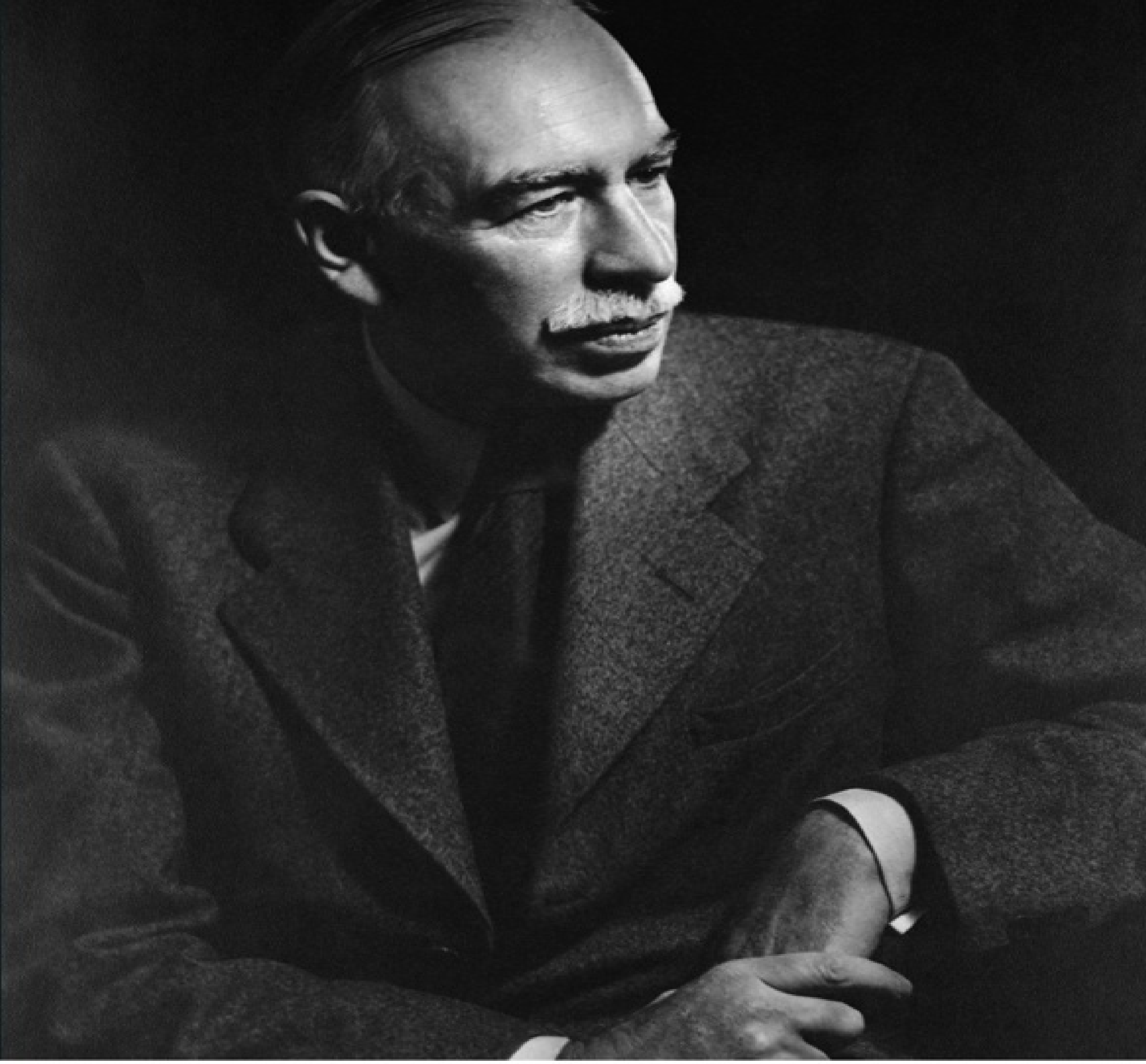

PENGUIN CLASSICS

JOHN MAYNARD KEYNES

The Essential Keynes

Edited with an introduction and commentary by ROBERT SKIDELSKY

PENGUIN CLASSICS

THE ESSENTIAL KEYNES

JOHN MAYNARD KEYNES (1883–1946) is widely considered to have been the most influential economis of the twentieth century. His key books include *The Economic Consequences of the Peace* (1919); *A Treatise on Probability* (1921); *A Tract on Monetary Reform* (1923); *A Treatise on Money* (1930); an his *magnum opus, The General Theory of Employment, Interest and Money* (1936).

ROBERT SKIDELSKY is Emeritus Professor of Political Economy at Warwick. His three-volume biography of Keynes received numerous awards, including the Lionel Gelber Prize and the Council o Foreign Relations Prize.

John Maynard Keynes

the essential keynes

Edited and with an Introduction by

ROBERT SKIDELSKY

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To Warwick University, which gave me the time to study economics

‘Economics is a very dangerous science’
John Maynard Keynes,
‘Thomas Robert Malthus’

Preface

I have arranged the selected material in such a way as to help the reader rather than for strict consistency. Almost all the excerpts are taken from *The Collected Writings of John Maynard Keynes* published in thirty volumes between 1971 and 1989. They are numbered sequentially and are identified by the volume number (CW, 10), title and date of original publication. The page numbers o the volumes of the *Collected Writings* from which they are taken are included in square brackets, marking the end of the page they refer to. I have grouped together some excerpts under the following topics: The Great Depression, Policies for the Slump, The New Deal and Full Employment Policy. Those readers who want a quick education in Keynes as an analyst of, and policy-maker for, slumps should turn to excerpts 18, 28–31 and 33.

