

**John Maynard Keynes – The Intellectual Pragmatist**  
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**Introduction**

If we accept that John Maynard Keynes stands on the podium of the three best-known economists of all time (1) along with Adam Smith and Karl Marx, then we might wonder at the fact that both Keynes and Marx considered themselves philosophers rather than economists, and the word economist didn't even exist when Adam Smith came to fame with 'The Wealth of Nations' (2). Perhaps all economists should be philosophers first, for how else can one position the purpose of economics with its ethical and moral implications when applied to society? As Keynes himself states:

*The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy or pure science? An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that 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 regards. 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. (3)*

There are also very few economists who have been so implicated in acting on the real world. Marx saw Marxist societies grow up in rebellion against the state, but he was always working outside the state, whereas Keynes was a statesman who negotiated major changes in the world he

lived in (Versailles Peace Treaty, Bretton Woods...). Keynes did not simply write an economic theory and see it applied more or less successfully in political policy around the world – Keynes was regularly on stage – in the heat of political and economic warfare. This meant that sitting in an ivory tower of theoretical considerations was out of the question. He was constantly involved in negotiating in the real world – negotiations which were of the utmost importance in shaping his present and our past and present.

Keynes was present at the Paris Peace Conference (often referred to as the Versailles Peace Conference) where he represented British interests after World War One during which the conditions for peace (and future war) with Germany were established. He was so appalled at the proposed conditions that would not only destroy Germany economically but also humiliate them, that he left the conference in protest and wrote perhaps his most important work 'The Economic Consequences of the Peace' (4) in which he foretold the likelihood of further war since the proposals were not economically viable. Keynes was also the principal British interlocutor during the final months of World War Two to negotiate the US-British Lend-Lease programme and the Marshall Plan loans (5, 6).

Keynes was, with the American Harry Dexter White, responsible for the Bretton Woods negotiations and the founding of a new economic and political era (8). This was perhaps his most difficult role since the USA held all the cards (and the gold) and the British Empire was on the verge of collapse due to its massive debts incurred during the First and Second World Wars. Harry Dexter White and the Americans got what they wanted – and Keynes watched as his proposals were rejected, the British Imperial Tariff Preference (the Ottawa Agreement) was broken up, the exclusive sterling trade area was broken up and the UK became indebted not only to the US, but was also tied to a New World Order under the GATT agreement, the World Bank and the International Monetary Fund. No one could have done better than Keynes to secure British interests, but he had no decent cards to play. Keynes was at the heart of Roosevelt's New Plan to rescue the USA and the world from the Great Depression following the 1929 stock market crash. He also managed British interests to reduce the depression's impact of the decline of world trade on the British.

Keynes was, therefore, unlike analytical economists who deal with observation and explanation (economists that he disapproved of - with their curves and diagrams that were out of touch with reality), an applied economist dealing with the actual application of economic theory that underpins the organisation of society – and that requires constant adjustment – not just of the mechanism itself but also of the underlying paradigm. This required flexibility and pragmatism. It is perhaps this flexibility that came from his considerable intellect that makes Keynes difficult to study. Quite simply – he often changed his mind and opinions when faced with global realities or realpolitik. For example, at Cambridge University, Keynes was a staunch 'free-trader', but in 1915 Keynes helped UK Chancellor of the Exchequer McKenna prepare his first budget that saw the introduction of McKenna duties: 33.3% duty on luxury imports<sup>1</sup>. He was now a staunch protectionist! This protection helped defend the British car and lorry industry from international competition. Keynes was homosexual, but then married a Russian ballerina, strongly supported full employment and social welfare but considered himself to be bourgeois, not a socialist, opposed currency speculation that threatened economic stability, but himself started a speculation club with his Bloomsbury friends! This is symptomatic of the paradox that is Keynes. Rules and norms were to be applied to others, not himself – being above such things.

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1. Skidelsky p185. Attacking the Conservative demand for protection in 1923, he deployed the whole free-trade case, emphasizing, 'If there is one thing Protection cannot do, it is to cure unemployment.' JMK, CW, xix, pp. 151-2. In 1930 he advocated protectionism – as a cure for unemployment!

