worked unsparingly to achieve the Bretton Woods Agreement and to ensure support for it in Britain, taking part in two exhaustive negotiations in Washington in 1943 and 1944. In doing so, he played a decisive part in bringing Britain (and Europe) down on the liberal side of the shape of the post-war international economic order.

Keynes’s third act of statesmanship was to negotiate the American loan in September-December 1945. He estimated that Britain’s deficit on current account would total nearly \$7bn over the first three post-war years. Keynes went to Washington in September 1945 to seek a grant of \$5bn ‘without strings’. He returned, three months and several famous rows later, with a loan of \$3.75bn conditional on a commitment to make sterling convertible into other currencies a year after the loan agreement was ratified. It was probably the most humiliating experience of his life. For someone who had started as one of the rulers of a world empire to have to go begging to the United States was a bitter pill. Yet Keynes swallowed it, and persuaded the new Labour government to swallow it, because, as he put it to Lord Halifax, the alternative was ‘Nazi or Communist’ methods. In the House of Lords, he made an eloquent speech in defence of the agreement.

Keynes never recovered properly from the strain of the loan negotiations. There was another trip to the United States, to Savannah in March 1946, to inaugurate the International Monetary Fund. Once again, Keynes was

involved in a quarrel with the Americans over the question of the Fund's management. As always he pursued other business as well. During the war, he had added to his Treasury duties the chairmanship of CEMA – the Council for the Encouragement of Music and the Arts. In 1945, he was appointed first chairman of the Arts Council. Stopping over in New York after the Savannah meeting, he arranged for the American ballet to come over to Covent Garden, whose gala reopening performance of *Sleeping Beauty* he had attended on 20 February 1946. Two months later, on 21 April 1946, he was dead, of a massive coronary thrombosis. There was an imposing memorial service at Westminster Abbey, but he had chosen his own epitaph many years earlier, as an Eton schoolboy, when he quoted a passage from Bernard of Cluny's *De Contemptu Mundi*:

Not only those
Who hold clear echoes of the voice divine
Are honourable – they are blest, indeed,
Whate'er the world has held – but those who hear
Some fair faint echoes, though the crowd be deaf,
And see the white gods' garments on the hills,
Which the crowd sees not, though they may not find
Fit music for their visions, they are blest,
Not pitiable.

Chapter 2

Keynes's philosophy of practice

Keynes's economics – unlike Keynesian economics – was philosophically driven. It was informed by his vision of the ‘good life’; it was permeated by his theory of probability. These philosophical foundations were laid early in his life. Philosophy came before economics; and the philosophy of ends came before the philosophy of means.

Keynes's philosophy was the product of an atheistic generation. He and his contemporaries saw themselves as replacing Christian ‘hocus-pocus’ by a rational system of ethics and conduct. But they used tools of thought inherited from the Christian (as well as Greek) past; and the structure of their thought was metaphysical.

Fundamental was Keynes's intuitionist epistemology. He regarded intuition, rather than sense experience, as the foundation of knowledge, including ethical knowledge – a tradition going back to Plato. His stress on intuitive reasoning in economics, as well as his hostility to econometrics, was thus philosophically based, and not just temperamental.

His ethical beliefs were derived from G. E. Moore's *Principia Ethica*, published in 1903, his second undergraduate year. ‘I see no reason to shift from the fundamental intuitions of *Principia Ethica*’, Keynes said in 1938. Three things he got from Moore seem particularly important. The first was the indefinability of good. Good, Moore said, is the name of a simple, non-natural property, intuitively known. Secondly, good and bad states of mind are prior to good and bad actions: value determines duty. Finally, ‘By far the most valuable things which we know or can imagine, are certain states

of consciousness, which may be roughly described as the pleasures of human intercourse and the enjoyment of beautiful objects.' Moore believed this to be self-evidently true. To Moore's duo, the young Keynes added love of knowledge.

Good actions were those which brought about good states of mind. Moore said that it is only for the 'sake of these things [the pleasures of human intercourse and the enjoyment of beautiful objects] – in order that as much of them as possible may at some time exist – that anyone can be justified in performing any private or public duty; that they are the *raison d'être* of virtue; that it is they... that form the rational end of human action and the sole criterion of progress.'

