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OPINION

## Ideas and the world

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**This week sees the publication of the third and final volume of Robert Skidelsky's biography of John Maynard Keynes, one of the greatest and most influential thinkers that Britain has ever produced. We asked Lord Skidelsky to tell us about his biographical adventure and, now that the labour is done, to say what he thinks of the man**

THE two most persistent questions I have been asked about Keynes are: Do you like him? And what, if anything, has he to offer the world today? In explaining how I approached the writing of the biography, and in describing what I learned as the work proceeded, I will try to answer both.

My agent, Michael Sissons, reminded me the other day that my original contract with Macmillan dates from 1970. It was to write a single-volume, 150,000-word life of Keynes, to be delivered "not later than December 31st 1972". The advance, incidentally, was £5,000. Three volumes, a million words and 30 years later, what defence have I got for such contractual insouciance?



I pass over all the problems I had in getting access to the papers I needed. (Even Harold Macmillan, the former prime minister, who had returned to his family publishing firm, failed to remove a 12-year embargo on Keynes's unpublished economic papers.) More important were my own doubts about whether I could write the kind of book I wanted to. My credentials as a biographer of Keynes were not overly impressive. I was a historian, with an interest in economic policy, not an economist. How does a historian write about John Maynard Keynes, the greatest economist of the 20th century?

It took me a long time to work out an answer. The first thing to do was obvious: learn economics. This is easier said than done. It meant learning a style of thinking which is alien to the historian. Economics is a branch of logic; history is analytical description, based on evidence. There are no "models" in history, because every event is unique. This is especially true of biography.

It was equally important not to get bamboozled by economics; not to lose the historian's sense that economic ideas always have a context, and that biography is above all about context not propositions. A biographer of Keynes had to be able to explain the logic of his thinking, but always keeping in mind the question of why Keynes thought the way he did, and said what he did at any particular time. So my biography would be written by an economically literate historian, not by a historically literate economist.

Keynes was not one of those people who scribble away in cloistered seclusion. His economics bears the heavy imprint of public events in the first half of the 20th century. But as his wife, the ballerina Lydia Lopokova, put it in her famously Russianised English, "Maynar is more than economist." He inhabited that frontier area where economic theory met philosophy, the arts,

morals, finance and administration to create the modernist consciousness. He was both a thinker and a man of affairs; an aesthete and a manager; someone who glided between Cambridge academic life, the Bloomsbury Group of painters and writers, the City and Whitehall; as well as between homosexuality and heterosexuality. I had to master all these worlds (or at least pretend to) and also show how they fed into his economic outlook.

## A Cambridge man

My first volume was published in 1983. It covered Keynes's life from 1883 to 1919, ending with "The Economic Consequences of the Peace", the slashing attack on the Versailles treaty which made him world-famous. Keynes, as I presented him, was a product of the Cambridge civilisation of his day, heir to its loss of religious faith, the vigour of its philosophical speculation, its shift from the ethics of duty to the ethics of intimacy; heir also to its Edwardian optimism, which swept away late-19th-century angst, and the traumatic shock to that world-view, and Britain's position in the scheme of things, delivered by the first world war. The rest of Keynes's life was spent trying to restore the possibilities of civilisation which the war had destroyed.

The first volume had little economics in it. It was mainly about ethics, philosophy and friendship, not unnatural preoccupations of clever young men whose own economic future seemed secure and who expected a century of peace. It was friendship, particularly Keynes's love-affair with the painter Duncan Grant, which got me into the greatest trouble. What purpose did I have, the economist's surviving younger brother, Sir Geoffrey Keynes, once asked me, other than to tell the world that Maynard was a bugger?

I replied that the world already knew this. My aim was to show how Maynard's early beliefs influenced his economics. Sir Geoffrey was not convinced. When Alan Watkins wrote a silly article in the *Observer* on April 30th 1978 saying that I had been commissioned to write a life of Keynes "between the sheets", Sir Geoffrey's worst fears were confirmed. Since there was quite a lot of Cambridge hostility to my enterprise, I was particularly pleased when Richard Kahn, Keynes's "favourite pupil", wrote to me on June 1st 1984: "I found [your book] most impressive, interesting and beautifully written. I look forward to further volumes." Alas, he was dead before the next volume appeared in 1992.

## Economics and the good life

That Keynes would make his mark in economics was logical, though not inevitable. He was sucked into it by the global disorder that followed the first world war. By 1940 he was writing gloomily that, for the first time since the Enlightenment, "Hobbes has more message for us than Locke." Economics, as he practised and transformed it, offered a way of reconciling his ethical and aesthetic commitments with the mastery of an external world which menaced them. The purpose of economics, he wrote in 1930, was to solve the "economic problem", so that mankind could live "wisely, agreeably and well". He had a relatively low opinion of the discipline, and was apt to compare it to dentistry—a science of means, not of ends. The end was a secularised Christian view of the "good life", as expounded by his intellectual mentor, the philosopher G.E. Moore.