This collection would not have been possible but for the magnificent *Collected Writings*. Elizabeth Johnson was the first editor; she was succeeded by Donald Moggridge. I would like to thank the Roya Economic Society for permission to publish excerpts from these volumes; King’s College, Cambridg for permission to publish excerpts 1, 2, and 3 from the unpublished papers of J. M. Keynes; Paul Davidson, Meghnad Desai, Geoff Harcourt, Pete Mills and Rod O’Donnell, for their comments on sections of the draft; King’s College archivist Patricia McGuire in helping me locate some handwritten notes in the Keynes Papers; and my impeccable copy editor, David Watson. My research assistant Pete Mills was invaluable in downloading the material I selected from the electronic edition of the *Collected Writings*.

List of Abbreviations

CW *The Collected Writings of John Maynard Keynes*
EB *Essays in Biography*
ECC ‘The Economic Consequences of Mr Churchill’
ECP *The Economic Consequences of the Peace*
EP *Essays in Persuasion*
EPG ‘Economic Possibilities for our Grandchildren’
GT *The General Theory of Employment*, *Interest and Money*
JMK John Maynard Keynes
KP Keynes Papers, King’s College, Cambridge
ICU International Clearing Union
QTM Quantity Theory of Money
RT *A Revision of the Treaty*
TMR *A Tract on Monetary Reform*
TM *A Treatise on Money*
TP *A Treatise on Probability*

Introduction

‘Keynes’s ideas will live so long as the world has need of them’

Robert Skidelsky

I

There are hardly any single-volume selections of Keynes writings, and no comprehensive ones.[1] This selection aims to make them much more accessible to both students of economics and the general reader perplexed and confused by the war of economists which broke out afresh with the economic collapse of 2008. By this time Keynes’s star had long been in eclipse. A new orthodoxy had arisen which cut economics off from the rest of life, claimed that market economies were naturally stable, and that the only macro-economic task of government was to maintain sound money. Robert Lucas, the high priest of the new classical economics, is said to have told his students at Chicago University ‘We need spend only ten minutes on Keynes; we know it doesn’t work.’ The things which worked were unimpeded markets.

Keynes had set out to destroy the argument of ‘classical’ economics that a competitive market economy would always ensure full use of potential resources. He invented almost singlehandedly a new branch of economics, macro-economics, to show why this was not true, and to justify active fisc and monetary policy. The task of overturning orthodox theory seemed all the more urgent in the wak of the Great Depression of 1929–33. The result was *The General Theory of Employment, Interest and Money*, whose publication in 1936 is conventionally taken to be the start of the Keynesian Revolutio Its main policy fruit was the commitment, till the mid-1970s, by most Western governments, to maintain high and stable levels of employment. The charge that Keynes failed to provide secure micro-foundations for his macro-theory, as well as the contentious implications of that theory for the role of state, led to the view that Keynesian theory was flawed and Keynesian policy led to inflation.

So when the world economy collapsed in 2008–9 the only thing most younger economists, policy-makers and businessmen knew about Keynes was that one did not need to know anything about him. He had largely vanished from their textbooks, briefings and indeed from their consciousness. This lef them unprepared for the catastrophic nature of the economic collapse. Today macro-economics is disabled. We are still struggling experimentally with the aftermath of the banking collapse. People talk of the need for a new Keynes. But the old Keynes still has superlative wisdom to offer for a new age.

Students and others are hungry for clues to the riddle of economic life. There have been many boo about Keynes, including a rather massive one of my own. But Keynes’s own writings are largely unavailable. The purpose of this single-volume Keynes reader – I have called it *The Essential Keynes* – is to give the reader a flavour of the quality of Keynes’s mind, style and range, and his approach to ethical, theoretical and practical problems which, so far from having vanished, clamour for a contemporary answer. Keynes is known, if at all, only as the creator of a short-run theory of fiscal stabilization. This was the fiscal tool which emerged from the ferment of ideas in his day. But it was in his explorations of the problem of capitalist instability, and his futurist vision of a world without work, that many today will find their inspiration. My hope is that the selections I have chosen, which include some writings never before published, will provide both meat for the student and food for a wider public. Above all, this book provides readers with the opportunity to acquaint themselves with one of the most remarkable thinkers and characters of the twentieth century.

II

John Maynard Keynes was born at 6 Harvey Road, Cambridge, England on 5 June 1883 into an academic family. He was the eldest son of John Neville Keynes, a logician and economist, and Florence Ada Brown, the daughter of a Congregational divine. He had an outstandingly successful school career at Eton College, which was followed by an equally glittering undergraduate one at King's College, Cambridge, where he gained a first-class honours degree in Mathematics, wrote papers on the medieval theologian Peter Abelard and the Conservative political philosopher Edmund Burke and became president of the Cambridge Union and the University Liberal Club. Of crucial importance to his intellectual and moral formation was his election, in 1902, to the Cambridge Apostles, an exclusive 'conversation' society, where he fell under the influence of the philosopher G. E. Moore, and which brought him the friendship of the subversive biographer Lytton Strachey. Moore's *Principia Ethica* remained his 'religion under the surface' for the rest of his life. It taught that the highest forms of civilized life were friendship, aesthetic enjoyments and the pursuit of truth. His economic activities were always in the service of these ethical goals. That is why he wanted the economic machine to work full blast till the material conditions for the 'good life' were achieved, at which point economists might retire in favour of philosophers.