The young Keynes saw two problems with this. Moore, he said, had failed to establish a rational basis for altruistic behaviour: there is 'no necessary connection' between individual and universal goodness. 'For my goodness and the goodness of the Universe both seem to have a claim upon me and claims which I cannot easily reduce to common terms and weight against one another upon a common balance.' The rival claims on Keynes, we may say, were those of Bloomsbury and Whitehall.

Secondly, because 'we never have the opportunity of direct inspection [of other people's states of mind], it is impossible to tell what kinds of action increase the goodness of the Universe as a whole'. Moore's criterion of public action is inferior to Bentham's, because it is almost impossible, by reference to it, to establish whether ethical progress is taking place. Specifically, good states of mind do not depend, in any direct way, on good states of the world. Moore provided a bridge to social reform with his doctrine of organic unity. The main purpose of this principle, as Keynes described it, was to limit the power to sum goodness by reference to isolated states of consciousness alone. In judging the goodness of a state of affairs, reference had to be made to time as well as to the objects of experience. Keynes decomposed Moore's 'complex wholes' into states of mind which were intrinsically good and objects which he called 'fit' or 'desirable'. Such objects need have no ethical value of their own. But, if they did not exist, the value of the experience would be less good than if they did. The social reformer could then claim that by improving the quality

of the objects of experience he was increasing the ethical goodness of the universe. It follows straightforwardly from Moore that goodness is increased, *ceteris paribus*, by an increase in the amount of beauty. Keynes acted on this belief both as a philanthropist, builder of the Cambridge Arts theatre, and by accepting the job of first chairman of the Arts Council. In the depth of the depression, he also indicated that a programme of public investment, inspired by Moore's principles, would seek to endow Britain's cities 'with all the appurtenances of art and civilisation' and make them 'the greatest works of man in the world'. A follower of Moore might also interest himself in raising standards of education and of comfort in so far as these improved the intelligence, sensibility, and comeliness of the population.

The snag comes with Moore's class of 'mixed goods', in which good states of mind *depend* on the existence of bad states of affairs. Feelings of pity, courage, justice, which have positive ethical value, could be said to depend on the existence of suffering, danger, injustice. To the extent that social reform rids the world of bad states of affairs, it may be decreasing the total of ethical goodness. Social reformers may regard such considerations as trivial when weighed against avoidable suffering and oppression. The fact that Keynes was alert to them shows his intellectual honesty; it also helps explain his limited passion for social reform.

It was another problem arising from Moore's discussion of duty which led Keynes to spend, as he put it, 'all the leisure of many years' on the study of probability. We ought, Moore said, to behave in such a way as to bring about the greatest possible amount of goodness in the universe. But our knowledge of the effects of our actions is bound to be, at best, probabilistic. Since it was impossible to know the probable effects of actions stretching into a remote future, the best we could do in most cases, Moore argued, was to follow moral rules which were generally useful and generally practised, as Hume had suggested. This conclusion stuck in the young Keynes's gullet. 'Before heaven', he recalled in 1938, 'we claimed to be our own judge in our own case.' He set out to discover a rational basis for individual judgements of probability. In a paper he read to the Apostles on 23 January 1904, he said Moore was confusing knowledge of probabilities with knowledge of relative frequencies of occurrence. He was claiming that if

we do not know for certain that any good we can achieve in the near future will not be outweighed by harm in the far future we have no rational basis for individual judgement. Keynes said this was wrong. All we have to have is *no reason to believe* that any immediate good we achieve would be overturned by distant consequences. Ignorance was not a barrier to individual judgement, but a way of neutralizing the unknown. By applying the ‘principle of indifference’ – assigning equiprobabilities to alternatives about which we have equal (including zero) evidence – we can extend the field of probability judgements. More generally, probabilistic knowledge was a kind of logical knowledge, concerning the ‘bearing of evidence’ on conclusions. It was to do with the rationality of beliefs, not the conjuncture of events. Keynes’s *Treatise on Probability*, eventually published in 1921, was the working out of this audacious insight.