From this perspective, the mass unemployment of the inter-war years appeared to him as a problem not of scarcity but of incipient abundance. Men approached the era of abundance with the psychology of scarcity. The task of economic management, as he came to see it, was to bring forward the day when enjoyment of life could replace saving up for enjoyment. "The full-employment policy by means of investment", he wrote to T.S. Eliot at the end of his life, "is only one particular application of an intellectual theorem. You can produce the result just as well by consuming more or working less." His Utopia, which he thought might not be far off, was *Paradise Regained*, whose inhabitants would live like the "lilies of the field who toil not, neither do they spin".

My own biographical enterprise spanned exactly the years when the Keynesian revolution was

fading. The crucial second volume of my trilogy was written in the Thatcherite 1980s. Did Milton Friedman have more message for us by then than did Maynard Keynes?

Certainly, it was no longer possible to treat Keynes's great book, "The General Theory of Employment, Interest and Money", published in 1936, as holy writ. Its short-term model of an economy which could get stuck in depression was too obviously a product of the special conjuncture which had produced the Great Depression of 1929-33. If Keynes was to live for our time, his economic philosophy had to be untangled from the theoretical straitjacket in which he had suffocated it in the General Theory.

Three insights helped to orient me. The first was Joseph Schumpeter's distinction between an economist's vision and his analytic scheme. Keynes applied this distinction to himself. The economist, he told his Cambridge students in 1933, always knows more than he can say. "When you adopt perfectly precise language", he went on, "you are trying to express yourself for the benefit of those who are incapable of thought." Keynes's strictures were in vain. Since his day, economics has become so formal, or mathematicised, that even economists can no longer understand what they are saying to each other, still less the educated public. Keynes's appeal as an economist has always been to those who prefer fertile thinking to elegant proofs.

Secondly, I was influenced by Axel Leijonhufvud. In his book "On Keynesian Economics and the Economics of Keynes" (1966), Leijonhufvud argued that a thinker's thought "will show a consistency and continuity of development which, once grasped, make it possible to view his work as a coherent whole." This was very much to the point. There is an unmistakable family resemblance running from Keynes's early paper, "How Far Are Bankers Responsible for the Alternation of Crisis and Depression?" (1913) through his "Tract on Monetary Reform" (1923) and his "Treatise on Money" (1931) to "The General Theory of Employment, Interest and Money", which distinguishes them sharply from the orthodox economics being produced at the time.

In all these writings, economic disturbances start in the sphere of money and finance and move to the "real economy", rather than the other way around. Macroeconomics, which Keynes invented, is redundant in an economy that does not use credit. In the General Theory, which was initially titled "The Monetary Theory of Production", "interest" and "money" are yoked to employment as horse to carriage.

I was also struck by Peter Clarke's demonstration—in his fine book, "The Keynesian Revolution in the Making" (1988)—of just how close Keynes's theoretical ears were to the political and administrative ground. There was much of the civil servant in Keynes. Theory must always be serviceable for policy, even if its echoes went beyond practical requirements.

## **Risk and return**

These insights gave me a way of reconciling Keynes's many, and often-remarked, inconsistencies of theory and policy with the essential continuity of his economic outlook. I came to see the General Theory as the reduction, to a particular type of macroeconomic model, of Keynes's long-standing concern with the effects of uncertainty on business expectations, the connections between uncertainty and money, the psychology of money and his concomitantly long-standing advocacy of stabilisation policy.

In Keynes's vision, uncertainty is the condition of all human life—a line of thought which goes all the way back to his early work on probability theory. All agents suffer from deficient knowledge about the future, and adopt various quasi-rational strategies to deal with it. In economic life, holding money was the most important of these strategies. The function of money as generalised purchasing power offers the possibility of postponing decisions to invest and consume. The emphasis Keynes placed on money as a store of value, as an escape from commitment to activity, was one of his original contributions to economics. It shines through all his writing.

In his scattered reflections on the psychology of money, Keynes linked the power of money to disturb economies to the tendency for money itself to become an object of desire (in Marx's language, a fetish) rather than a means to satisfy desires. The psychological propensity to "hoard" is not just a quasi-rational response to uncertainty but expresses a perverted human longing: a "love of money" for its own sake. Depressions, then, are the fruits of sin as the classical economists taught—not of the sin of extravagance, however, but of usury, a medieval concept Keynes took to be identical with his own "liquidity preference" theory of the rate of interest. Like all properly educated atheists, Keynes was steeped in theology.