In 1906 Keynes was placed second in the Civil Service Examination, his worst marks being in economics, which he had studied briefly under Alfred Marshall, professor of economics at Cambridge University. (He never got a degree in economics.) After two years in the India Office, in which he wrote a thesis on probability in his spare time, he started lecturing on monetary economics at Cambridge; in 1909 his thesis won him a fellowship at King's College, which remained his academic home for the rest of his life. His membership of the Bloomsbury group, a commune of Cambridge-connected writers and painters who lived in the Bloomsbury district of London, dates from the start of his friendship with the painter Duncan Grant, Lytton Strachey's cousin, in 1908. In 1913 he published his first book, *Indian Currency and Finance*, and served on the Royal Commission on Indian Finance and Currency. Cambridge and Bloomsbury formed the two fortresses of his spiritual life, from which radiated out his friendships, interests and activities in the great world of affairs.

Keynes's advice to the UK Treasury helped to avert the collapse of the gold standard in the banking crisis of August 1914 which accompanied the outbreak of the First World War. From January 1915 to June 1919 he was a temporary civil servant at the Treasury, showing a notable ability to apply economic theory to the practical problems of war finance. He was against military conscription and would have been a conscientious objector had his Treasury work not exempted him from military service. When Lloyd George succeeded Asquith as prime minister in December 1916, Keynes, then aged thirty-four, became head of the Treasury's new 'A' Division, set up to manage Britain's externa finance. He helped build up the whole system of inter-Allied purchases, while chafing at Britain's growing dependence on American loans and the failure to arrange a compromise peace.

Keynes was chief Treasury representative at the Paris Peace Conference in 1919, where he tried unavailingly to limit Germany's bill for reparations, and to promote an American loan for the reconstruction of Europe. His resignation from the Treasury on 5 June 1919 was followed by the publication, in December, of *The Economic Consequences of the Peace*, the book which first brought him international fame. A bitter polemic, informed by both economic argument and moral passion, against Lloyd George's policy of trying to make Germany pay for the war 'till the pips squeak', it reflected his fears for the future of European civilization. Unless the Versailles Treaty were drastical revised, vengeance, he predicted, would follow.

In 1925 he took the lease of Tilton, a farmhouse in East Sussex, next door to Charleston, where Duncan Grant lived with the painter Vanessa Bell. This move coincided with his marriage to the Russian ballerina Lydia Lopokova, for whom his love and fascination never waned, who softened the edges of his astringency and who gave his life the emotional stability and regular routine for sustaine intellectual effort. Thereafter, his life was divided between Cambridge, London, and East Sussex.

He was a spectacularly successful investment bursar of his college, King's College, and despite some major reverses, made a small fortune for himself. He was worth £400,000 (£14 million, or $22 million in today's values) when he died. In London, where he rented a house at 46 Gordon Square, he was, at various times, on the boards of five investment and insurance companies, the chief one being the National Mutual Life Assurance Company, which he chaired from 1921 to 1937. Between 1923 and 1931 he was chief proprietor and chairman of the board of the weekly journal the *Nation and Athenaeum*, contributing regular articles on financial and economic topics. He remained chairman of the board of the *New Statesman and Nation* when the two journals merged in 1931. Between 1911 and 1945 he edited the *Economic Journal*. In the 1920s his ideas on economic policy permeated Whitehal through monthly meetings of the Tuesday Club, a dining club started by his friend and stockbroker, Oswald Falk. In the 1930s, he sought to influence policy through his membership of the prime minister's Economic Advisory Council.

In the 1920s the post-war European inflations, succeeded in Britain by heavy unemployment, formed the background to his two theoretical books *A Tract on Monetary Reform* (1923) and *A Treatise on Money* (1930), which dealt with the causes and consequences of monetary instability, and their remedies. These theoretical books chronicle Keynes's 'struggle to escape from the stranglehold of the Quantity Theory [of Money]…'[2] They were punctuated by two notable polemical pamphlets, 'The Economic Consequences of Mr Churchill' (1925) and 'Can Lloyd George Do It?' (1929), the latter co-authored with Hubert Henderson. The first attacked Churchill's decision, as chancellor of th exchequer, to put the pound back on the gold standard at an overvalued exchange rate against the dollar; the second was a plea for a large programme of public investment. Reconciled to Lloyd Georg in 1926, Keynes attempted to provide the Liberal Party with a social philosophy of the 'middle way' between individualism and state socialism, suitable for an inflexible industrial structure. Regulation of demand, he would later write, was the only way to maintain capitalism in conditions of freedom.