The question Keynes asked was: what are the principles of rational choice and action when the future is unknown or uncertain? His concern, that is, is with the rationality of means, not of ends, though the rightness of actions had to be judged by reference to both. Keynes claimed that the mind could often ‘reduce’ uncertainty to probability, ‘intuiting’ that some outcomes are more or less likely than others; in his words, ‘perceiving’ a probability relation between the evidence (the premiss) and the conclusion of an argument. This perception sanctions a ‘degree of belief in the conclusion. The logic he proposes is that of partial entailment.

Keynes’s view of probability as logical *insight* was conceived as an attack on the dominant theory of his day – the frequency theory - which said that probability was a fact of nature: if one in ten smokers dies of cancer, the probability of smokers dying of cancer is 10%. The identification of frequency with probability, Keynes wrote, ‘is a very grave departure from the established use of words’; moreover, it assumes the ‘inductive hypothesis’ which cannot itself be derived from frequencies.

The point, above all, which Keynes wanted to establish is that our knowledge of probabilities is more extensive than our knowledge of frequencies. By the same token, our knowledge of probabilities is only to a limited extend numerical knowledge – knowledge of ratios. Logical intuition, acting on evidence, can in most cases do no better than to discern

that one conclusion is more likely than another, without being able to discern how much more or how much less likely. We have only a limited individual insight into the nature of the universe. Keynes allowed for unknown probabilities, arising from the impossibility in some cases of comparing probabilities based on different arguments. In deciding whether to take an umbrella on a walk, which should weigh more with us: the blackness of the clouds or the highness of the barometer? In such a case, ‘it will be rational to allow caprice to determine us and to waste no time on the debate’. Again, ignorance should not been seen as a barrier to rational judgement.

Keynes’s theory of probability is both optimistic about the power of human reason and pessimistic about the ability of reason to penetrate the secrets of the universe. He quoted Locke to the effect that ‘in the greatest part of our concernment, God has afforded only the Twilight, as I may so say, of Probability, suitable, I presume, to the state of Mediocrity and Probationership He has been pleased to place us in here’.

In deciding what is rational to do, we need to take into account two further considerations independent of probability, which Keynes called ‘the weight of argument’ and ‘moral risk’. By the first, Keynes meant roughly the *amount* of evidence supporting a probability judgement. This does not alter the probability, but can alter the amount of confidence we have in our judgement. Keynes’s distinction between the rationality of a judgement and the confidence it is rational to have in it plays a key part in the discussion of investment psychology in *The General Theory*. The principle of moral risk suggests that it is more rational to aim for a smaller good which seems more probable of attainment than to aim for a larger one which seems less, when the two courses of action have equal probable goodness. Other things being equal, ‘a high weight and the absence of risk increase *pro tanto* the desirability of the action to which they refer’. This argument provides the philosophical basis for Keynes’s rejection of revolutionary change.

In preparing his dissertation on probability for publication, Keynes added extra sections on induction and statistical inference. A thoroughgoing empiricist, he wrote, cannot make use of induction without inconsistency, for the use of the inductive method requires that a prior probability be

assigned to its validity. The 100-odd pages on statistical inference are remarkable chiefly for Keynes's attempt to reduce the domain of its validity to those sets of cases for which stable as opposed to average frequencies are available. This is the root of his objection to the misuse of econometrics. There is no doubt that Keynes's philosophic objection to induction gave a strong anti-empirical bias to his economics, despite his repeated calls for better data. While he aimed to choose models capable of explaining the 'facts of experience', his models are not derived from experience, but from introspection. In this respect, his method was much closer to that of the classical economists than to that of their 'institutionalist' critics.

Students of Keynes have only recently rescued his *Treatise on Probability* from its long neglect. This is part of the growing realization of the importance of Keynes's epistemology for understanding his theory of economic behaviour. One central debate concerns the status of his theory of probability. Was it, as Roderick O'Donnell claims, a Realist construction, or was it, as Anna Carabelli argues, a 'logic of opinion'? Keynes's insistence that probability was a 'real objective' relation, and that all rational beliefs have reference to true propositions, would seem to vindicate O'Donnell's approach, though Keynes later modified his opinion in response to criticisms by Frank Ramsey. A second issue concerns the epistemological continuity between the *Treatise on Probability* and *The General Theory*. Why, asks Athol Fitzgibbons, has the 'twilight of probability' turned by 1936 into the 'dark night' of uncertainty? The watershed of the First World War gives the answer. Finally, does Keynes, in *The General Theory*, see investment behaviour as rational or irrational? Here the main division is between those who see the 'conventional' investment strategy described by Keynes in *The General Theory* as a 'weak' form of rationality, and those who argue that Keynes believed investment behaviour to be irrational. This may be a non-debate, 'conventional' judgement of probabilities being what keeps investment reasonably steady, 'animal spirits' what produces the cycle.