## Keynes's "science"

The view that an economy has no natural tendency to full employment is implicit in this vision of economic life. The analytic model in which Keynes finally decided to encapsulate this vision was one which postulated the logical possibility of "under-employment equilibrium". Formally, there is a stable level of employment and output which corresponds to any given set of expectations. This need not be one of full employment. It is through the existence of money that expectations about the future influence production decisions in the present. Helped by a piece of technical apparatus, the multiplier, invented by Richard Kahn, Keynes demonstrated that, following a shock to demand, it is the run-down of income which equilibrates the "propensity to save" with the reduced "inducement to invest" at a low level of employment and output.

This was his strictly "scientific" achievement. The so-called income-expenditure model became the core of "scientific" Keynesianism, the policy tool which governments could use at any moment to adjust levels of aggregate expenditure to any desired level of employment.

The "scientific" part of the General Theory is a skewed formalisation of Keynes's vision, a *pièce d'occasion* built for explanation and control when faith in capitalism was weak. As *The Economist* not unfairly put it on January 27th 1951: "They [Keynes's theories] display the essential conditions existing at a moment of time, and in given conditions, between various economic magnitudes, but not the dynamic laws governing change in those conditions themselves."

Volume three of my biography, covering Keynes's last years (1937-46), takes the reader from the economics of depression towards the economics of full employment, and the inflationary preoccupations of the post-war world. It was, of course, rearmament and war, not theoretically based Keynesian policy, which dragged the world back to full employment; arguably it was the cold war and social spending which kept it there in the "golden age" of the 1950s and 1960s. But in a striking display of intellectual entrepreneurship, Keynes showed how his "scientific" model could deal just as easily with an "inflationary gap" as with an "output gap". His anti-inflationary tract, "How to Pay for the War" (1940) brought a fervent endorsement from his "scientific antipode", Friedrich Hayek: "It is reassuring to know", Hayek wrote to him on March 3rd 1940, "that we agree so completely on the economics of scarcity, even if we differ on when it applies." Keynes reciprocated with a glowing letter on Hayek's "The Road to Serfdom", published in 1944: "Morally and philosophically I find myself in agreement with virtually the whole of it; and not only in agreement, but in deeply moved agreement." Even in war Keynes remained a liberal, with a hatred of rationing and price controls.

Keynes's part in constructing the Bretton Woods system, his founding of the Arts Council of Great Britain, his influence on wartime and post-war fiscal, monetary and social-security policy, his vain struggle, over five wartime missions to Washington, to preserve Britain's financial independence from the United States—all against a background of crippling heart disease—bring this trilogy to a climax. When Keynes died on April 21st 1946, Lionel Robbins wrote: "He gave his life for his country, as surely as if he had fallen on the field of battle."

## What remains

Would I have liked Keynes had I met him? The only sensible answer I have ever been able to give

to this question is: "Yes, enormously, had he liked me." For he could be both immensely charming and kind to those he liked, and immensely rude to, and about, those he did not. He could rarely resist a witty put-down: one observer felt that "he must have been responsible for more inferiority complexes among those with whom he came in contact than anyone else in his generation." But leaving this aside, his intellectual, moral and linguistic charm, as it survives in his writings and records of his conversation, is palpable, and is the main cause of the fascination he continues to exert. David Waley, a Treasury colleague during the second world war, remembers "every paragraph full of abounding vitality and a constant sense of drama".

What survives today of Keynesian economics is not, I think, the "scientific" demonstration that under-employment equilibrium is possible, but Keynes's intuition that a market economy is inherently unstable, and that the source of instability lies in the logic of financial markets. Market capitalism should be neither left alone nor abolished, but stabilised. Most macroeconomic models are still based on the Keynesian aggregates and their interrelationships; but governments no longer seek to control these aggregates—prices, output, saving, investment—so directly or so persistently as in the heyday of Keynesian "fine-tuning".

Monetary policy has supplanted fiscal policy as a short-term stabiliser. Budgets are to be balanced "over the cycle", with discretionary deficits for use only in emergencies. Governments, that is, retain their role as an uncertainty-reducing resource, but experience of their capacity for error and folly suggests that discretionary policy should be used very sparingly. Keynes's vision, rather, points to the importance of rule-based regimes to stabilise business expectations—something he accepted in the Bretton Woods system of fixed exchange rates. In 1939 Keynes predicted that the world would never go back "all the way" to pre-Keynesian economic policy. In this he was right. Contrary to his own most famous aphorism—"In the long run we are all dead"—Keynes is still alive.

And what of my contract to write a single-volume life of Keynes? Well, that too is alive in the form of a commissioned single-volume abridgment of my trilogy. Macmillan will pay £25,000 for it—about half, in real terms, of the £5,000 I was offered in 1970. Such are the penalties of tardiness.



**Lord Skidelsky is professor of political economy at Warwick University and chairman of the Social Market Foundation. The third and final volume of his life of Keynes, subtitled "Fighting for Britain", is published by Macmillan.**