By this time Keynes was the most famous economist in the world, made so by his superb style and the audacity of his ideas. But he had not ‘revolutionized’ economics, and he himself felt that his theoretical work was incomplete. The Great Depression of 1929–32, together with technical flaws in *Treatise on Money*, took Keynes back to the theoretical drawing board. What now seemed to be needed was not an explanation of Britain’s ‘special problem’ of heavy unemployment, or even of the business cycle, but an explanation of how plant and labour could remain unused for long periods in a world in which wants were far from being satisfied. He felt this to be both economically and morally inefficient. He drew inspiration from the ‘first Cambridge economist’, Thomas Robert Malthus, from whom he got the phrase, and possibly the idea of, ‘effective demand’. From the autumn of 1931 to th summer of 1935, Keynes worked on a new book of theory, initially entitled ‘The Monetary Theory of Production’. He was helped not just by older economists like Ralph Hawtrey and Dennis Robertson, but by Roy Harrod and a ‘Cambridge Circus’ of young disciples headed by Richard Kahn, his ‘favourite pupil’. There was just one major pamphlet in these years, ‘The Means to Prosperity’, written in June in 1933. On a trip to the United States in 1934 to study the New Deal first-hand, he wrote: ‘Here, not in Moscow, is the economic laboratory of the world.’

In February 1936, Keynes published *The General Theory of Employment, Interest and Money*, in which he felt had finally cracked the riddle of unused resources. In this book, he sought to demonstrate both that ‘under-employment equilibrium’ is logically possible and how cheap money combined with an extensive ‘socialisation of investment’ could maintain full employment. These propositions divided the economics profession, since the core of the *General Theory* was Keynes’s rejection of the ‘classical’ thesis of an optimally self-adjusting economy. The publication of the *General Theory* marked the birth of a ‘Keynesian school’ of economics led by Richard Kahn and Joan Robinson at Cambridge, Roy Harrod and James Meade at Oxford, and Nicholas Kaldor and Abba Lerner at the London School of Economics. In the United States, the book supplied the younger generation of (mainly Harvard-trained) economists with a practical rationale for the New Deal. Keynes himself joined in the fierce controversies which his *General Theory* generated, even though h was severely incapacitated, from May 1937 to March 1939, with heart disease. As another European war, and with it the return to full employment, became increasingly likely, Keynes sought to win acceptance for his revolution by showing how the management of aggregate demand to avert depression could just as easily be used to control inflation in a war economy.

The upshot was his pamphlet *How to Pay for the War* (1940), which won the approval of his arch-critic Friedrich Hayek, and whose logic influenced Chancellor of the Exchequer Kingsley Wood’s wa budget of 1941. Restored to a semblance of health by his doctor, Janos Plesch, Keynes himself returned to the Treasury in August 1940 as unpaid adviser to the chancellor of the exchequer and remained its dominating force for the rest of his life. Elevated to the House of Lords in 1942 as Baron Keynes of Tilton, his influence was felt in the Employment White Paper of 1944, which pledged the UK government to maintain a ‘high and stable level of employment’ after the war. In 1942, Keynes became chairman of the Council for the Encouragement of Music and the Arts (CEMA), a wartime innovation which, transformed into the Arts Council of Great Britain shortly before he died, inaugurated permanent state patronage of the arts.

The US demand that, in return for Lend-Lease, Britain scrap its imperial preference system after th war inspired Keynes to his last great constructive effort, his plan for an International Clearing Union (1941). This was designed to shift balance-of-payments adjustment from debtor to creditor countries so as to avoid the externally generated deflationary shocks which had spread depression under the go standard. The Bretton Woods Agreement of 1944, which set up a system of fixed, but adjustable, exchange rates and two new institutions, the International Monetary Fund and the International Bank for Reconstruction and Development, fell short of his hopes. The abrupt US cancellation of Lend-Lease in August 1945 led him to undertake the fifth of his six Treasury missions to the United States to secure an American grant or interest-free loan of $5 billion. Forced to accept a semi-commercial loan for an amount far less than he had requested, Keynes gave an eloquent defence of his policy in h last speech to the House of Lords on 7 December 1945.

On 21 April 1946, worn out by his labours, he suffered a fatal heart attack at Tilton, a little short o his sixty-third birthday. Lionel Robbins wrote to his widow that ‘he has given his life for his country as surely as if he had fallen on the field of battle’. To his greatest intellectual opponent, Friedrich Hayek, ‘he was the one really great man I ever knew’. In an imposing memorial service at Westminster Abbey, Britain’s prime minister, Clement Attlee, headed a list of mourners drawn from all walks of Keynes’s life.

III

Any account of Keynes’s contributions to economics must start with his distinctive theory of probability.

In his *Treatise on Probability* (1921), he sought to rescue the ordinary language (or ordinal) use of probability from the statistical (or cardinal) theory of probability. He put forward a logical theory of probability, of which the then dominant frequency theory was a special case. In ordinary life, we will often have enough evidence to say that something is more likely to happen than not, without having enough evidence to say it is three times as likely. Furthermore, Keynes distinguished between probability and uncertainty – situations in which people don’t have enough evidence to form any probabilities at all. Applied to economics, this was the distinction between risk and uncertainty. He accused the classical economic theories of his day of reducing ordinal to cardinal risk, and of excluding uncertainty as a factor in economic life. This led to the fallacy of misplaced precision: we assume we know the odds in many situations in which we have no odds at all. This was particularly applicable to financial markets. Keynes identified as a tacit axiom of the classical theory of the self-regulating economy that ‘at any given time facts and expectations were … given in a definite and calculable form’.[3] This myopia prevented precautions being taken against catastrophe.