These discussions are not just of historic interest. Keynes was the first economist to put uncertainty at the heart of the economic problem, and thus raise the issue of the scope and meaning of rationality in economics. Is rationality possible in an uncertain world, and how is it to be specified? The

question for policy concerns the conditions which would need to be satisfied for the structure of the economy not to be viewed as radically uncertain by economic agents.

Keynes's theory of politics was set in the same conceptual framework as was his ethical and economic philosophy. The nearest he got to a systematic exposition was in a 100-page undergraduate essay on Edmund Burke, which he successfully submitted for the University Members' Prize for English Essay in 1904 – the same year as his earliest paper on probability. Keynes showed himself to be largely sympathetic to the views of the founder of British Conservatism. He approved of Burke's separation of ethics and politics, also his preference for present over future goods. He criticized him for excessive timidity as a reformer, and for undervaluing the claims of truth; in general for carrying reasonable propositions too far. The views he expressed in this undergraduate essay crop up time and again in his mature writings.

Burke's 'unparalleled political wisdom', according to Keynes, lay in the fact that he was the first thinker consistently to base a theory of politics on utilitarianism rather than on abstract rights, though it was a utilitarianism 'modified' by the principle of equity - governments should avoid artificial discrimination against individuals or classes. He quotes him approvingly: 'The question with me is, not whether you have a right to render your people miserable, but whether it is not in your interest to make them happy.' Keynes adds: 'This is not a very recondite doctrine, but to Burke must be given the credit of first clearly and insistently enunciating it.' The most important consequence of this approach was Burke's championship of expediency as a central political principle – one which Keynes certainly approved. There is a jotting in Keynes's papers dating from the mid-1920s: 'It is fatal for a capitalist government to have principles. It must be opportunistic in the best sense of the word, living by accommodation and good sense. If a monarchical, plutocratic or other analogous form of government has principles, it will fall.' In policy-making, Keynes had a pronounced, but not extreme, preference for discretion over fixed rules, for reasons which can readily be inferred from his engagement with Burke.

Keynes accepted the view he attributed to Burke that the aim of politics was not to bring about states of affairs ‘good intrinsically and in isolation’, but to facilitate the pursuit of ethical goods by members of the community by guaranteeing conditions of ‘physical calm, material comfort, and intellectual freedom’. Up to a point, the requirements of welfare and ethical goodness coincide. But Keynes never regarded politics as an arena for achieving ethical goals, and he placed limited ethical value on political passions.

Keynes endorses another key principle of Burke’s: that the happiness or utility which governments should aim to maximize is short run not long run. This is a consequence of accepting the Moore-Burke criterion of ‘moral risk’ – ‘Burke ever held, and held rightly, that it can seldom be right... to sacrifice a present benefit for a doubtful advantage in the future.’ The concept of moral risk was a guiding principle in Keynes’s own statesmanship. It inoculated him equally against Communism and the sacrificial thinking implicit in much of orthodox economics.

However, Keynes thought Burke interpreted the ‘moral risk’ criterion too narrowly. In his essay of 1904, he criticized him for his ‘preference for peace over truth, his extreme timidity in introducing present evil for the sake of future benefits, and his disbelief in men’s acting rightly, except on the rarest occasions, because they have judged that it is right to act’. It was Burke’s epistemological scepticism which forced him back on tradition. Burke denied the value of the pursuit of truth on the ground that it might disturb the peace of the Commonwealth (a present good) without giving any assurance of a greater benefit. This was a conclusion that Keynes wanted to resist. He argued, in the spirit of Mill, that ‘whatever the immediate consequences of a new truth may be, there is a high probability that truth will in the long run lead to better results than falsehood’. This was very much in line with his attack on Moore’s argument for following generally accepted rules rather than using individual judgement. However, he conceded that the ‘modern prejudice in favour of truth [may be] founded on somewhat insufficient bases’. Thus the *Treatise on Probability* may be regarded as his reply both to Moore and to Burke on this matter. Rationality was an important principle in Keynes’s political philosophy. In the notion of policy informed by reason is a radical potential and optimistic outlook

missing from classic Conservatism. It was his belief in the power of reason, and the possibility of rulers acting according to its dictates, which led him to allow considerable economic policy discretion to rulers.