In the neo-liberal post 80's we might be tempted to look back at Keynes and consider him socialist since his policies, particularly under Roosevelt's New Deal, were socialist in character. But although convinced of the social, political and economic importance of full employment, and a somewhat unhappy member of the Liberal Party, he opposed the Labour Party as much as the Conservatives:

Labour “*is a class party*”, he wrote, “*and the class is not my class. If I am going to pursue sectorial interests at all, I shall pursue my own... the class war will find me on the side of the educated bourgeoisie*” (Keynes CW IX, p.297.)

*But let's get Keynes - and Keynesianism – right. In the U.S., more than in Britain, he is considered a kind of socialist. This is wrong. Keynes was not a nationalizer, nor even much of a regulator. He came not exactly to praise capitalism, but certainly not to bury it. He thought that, for all its defects, it was the best economic system on offer, a necessary stage in the passage from scarcity to abundance, from toil to the good life. (13, p. xvii)*

We can perhaps identify some of this strange personality in his upbringing. He came from a family of staunch baptists – with strong values for truth and morality, though was not religious himself. His education at Eton, a very 'posh' independent boarding school in England, followed by Cambridge University and a Cambridge University-based group of artists and intellectuals at the Bloomsbury Club, allowed him to meet exceptional minds. He was strongly influenced by G. E. Moore (philosopher), Bertrand Russell (philosopher) and Ludwig Wittgenstein (philosopher) as well as Virginia Woolf (writer), E. M. Forster (writer) and Lytton Strachey (biographer) as well as W. H. Macaulay (mathematician) who wrote:

*'Rules, rules, what are rules for?' Macaulay would ask himself before answering himself: 'to be broken, to be broken'... The sentiment that creative minds were justified in breaking rules, when the results might be productive, was to underlie Keynes's rethinking of economic laws after 1924. (8, p56).*

It was perhaps this irreverence, this feeling of intellectual superiority, that allowed him later on to break with standard moral codes (homosexuality was illegal at the time), to break with standard economic theory to create his own, and even to break with his own ideas when he found them impractical.

*'We had no respect for traditional wisdom or the restraints of custom. We lacked reverence... for everything and everyone'. (CW, XX, pp. 436-7)*

This rebel, however, managed to work within the corridors of power without too much trouble. This is what can surprise us most. Take a look at a photo of John Maynard Keynes – he looks like the icon of an obedient Edwardian civil servant – a cog in the wheel of a vast and powerful empire. Yet Keynes the rebel, Keynes the risk taker, Keynes the lover, Keynes the flexible changer of his own ideas is there. Perhaps that is why he still commands such interest. If he had remained in the Military Department of the India Office where he started work in 1906, even though it was only for 20 months, he would never have changed the world as he did. He was brilliant, he was different, and he didn't suffer fools lightly.

*“When facts change, I change my mind. What do you do Sir?” (7, p. 169)*

But he was part of the intelligentsia with a mission. He could easily have settled back into

relative wealth and comfort, but he took on his mission of finding economic and political solutions with an extraordinary sense of duty, despite his battles with hierarchy and government. He was also a great speaker – most notably in his speech to the House of Lords in 1945 (9) concerning the lamentable terms of the American loan to a British government that still thought it ruled the waves; he required diplomacy, convincing economic arguments, and a mastery of rhetoric – and he had them all. He clearly understood during the First World War that the world as he knew it was about to change, being one of the few people that understood not only the economic and political details, but who was also able to place these details within a global framework. Employed in the Treasury Department, in 1917 he wrote to his wife:

*“My Christmas thoughts are that a further prolongation of the war, with the turn things have now taken, probably means the disappearance of the social order we have known hitherto. I am on the whole not sorry. The abolition of the rich will be rather a comfort and serve them right anyhow. What frightens me more is the prospect of general impoverishment. In another year's time we shall have forfeited the claim we had staked out in the New World and in exchange this country will be mortgaged to America'. (10)*

Should we ignore Keynes's private life? I find it indicative of this extraordinary man that he had such a promiscuous (and illegal) sex life – not quite what one would expect from this great statesman. He searched for male partners in the streets of London, and kept records of his conquests. We can read (8, p215) that:

*“from February 1909 to February 1910, he had sixty-five encounters. There were twenty encounters in the same period 1910-1911; thirty-nine in 1911-1912. He kept lists of his pick-ups such as:*