Keynes’s contributions to economic theory are contained in three books, *A Tract on Monetary Reform* (1923) (hereafter TMR), *A Treatise on Money* (1930) (heareafter TM) and *The General Theor of Employment, Interest and Money* (1936) (hereafter GT).

The first two are concerned with the causes of business fluctuations. In TMR business fluctuations are said to be *mainly* caused by changes in the price level. TM is the theory of a credit cycle, in which the cycle results from shifts in investment sentiment. GT is not concerned with fluctuations or cycles (though it has one chapter, chapter 22, called ‘Notes on the Trade Cycle’), but aims to show that a deficiency of aggregate demand can produce quasi-permanent stagnation. The duty of the monetary authority/government is different in the three cases. In the first it is to stabilize the price level; in the second it is to maintain equilibrium between saving and investment; in the third, it is to maintain ful employment. There are theoretical shifts and technical improvements between the first and third books, but their preoccupations are the same: to find policy capable of maintaining continuous prosperity.

For Keynesians, GT is the important book, because it broke so radically from the mainstream assertion that a market economy had an automatic tendency towards full employment. Non-Keynesians prefer TMR. This is because they regard the ‘Keynesian’ innovations of GT as wrong.[4] G is also Keynes’s *magnum opus* in that in it he came nearest to fitting his intuitive understanding of things into a formal framework suitable for economists. TM has its defenders, though, notably Roy Harrod, John Hicks, Axel Leijonhufvud and Tim Congdon, who praise the subtlety of its monetary discussions.[5] In some respects, its theory of deep cycles and sluggish recoveries is more ‘general’ tha the *General Theory*.

Even non-Keynesians would admit that Keynes’s influence on the discipline was profound. But whereas Keynesians see it as inspirational, for non-Keynesians like Hayek it was ‘tragic’,[6] pointing economics the wrong way. All agree that Keynes was a wonderful thinker and character; they disagre about the theoretical value of his work. Keynes’s ‘favourite pupil’, Richard Kahn, notes that ‘Keynes was far happier writing for a non-academic audience – whether members of the intelligent public, politicians or bankers. His popular and other non-academic writings were unlaboured, in contrast to the elements of strain and torture that entered into his academic writing. To secure conviction he relied on sincerity and commonsense.’[7] The non-Keynesian Schumpeter sees him as ‘a man who would have conquered a place in history even if he had never done a stroke of specifically scientific work’.[8]

In GT Keynes sought to demonstrate that a market economy can oscillate indefinitely round a sub-normal level of activity. The concept of ‘under-employment equilibrium’ may be read as a stylized picture of the global economy in the 1930s. Much more radically, GT implied that this was not just a possible condition, but a normal condition. Economists before Keynes had been prepared to accept th possibility of ‘lapses from full employment’, due to this, that, or the other disturbance to ‘normal’ conditions. No one had hitherto asserted that market economies lapsed *into* full employment only in ‘moments of excitement’.

GT was by far the most influential of Keynes’s books. It led directly to the development of Nation Income and Expenditure Accounts, to enable governments to estimate the size of the ‘output’ gap – the gap between what the economy was producing and what it could produce at full employment (or, in a later refinement, what it could produce when it was growing to trend). Keynes also insisted that the aggregate demand and supply framework of GT could be used to work out how much spending needed to be *withdrawn* from an economy to prevent inflation if aggregate demand exceeded aggregate supply. *How to Pay for the War* (1940) was an explicit application of GT to an inflationary full employment economy. Governments used the aggregate supply and demand apparatus as the mai framework for policy for thirty years during and after the war, and, in modified form, it is still the basis of contemporary macro-economic policy.

In principle, stabilization policy can be either monetary or fiscal, or some combination of both. In the 1920s, Keynes believed that monetary policy could and should be used to iron out fairly modest fluctuations in prices and output. In TM he advocated the offset of ‘open-market operations *à outrance*’ (a massive central bank injection of money) for an economy sliding down into a deep recession. In GT Keynes downplayed the role of monetary management. He did not deny the efficacy of cheap money in stimulating a depressed economy but warned that ‘if … we are tempted to assert that money is the drink which stimulates the system to activity, we must remind ourselves that there may be several slips between the cup and the lip’.[9] He thought that interest rate changes were too uncertain in their effect on investment and worried that if interest rates were raised to check a boom would be difficult to bring them down to check a slump, since investors would keep resources liquid in expectation of a rise. So he advocated a policy of permanently cheap money. This left fiscal policy as the main instrument for preventing both slumps and inflationary booms.