Keynes's handling of Burke's views on property and democracy in the light of his 'maxims' of statesmanship is worth particular notice. Burke defended existing property rights on the double ground that redistribution of wealth would make no real difference to the poor, since they greatly outnumbered the rich, while at the same time it would 'considerably reduce in numbers those who could enjoy the undoubted benefits of wealth and who could confer on the state the advantages which the presence of wealthy citizens always brings'. Keynes felt this argument 'undoubtedly carries great weight... and must always be one of the most powerful rejoinders to any scheme which has equalisation as its ultimate aim'. However, it was less valid if directed against 'any attempt to influence the channels in which wealth flows', and the relief of starvation or acute poverty. It was not valid, for example, against death duties 'whose object is to mullet great masses of accumulation', nor against the expropriation of feudal estates during the French Revolution. Burke was so often concerned to defend the 'outworks' of the property system, that he did not see that this might endanger the 'central' system itself.

This was a typical thought, typically expressed. In his *Tract on Monetary Reform* (1923), Keynes insisted that governments must have discretion to revise contracts between the living and the dead, since 'the powers of uninterrupted usury are too great'. It was the 'absolutists of contract', he wrote, 'who are the parents of Revolution' – a good Burkean attitude, though one Burke sometimes ignored.

In the crises of the 1930s, Keynes came to think that more drastic interferences with the 'outworks' than he had contemplated in 1904 might be necessary to defend the 'central' system. Thus in *The General Theory* he proposed to bring about the 'euthanasia of the rentier' by making it impossible to take 'usury' on loans; he also defended the medieval usury laws which restricted interest to a maximum. Yet when his French correspondent Marcel Labordère pointed out to him that 'stable fortunes, the hereditary permanency of families and sets of families of various social

standings are an invisible social asset on which every kind of culture is more or less dependent', Keynes readily replied: 'I fully agree with this, and I wish I had emphasised it in your words. The older I get the more convinced I am that what you say is true and important. But I must not allow you to make me too conservative.'

The issue of democracy, Keynes argued, involved two separate questions. Has the mass of people a right to direct self-government? Is it expedient and conducive to good government that there should be self-government? To both questions Burke had returned an 'uncompromising negative'. On the first, Keynes stood solidly with Burke. Government is simply a 'contrivance of human wisdom' to 'supply certain...wants; and that is the end of the matter'. People are entitled to good government, not self-government – a doctrine which he would apply without question at the India Office. The more difficult question is whether self-government is necessary to good government, and here Keynes was more open than Burke. He agreed with him that 'the people' are incompetent to govern themselves and that Parliament must always be prepared to resist popular prejudice in the name of equity between individuals and classes. But he criticized Burke's 'dream of a representative class', and said that he underestimated the educative value of self-government. Nevertheless, Keynes doubted whether any 'rational or unprejudiced body of men' would have dared to make the experiment in universal suffrage had they not been 'under the influence of a fallacious notion concerning natural political rights'.

So far democracy had not disgraced itself. This was because its 'full force had not yet come into operation'. The existing system was oligarchic and plutocratic, rather than democratic. The assumption that it would continue in this way, with the addition of 'technical expertise' was the Achilles' heel of Keynes's political theory.

In his political philosophy, Keynes married two key elements of Burkean conservatism – contentment as the aim and risk avoidance as the method of government – to two key elements in reforming liberalism – a commitment to truth and belief in the possibility of rational individual judgement. He

rejected both unthinking Conservatism and radical Socialism. This was very much the temper of the Middle Way which he espoused between the wars.