*Stable Boy of Park Lane  
The Swede of the National Gallery  
The American of Victoria Street  
The Sculptor of Florence  
The Baron of Mentone  
The Soldier of the Baths  
The Art Dealer of the Quays  
The French Conscript...*

Yet, in 1925 Keynes married the enigmatic Lydia Lopokova (11), a member of the Bloomsbury group and friend of Stravinsky and Pablo Picasso, who knew all about his escapades – but then that was part of the liberal customs of the group (12), and Keynes seemed genuinely happy with married life even if it didn't stop his extra-marital affairs.

### **The Paris Peace Conference**

Keynes's first major economic and philosophical battle took place at the Paris Peace Conference (Treaty of Versailles) in 1919. The conference was to decide the fate of Germany after the First World War, and Keynes was the principal UK treasury representative from January to June 1919 before resigning in disgust. Hardliners wanted to destroy Germany's capacity to re-industrialise, and basically wanted to ruin them economically by imposing war reparations that would simply not be possible for a de-industrialised Germany. This also would mean that Britain would benefit by removing industrial competition. To boot, if the Germans couldn't pay, then the allies would have the right to take steel, coal or any other resource in lieu of payment. Keynes understood that reparations should be based upon Germany's capacity to pay them, and that therefore Germany's industry should not be destroyed. Keynes perceived the situation from a

European perspective, rather than through blinkered sovereign interests. Not only, he argued, would an impoverished Germany be dangerous, but the added humiliation would lead to nationalism and revenge as the German people would be easy prey to nationalism.

*“The Peace is outrageous and impossible and can bring nothing but misfortune... If they (the Germans) do sign, that really will be the worst thing that could happen, as they can't possibly keep some of the terms, and general disorder and unrest will result everywhere. ... Anarchy and revolution is the best thing that can happen, and the sooner the better” (JMK to Duncan Grant, 1 June 1919)*

*“It must have been an agony of frustration and impotence, for at close quarters he watched while Wilson was outmanoeuvred by Clemenceau and the ambition of a humane peace replaced by the achievement of a vindictive one.” (14, p. 258)*

This is perhaps Keynes at his very best: he writes well; he doesn't hesitate in being politically incorrect - extremely critical of President Woodrow Wilson (intellectually weak) and Georges Clemenceau (obstinate and obdurate); he takes a strong pragmatic position; he takes a strong moral position. One can feel his anger at the stupidity of a treaty that was never going to work. Keynes didn't get his way and wasn't really listened to. He resigned in despair. Just before the signing of the treaty he published his riposte – explaining why the Treaty was not only economically, socially, morally and politically wrong, but why it was also dangerous and could lead to further war. He wrote “The Economic Consequences of the Peace” (4). It was a great success and made his name. Obviously, once World War Two broke out, as predicted, many people remembered Keynes and realised that he should perhaps be listened to more attentively. This certainly improved his esteem when dealing with the Bretton Woods negotiations in 1944.

*In “Economic Consequences” he recommended that French war debts to the United Kingdom and the United States should be waived; that reparation claims by the London government should be deferred until those of the devastated areas of Belgium and France had been met; and that surplus coal from England, Wales and Scotland should be allotted to the League of Nations for distribution to France and other European countries in need. These ideas were the work of a man not hobbled by narrow notions of national sovereignty, but someone who saw Europe as a whole. (8, p. 117)*

To get a feel for Keynes's style and attitude, here is the introduction to *The Economic Consequences of the Peace* (4)

## **Chapter**

### **INTRODUCTORY**

**I**

*The power to become habituated to his surroundings is a marked characteristic of mankind. Very few of us realize with conviction the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organization by which Western Europe has lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly. On this sandy and false foundation we scheme for social improvement and dress our political platforms, pursue our animosities and particular ambitions, and feel ourselves with enough margin in hand to foster, not assuage, civil conflict in the European family. Moved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built. But the spokesmen of the French and British peoples have run the risk of completing the ruin, which Germany began, by a Peace which,*

*if it is carried into effect, must impair yet further, when it might have restored, the delicate, complicated organization, already shaken and broken by war, through which alone the European peoples can employ themselves and live.*