Keynes’s fiscal philosophy must be distinguished from Keynesian fiscal policy as understood and practised after his death. It was based on a sharp distinction between the government’s ‘ordinary’ or current-account budget and what he called the ‘capital’ budget. The government’s ordinary budget should be balanced, with a surplus earmarked for debt repayment in ‘normal’ times (the Victorian ‘golden rule’). It was the task of the capital budget to balance the ‘national accounts’. Keynes believe that a great deal of investment was already ‘socialised’, that is, subject to public policy even if it was technically private. As he put it in 1943: ‘If two-thirds or three-quarters of total investment is carried out or can be influenced by public or semi-public bodies, a long-term programme of a stable characte should be capable of reducing the range of fluctuation to much narrower limits than formerly … If this is successful it should not be too difficult to offset small fluctuations by expediting or retarding some items in this long-term programme.’[10]

Finally, Keynes attached only minor importance to exchange-rate adjustments. His Clearing Union plan (1941) provided for fixed, but adjustable, rates, and this was a feature of the Bretton Woods Agreement (1944). Keynes’s attitude – like that of most economists of his day – was governed by price-elasticity pessimism. He preferred countries to use, if necessary, capital controls to protect thei balance of payments in the framework of a monetary regime of fixed exchange rates, low tariffs and automatic creditor lending through international institutions.

IV

Keynes was not an ivory-tower theorist. His theorizing was controlled by real-world events. His own investment experience enabled him to identify the ‘speculative’ motive for holding money; his sense of political fragility led him to concentrate on the economics of stabilization; his civil service experience enabled him to turn theories into workable plans. His economic theorizing was less directly, but still importantly, controlled by his ethical beliefs, particularly his conception of the goo life and the conditions of just exchange.

There is much more to Keynes than his economic theory and policy. He reflected and wrote on the art of statesmanship (‘politicians have ears but no eyes’), on the ‘agenda’ of government in a moder society, and on the relationship between the state and the arts. He had an acute sense of character and place, and wrote some outstanding short biographies and essays. He loved literature, acquired an exceptional collection of paintings, sponsored English art and ballet and built the Cambridge Arts

Theatre in 1936, in homage to both Cambridge and the dramatic arts. He was chairman-designate of the Arts Council of Great Britain when he died. He had an ethically based vision of the future in whic ‘love of money’ would cease to be a driving force in human affairs, and thought that this condition might come about in a fairly short space of time.

Keynes wrote:

> the master-economist must possess a rare *combination* of gifts. He must reach a high standard in several different directions and must combine talents not often found together. 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 be 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 to earth as a politician.[11]

This is Keynes on his teacher Alfred Marshall. It has little to do with Marshall, but tells us a lot abou how Keynes saw himself. In truth his ‘mixed training and divided nature’ gave him a much more viv many-sidedness than that possessed by his teacher. In GT, he paid tribute to ‘the brave army of heretics … who, following their intuitions, have preferred to see the truth obscurely and imperfectly rather than to maintain error, reached indeed with clearness and consistency and by easy logic but on hypotheses inappropriate to the facts’.[12] Keynes’s genius lay in his ability to convert heretical intuitions into a logic which satisfied, at least for a time, the formal requirements of economics. He brought the worlds of art and science together. No one else in economics has been able to do this. Tha is what enabled him to leave such a large mark on modern civilization and makes him today as fresh as he ever was.

There were gaps in Keynes’s equipment as an economist, unsurprising in someone who had only studied the subject for a couple of terms before he started teaching it. He relied heavily on students like Richard Kahn and Joan Robinson to fill these gaps. The marginalist revolution, which was the main innovation in economics in the late nineteenth century, never really got under his skin. He was not especially learned in economic history or the history of his own discipline, telling a student in the 1920s that ‘[w]hen he was old and no longer alert enough for difficult and exact analysis, he … woul like to give his time, as a refuge and diversion … to … economic history and the history of economic thought’.[13] He would revise his views in the 1930s, when he became keen to establish a lineage for hi own economic heresy. He preferred the eighteenth century to the nineteenth and always treated ‘Victorian values’ ironically. By the late 1920s even his mathematics was rusty, and he had to get Kahn to check his equations.

After Keynes’s death, the economics profession discarded his intuitions and kept those pieces of h theory which could be justified in terms of its own formalism. Keynesians are now confined to fringe of economics departments or in adjacent fields of study. But it is from the heresies that post-crash economics will come, if it comes at all.

Readers are invited to read this selection to catch the flavour of Keynes’s intuitions about the matters in which he was involved and find out to what extent they correspond to their own.

V

The selections I have chosen represent a compromise between the claims of economics and the claim of understanding. Keynes wrote as well in economics as that subject allows, and even better. He found it hard to disguise the elevation and subtlety of his mind, the vivacity and wit of his prose. But economics is difficult and has to be done in a way which non-economists often find both repellent and inaccessible. So the selections present Keynes in two guises: that of the economist and that of the public intellectual who wrote and thought about the great issues of his day and about the meaning of life.

Any selector has to make judgements of relevance. I have chosen those writings of Keynes which, in my view, can stimulate thought in our world, as well as giving pleasure. Some things he wrote are simply dead and have not been included. Separate chapters treat Keynes as philosopher, social philosopher, economist, policy-maker and essayist. Strictly speaking, one cannot separate the elements of his thought in this way, and my method sometimes suffers from the practical disadvantage of placing different sections of his main books in chapters. *The Economic Consequences of the Peace* and *A Tract on Monetary Reform* suffer particularly from being spliced up in this way. The advantage, though, is that it enables the reader to identify the separate building blocks of Keynes's thinking and appreciate the force of his wife's observation that he was 'more than an economist'. Most of chapter 3, 'The Economist', will be fully accessible only to the specialist, but even here, the non-specialist can catch glimpses of the 'more'.