There has been much debate about what kind of Liberal Keynes was. Peter Clarke sees him as part of the pre-1914 ‘progressive’ movement, uniting left-wing Liberals and moderate Socialists in a common redistributive, democratic programme. Against this, Michael Freeden argues that Keynes was a tough-minded, ‘centrist’ Liberal, grafting technocratic solutions onto an individualist stem. By confining state intervention to spaces left vacant by private enterprise, by ‘jettisoning redistribution as a major field of socioeconomic policy’, and by ‘de-democratizing’ policy-making in favour of expert control, Keynes repudiated the distinctive features of ‘progressive’ Liberalism.

A case can be made out for both positions. What distances Keynes most obviously from the ‘progressives’ is his attitude to social justice. Keynes did not object (or object strongly) to the existing social order on the ground that it unfairly or unjustly distributed life-chances; rather that *laissez-faire* did not protect existing economic and social ‘norms’. Injustice to him meant arbitrary changes in settled social arrangements, such as produced by changes in the value of money. He sympathized strongly with the miners at the time of the General Strike in 1926, because he saw them as victims of the return the previous year to the gold standard at an overvalued pound. Keynes transferred the problem of justice from the microeconomy to the macroeconomy. Injustice becomes a matter of uncertainty, justice a matter of contractual predictability. Redistribution plays a minor part in his social philosophy, and then only as part of the machinery of macroeconomic stabilization, not as a means to an ideal goal such as equality.

These attitudes emerge in his essay ‘The End of *Laissez-Faire*’, first delivered as a lecture at Oxford in 1924. The evils of the existing order arose largely from ‘risk, uncertainty, and ignorance’. Their remedy required ‘deliberate control of the currency and of credit by a central institution’, the ‘collection and dissemination of business facts’, a ‘coordinated act of intelligent judgment’ concerning the aggregate volume of savings and their distribution between domestic and foreign investment, and a population policy ‘which pays attention to innate quality as well as to... numbers’.

What Keynes was after, as he later wrote in *The General Theory*, was to fill the gaps in the ‘Manchester system’. As a criterion for public intervention Keynes offered the notion of a service or activity which was ‘technically social’ in the sense that only the State could provide it. Attached somewhat inconsistently to this set of arguments was an evolutionary perspective according to which the individualistic capitalism of family firms gave way to the ‘socialized’ capitalism of public utilities and large private corporations. Spontaneous industrial developments thus foreshadowed, and made possible, the conscious ‘socialization of investment’ Keynes was to advocate in *The General Theory*.

Despite the decline of the Liberals, Keynes refused to join either the Conservative or the Labour Parties. ‘How could I bring myself to be a Conservative?’ he asked himself in his essay of 1926, ‘Am I a Liberal?’

They offer me neither food nor drink – neither intellectual nor spiritual consolation... [Conservatism] leads nowhere; it satisfies no ideal; it conforms to no intellectual standard; it is not even safe, or calculated to preserve from spoilers that degree of civilisation which we have already attained.

For a Liberal of Keynes’s generation, the Conservative Party was the historic enemy, and remained so throughout the interwar years, despite the ‘decency’ of Stanley Baldwin. It was the party of stupidity, superstition, and prejudice; the party of protectionism and jingoism. The Conservatives were also guardians of the reactionary moral code against which Keynes’s generation had rebelled. As part of the agenda of Liberalism, Keynes listed ‘Birth control and the use of contraceptives, marriage laws, the treatment of sexual offences and abnormalities, the economic position of women, the economic position of the family... drug questions’. On all these matters of special concern to Bloomsbury and Hampstead, Conservatives – at least in public – upheld positions which he habitually dubbed ‘medieval’.

He attributed the stupidity of Conservatism to its attachment to the hereditary principle. This also explained the inefficiency of many British firms. British capitalism was dominated by third-generation men. His initial respect for the Conservative leader, Stanley Baldwin, rapidly waned: ‘There

was an attraction at first that Mr. Baldwin should not be clever. But when he forever sentimentalizes about his own stupidity, the charm is broken,' he scribbled in 1925. Yet as late as 1936, he cited Baldwin 'as a model statesman who could bring about a modified socialism if his party would let him'.