*In England the outward aspect of life does not yet teach us to feel or realize in the least that an age is over. We are busy picking up the threads of our life where we dropped them, with this difference only, that many of us seem a good deal richer than we were before. Where we spent millions before the war, we have now learnt that we can spend hundreds of millions and apparently not suffer for it. Evidently we did not exploit to the utmost the possibilities of our economic life. We look, therefore, not only to a return to the comforts of 1914, but to an immense broadening and intensification of them. All classes alike thus build their plans, the rich to spend more and save less, the poor to spend more and work less.*

*But perhaps it is only in England (and America) that it is possible to be so unconscious. In continental Europe the earth heaves and no one but is aware of the rumblings. There it is not just a matter of extravagance or "labor troubles"; but of life and death, of starvation and existence, and of the fearful convulsions of a dying civilization.*

*For one who spent in Paris the greater part of the six months which succeeded the Armistice an occasional visit to London was a strange experience. England still stands outside Europe. Europe's voiceless tremors do not reach her. Europe is apart and England is not of her flesh and body. But Europe is solid with herself. France, Germany, Italy, Austria and Holland, Russia and Roumania and Poland, throb together, and their structure and civilization are essentially one. They flourished together, they have rocked together in a war, which we, in spite of our enormous contributions and sacrifices (like though in a less degree than America), economically stood outside, and they may fall together. In this lies the destructive significance of the Peace of Paris. If the European Civil War is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds. At any rate an Englishman who took part in the Conference of Paris and was during those months a member of the Supreme Economic Council of the Allied Powers, was bound to become, for him a new experience, a European in his cares and outlook. There, at the nerve center of the European system, his British preoccupations must largely fall away and he must be haunted by other and more dreadful specters. Paris was a nightmare, and every one there was morbid. A sense of impending catastrophe overhung the frivolous scene; the futility and smallness of man before the great events confronting him; the mingled significance and unreality of the decisions; levity, blindness, insolence, confused cries from without,—all the elements of ancient tragedy were there. Seated indeed amid the theatrical trappings of the French Saloons of State, one could wonder if the extraordinary visages of Wilson and of Clemenceau, with their fixed hue and unchanging characterization, were really faces at all and not the tragi-comic masks of some strange drama or puppet-show...*

*In Paris, where those connected with the Supreme Economic Council received almost hourly the reports of the misery, disorder, and decaying organization of all Central and Eastern Europe, allied and enemy alike, and learnt from the lips of the financial representatives of Germany and Austria unanswerable evidence of the terrible exhaustion of their countries, an occasional visit to the hot, dry room in the President's house, where the Four fulfilled their destinies in empty and arid intrigue, only added to the sense of nightmare. Yet there in Paris the problems of Europe were terrible and clamant, and an occasional return to the vast unconcern of London a little disconcerting. For in London these questions were very far away, and our own lesser problems alone troubling. London believed that Paris was making a great confusion of its business, but remained uninterested. In this spirit the British*

*people received the Treaty without reading it. But it is under the influence of Paris, not London, that this book has been written by one who, though an Englishman, feels himself a European also, and, because of too vivid recent experience, cannot disinterest himself from the further unfolding of the great historic drama of these days which will destroy great institutions, but may also create a new world.*

Keynes was shocked that the terms under which the Germans had come to the negotiating table were outrageously corrupted, ignored and unconsidered. President Wilson's speech to Congress on February 11, 1918 (15) which is considered as the ground rules of the contract with the enemy included that there should be "no contributions" and "no punitive damages". This is the opposite of what happened. The Allies cheated and the Germans were not even allowed to join in the discussions as the committee decided its fate. But Keynes is not just argument and rhetoric; he clearly sets out the data of coal, steel, exports, imports and income possibility via production and trade whereby it is clear to see that Germany cannot ever pay its reparations. The detail is so clear that it is significant that Wilson and Clemenceau ignored such well-founded arguments – they had their own plans – and saving Germany, and hence Europe, was not on their agendas. (4, p.7-9)

*But it is evident that Germany cannot and will not furnish the Allies with a contribution of 40,000,000 tons (of coal) annually. Those Allied Ministers, who have told their peoples that she can, have certainly deceived them for the sake of allaying for the moment the misgivings of the European peoples as to the path along which they are being led. (4, p.53)*