What gives his work its special flavour is not only its breadth but its style. Only Keynes's stylistic panache could have invested concepts like 'fallacy of composition' and the 'paradox of thrift' with the force of common sense. The popular reception of the Keynesian Revolution was promoted by Keynes's journalism. Much of this was published in the *Nation and Athenaeum* and then the *New Statesman*. Keynes also wrote for the 'quality' press, especially *The Times*, and popular newspapers like the *Daily Mail*, the *Evening Standard* and the *Sunday Express*, which would be highly unlikely to accept such contributions today. A favourite American outlet was the *New Republic*, and his articles were syndicated worldwide. His most quotable quotes are given at the end of the book.

Keynes's greatness is to be seen not just in his 'divided nature', but in the quality of the practical judgement which resulted from it. In 1915–16 he argued for a compromise peace in the First World War. In 1919 he wanted a cancellation of inter-Allied debts and the drastic scaling-down of German reparations. In 1922 he proposed the cancellation of Tsarist debts and a loan to Russia to revive exports, so as to offer an alternative to Bolshevik economics. In 1923 he advocated the managed floating of the two main currencies, the dollar and the pound, and two years later he opposed Britain's return to the gold standard at the pre-war sterling–dollar parity. He would have fought the Great Depression with a mixture of monetary expansion and public works. In 1939–40 he urged a method of financing the Second World War to avoid the hyper-inflation and collapse which followed the first; and in 1941 he proposed an International Clearing Union which could impose penalties on persistent current account surpluses.

A consistent thread runs through his attitude to statecraft which my hope is that the reader will be able to follow. One may call it prudence, or common sense. It consisted of trying to wrest the best results from the world as it is, and not sacrificing overmuch for a necessarily uncertain future. How much better we would have been if some of his suggestions had been adopted in his lifetime. The First World War would have had less destructive consequences; there would probably have been no Great

Depression, no Hitler dictatorship, no Second World War. Bolshevism might have been nipped in the bud. Hundreds of millions fewer would have suffered and died. The developed capitalist world, reconstructed on a Keynesian basis after the second war, enjoyed twenty-five years of unparalleled growth, prosperity and stability. But he was no longer alive to plan for their continuation and amendment.

NOTES

1 Excluding *Essays in Persuasion* (1931) and *Essays in Biography* (1933), which Keynes himself selected for publication. In 1944 there appeared in Zagreb J. M. Keynes, *Problemi novca između dva rata* – an odd place to be published and an even odder time. Fifty years later, in 1994, an updated version appeared: J. M. Keynes, *Izabrana djela*, with a slightly different selection, and including an essay by J. K. Galbraith. Donald Moggridge has edited a collection of Keynes's broadcasts, *Keynes on the Wireless* (2010); Giorgio La Malfa has edited a selection of Keynes's writings: J. M. Keynes, *Sono un liberale?* (2010), which includes essays taken from *Essays in Persuasion* (CW 9) and *Essays in Biography* (CW 10), and J. M. Keynes, *Le mie prime convinzion* (2012), reproduces, in an Italian translation, *Two Memoirs* by J. M. Keynes, edited by D. Garnett (collected in CW 10), with a foreword by Giorgio La Malfa.

2 R. F. Kahn, *The Making of Keynes's General Theory* (1984), pp. 50–51.

3 CW 14, p. 112.

4 For example, Milton Friedman, *The Economist*, 4 June 1983.

5 Roy Harrod, *The Life of John Maynard Keynes* (1951), pp. 403–4; John Hicks, 'A Note on the *Treatise*', in *Critical Essays in Monetary Theory* (1967), pp. 189–91; Axel Leijonhufvud, *On Keynesian Economics and the Economics of Keynes* (1968), pp. 16–26; Tim Congdon, *Keynes, the Keynesians and Monetarism* (2007), pp. 50–53.

6 F. A. Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas* (1978), pp. 283, 7.

7 Kahn, *Making of Keynes's General Theory*, p. 77.

8 Joseph Schumpeter, *History of Economic Analysis* (1954), p. 1170.

9 CW 7, p. 173.

10 CW 27, p. 322.

11 CW 10, pp. 173–4.

12 CW 7, p. 371.

13 H. M. Robertson, 'J. M. Keynes and Cambridge in the 1920s', *South African Journal of Economic* vol. 51, issue *3* (1983); quoted in Robert Skidelsky, *John Maynard Keynes*, vol. 2 (1992), p. 676, fn. 18.

Bibliography

The Collected Writings of John Maynard Keynes, cited here as CW 1, 2, etc., is published in hard cop in thirty volumes, including bibliography and index, by Macmillan/Cambridge University Press for the Royal Economic Society, 1971–89. Volumes 15 to 18 were edited by Elizabeth Johnson, the remainder by Donald Moggridge. An electronic version is available at: http://universitypublishingonline.org/royaleconomicsociety/series_landing.jsf?seriesCode=CJMK&seriesTitle=The+Collected+Writings+of+John+Maynard+Keynes&productCode
The following are the volumes from which excerpts or quotations have been made:

Vol. 2: *The Economic Consequences of the Peace*, 1971
Vol. 3: *A Revision of the Treaty*, 1971
Vol. 4: *A Tract on Monetary Reform*, 1971
Vol. 5: *A Treatise on Money: The Pure Theory of Money*, 1971
Vol. 6: *A Treatise on Money: The Applied Theory of Money*, 1971
Vol. 7: *The General Theory of Employment, Interest and Money*, 1973
Vol. 8: *A Treatise on Probability*, 1973
Vol. 9: *Essays in Persuasion*, 1972. Full text with additions
Vol. 10*: Essays in Biography*, 1972. Full text with additions
Vol. 13: *The General Theory and After: Part 1: Preparation*, 1973
Vol. 14: *The General Theory and After: Part 2: Defence and Development*, 1973
Vol. 17: *Activities 1920–1922: Treaty Revision and Reconstruction*, 1977
Vol. 21: *Activities 1931–1939: World Crises and Policies in Britain and America*, 1982
Vol. 22: *Activities 1939–1945: Internal War Finance*, 1978
Vol. 24: *Activities 1944–1946: The Transition to Peace*, 1979
Vol. 25: *Activities 1940–1944: Shaping the Post-War World: The Clearing Union*, 1980
Vol. 26*: Activities 1941–1946: Shaping the Post-War World: Bretton Woods and Reparations*, 1980
Vol. 27: *Activities 1940–1946: Shaping the Post-War World: Employment and Commodities*, 1980
Vol. 28: *Social, Political and Literary Writings*, 1982

The other main source drawn upon is Keynes Papers, King's College Cambridge.

OTHER WORKS

For fuller Keynes bibliographies see Robert Skidelsky, *John Maynard Keynes*, 3 vols. (1983, 1992, 2000), and his abridged *John Maynard Keynes 1883–1946, Economist, Philosopher, Statesman* (2003 and D. E. Moggridge, *Maynard Keynes: An Economist's Biography* (1992). The 2008 crisis has produced a spate of Keynes books, including Paul Davidson, *The Keynes Solution* (2009); Robert Skidelsky, *Keynes: The Return of the Master* (2010 edition); Robert and Edward Skidelsky, *How Muc* *Is Enough?* (2012); and Peter Temin and David Vines, *Keynes: Useful Economics for the World Economy* (2014); as well as books critical of today's mainstream economics and economic policies, not necessarily from a Keynesian standpoint. A small sample of works: John Cassidy, *How Markets Fail: The Logic of Economic Calamities* (2009); Roman Frydman and Michael D. Goldberg, *Beyond Mechanical Markets: Asset Price Swings, Risk, and the Role of the State* (2011); Felix Martin, *Money* *The Unauthorised Biography* (2013); Philip Roscoe, *I Spend Therefore I Am: The True Cost of Economics* (2014); Tomas Sedlacek, *Economics of Good and Evil* (2011); George Akerlof and Robert Shiller, *Animal Spirits: How Human Psychology Drives the Economy and Why It Matters for Global Capitalism* (2009); Adair Turner, *Economics After the Crisis* (2012).

Keynes's World, Main Characters

Below are short CVs of the main people cited in the texts. For fuller dramatis personae, see Robert Skidelsky, *John Maynard Keynes*, 3 vols. (1983, 1992, 2000), and his abridged *John Maynard Keynes 1883–1946, Economist, Philosopher, Statesman* (2003); and D. E. Moggridge, *Maynard Keynes: An Economist's Biography* (1992).

Charles Addis (1861–1945), English banker, member of the Tuesday Club. Jousted with JMK over the return to the gold standard, but sympathized with his argument for delay.

Frederick Ashton (1904–1988), choreographer and ballet dancer, friend of Lydia Lopokova and JMK

Herbert Henry Asquith (1852–1928), English Liberal politician, prime minister 1908–16. JMK got to know him well in the First World War. His break with Asquith in 1926 was the most important political rupture of his life.

Stanley Baldwin (1867–1947), English Conservative politician, prime minister 1923, 1924–9, 1935–7. JMK looked to him to bring about a modified socialism in line with English traditions.

Lord Beaverbrook, Maxwell Aitken (1879–1964), Canadian-born newspaper proprietor. His newspapers the *Daily Express* and the *Evening Standard* gave JMK a platform, especially in the campaign against the gold standard.

Clive Bell (1881–1964), art critic, member of the Bloomsbury group and friend of JMK.

Vanessa Bell, *née* Stephen (1879–1961), English painter, member of the Bloomsbury group and friend of JMK. He used to stay at Charleston, her rented farmhouse in Sussex.

William Beveridge (1879–1963), English statistician and administrator, author of the Beveridge Report, 1942, which established Britain's welfare state. He and JMK were part of the Liberal mandarin circle, though they were not friends.

Ernest Bevin (1881–1951), English trade union leader and Labour politician. JMK educated him in economics on the Macmillan Committee in 1930–31 but failed to win his support for deferred pay in 1940.

John Bradbury (1872–1950), English civil servant, joint permanent secretary at the Treasury 1913–19. Treasury notes issued in the First World War were called 'Bradburies'. JMK clashed with him about the gold standard and on the Macmillan Committee.

Robert Henry Brand (1878–1963), English banker and public servant. The meeting point between Keynes's economics and City orthodoxy.

Edwin Cannan (1861–1935), English economist, professor of political economy 1907–26. An old-fashioned QTM man.

Neville Chamberlain (1869–1940), English Conservative politician, chancellor of the exchequer 1932–7, prime minister 1937–40. His policy of balanced budgets in the 1930s enraged JMK. JMK