If the Conservatives were the stupid party, Labour was the silly party. But at least much of its heart was in the right place. What was needed, Keynes often suggested, was Labour's head of steam yoked to the programme of reforming Liberalism. In much of his political writing, Keynes was engaged in a dialogue with the Labour movement. This sometimes involved him in a very ambiguous use of language, as he tried to distinguish his position from that of socialism and also to stress the compatibility between a range of Liberal and socialist aspirations. This ambiguity, which he seemed to see as a necessary part of his efforts at persuasion, makes it very hard to decide the question of how far Keynes would have been willing to go down the socialist road. In his lifetime, he never had to make the choice which confronted many people in the 1970s.

Keynes emphatically rejected socialism as an *economic* remedy for the ills of capitalism. Both classical economists and socialists, he often said, believed in the same 'laws of economics'. But whereas the former regarded them as true and inevitable, the latter saw them as true and intolerable. Keynes proposed to show they were not true. He added that the very fact that capitalism was 'socializing' itself made public ownership unnecessary.

Keynes objected to socialism's revolutionary strain. He understood that the bulk of the Labour Party were not 'Jacobins, Communists, Bolsheviks', but he thought the malignity and envy of these groups affected the whole party, consorting ill 'with ideals to build up a true social republic'. In a debate with the Scottish Socialist Thomas Johnston in 1929, he argued that Labour had to 'put on an appearance of being against anyone who is more successful, more skilful, more industrious, more thrifty than the average... This is most unjust and most unwise. It disturbs what is and always must be the strongest section of the community and throws them into the reactionary camp.'

Keynes explicitly rejected the class basis of socialist politics. A much quoted remark of his is: '[The Labour Party] is a class party, and the class is not my class. If I am going to pursue sectional interests at all, I shall pursue my own... I can be influenced by what seems to be justice and good sense; but the *class* war will find me on the side of the *educated* bourgeoisie.' He was a leveller who wanted to level upwards not downwards. 'I want to give encouragement to all exceptional effort, ability, courage, character. I do not want to antagonize the successful, the exceptional'.

Finally, Keynes rejected Labour's anti-élitism. He felt that the intellectual elements in the Labour party will '[n]ever exercise adequate control; too much will always be decided by those who do not know *at all* what they are talking about'. The Conservatives were much better off in this respect, since 'the inner ring of the party can almost dictate the details and the technique of policy'. As his earliest writings show, Keynes believed in rule by a Platonic guardian class, constrained, but not dominated, by democracy.

Keynes admired three things about socialism: its passion for justice, the Fabian ideal of public service; and its utopianism, based on the elimination of the profit motive. Keynes had his own Utopia which inspired his work as an economist, expressed notably in his essay, 'Economic Possibilities for our Grandchildren', published in 1930. Here he outlines his vision of a society which is a paradise of abundance, leisure, beauty, grace, and variety, and in which 'love of money' comes to be regarded as a mental disease. But this Utopia owed more to Cambridge than to socialist philosophy (there is no obvious place in it for equality, fraternity, or democracy). Besides, it was to come about only after the economic problem was solved. Meanwhile, as Keynes put it, 'we must go on pretending that fair is foul and foul is fair; for foul is useful and fair is not'. In short, Keynes rejected socialism as a means; and as an end endorsed it only in his own idiosyncratic sense.

That occasionally penetrating observer of interwar British culture, Dmitri Mirsky, gave a Marxist interpretation of Keynes's philosophy of practice in his book *The Intelligentsia of Great Britain*. The intellectual aristocracy, he said, not being directly involved in the production process, could consider itself outside or above class. In economics, it demanded organization, which

it called socialism, but in individual life it wanted more freedom, which chained it to capitalism.

Today such antitheses seem less compelling. Few people now believe that socialism, in the sense which Keynes rejected it, is relevant to our economic problems. The question is whether Keynes's Middle Way is still relevant. He believed that there would be a growing deficiency of aggregate demand in mature capitalist economies, as investment opportunities flag, but savings habits appropriate to the individualistic era persist. Public intervention would be needed to maintain investment demand, redistribute income to high consuming groups, and rearrange conditions of work and pay in order gradually to increase the attractions of leisure as science increased the power to produce. Otherwise, he warned, the Great Depression of 1929–32 would be the foretaste of permanent semi-slump. His political ideas were embedded in his economic response to British mass unemployment in the 1920s, which we must now examine.