Keynes does not hold back in criticising those responsible:

*Apart from other aspects of the transaction, I believe that the campaign for securing out of Germany the general costs of the war was one of the most serious acts of political unwisdom for which our statesmen have ever been responsible. To what a different future Europe might have looked forward if either Mr Lloyd George or Mr Wilson had apprehended that the most serious of the problems which claimed their attention were not political or territorial but financial and economic, and that the perils of the future lay not in frontiers or sovereignties but in food, coal, and transport. Neither of them paid adequate attention to these problems at any stage of the Conference. (4, p.86)*

Keynes goes on to state:

*There can have been few negotiations in history so contorted, so miserable, so utterly unsatisfactory to all parties. I doubt if anyone who took much part in that debate can look back on it without shame. (4, p 88-89)*

One can well understand why Keynes had resigned from the British government before venting his anger and frustration – no one could have stayed in government while being so critical of his own government. We shall end this section with the final part of the summary:

*I cannot leave this subject as though its treatment wholly depended either on our own pledges or on economic facts. The policy of reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness should be abhorrent and detestable, - abhorrent and detestable, even it were possible, even if it enriched ourselves, even if it did not sow the decay of the whole of civilized life of Europe. Some preach it in the name of Justice. In the great events of man's history, in the unwinding of the complex fates of nations Justice is not so simple. And if it*

*were, nations are not authorized, by religion or by natural morals, to visit on the children of their enemies the misdoings of parents or of rulers (4, p. 127)*

### **The Great Depression and the New Deal**

Most students of economics and politics have some understanding of the Great Depression and the 1929 Wall Street Crash in the USA and the political choice left to the population afterwards – of choosing between an austerity programme under Hoover or a socialist New Deal under Roosevelt. What might be less understood, is the influence of Keynes and Keynesian theory involved in the New Deal, breaking away from the Gold Standard, and the implementation not only of debt-based government employment projects, but also what were unusually socialist policies for the USA such as the creation of a minimum wage, the government support for trades unions, and a negotiation conflict arbiter in government as well as social security for basic health needs and unemployment benefit. This met with massive disapproval from the corporatocracy of the time. They feared that leaving the gold standard would lead to inflation.

*Roosevelt was not the only one who saw, so early, that he was playing for such high stakes in seeking economic recovery. As 1933 drew to a close, he received a letter from Keynes telling him he was “the trustee for those in every country who seek to mend the evils of our condition by reasoned experimentation within the framework of the existing social system”. If he succeeded, he won a victory for all civilization; if he failed, “rational change will be gravely prejudiced throughout the world”. (16, pXXV)*

But Keynes was worried not only for the dramatic situation in the USA, but also its impact on world trade and hence the economies of what had become a global world.

*In Chicago the majority of working women were earning less than 25c an hour, and a quarter of them made less than 10c. In New York's Bowery alone, two thousand jobless crowded into bread lines every day. In the nation as a whole, residential construction fell by 95%. Nine million savings accounts were lost. 85,000 businesses failed. The national volume of salaries dwindled 40%; dividends 56%; wages 60%.*

*And the worst of it, the most depressing aspect of the Great Depression, was that there seemed to be no end to it, no turning point, no relief. In 1930, the nation manfully whistled “Happy Days are Here Again”, but the national income precipitously fell from \$87 billion to \$75 billion. In 1931 the country sang “I've got Five Dollars”; meanwhile its income plummeted to \$59 billion. In 1932 the song was grimmer: “Brother, Can You Spare a Dime?” - national income had dwindled to a miserable \$42 billion. (14 p.251)*

In 1934 Keynes arrived in Washington and urged a bigger, stronger New Deal. Business expansion had fallen by 94% between 1928 (\$15b) and 1932 (\$886m) (14, p274). It was obvious to Keynes that the standard political reaction of fiscal contraction was never going to work. But what he saw, although he approved, he considered far too little to pump-prime the economy – but Roosevelt had to seek Congressional approval for new expenditure. New Deal expenditure rose from an average \$10b to \$15b by 1936. Keynes's famous multiplier effect kicked in and private firms invested \$10b by 1936. Income rose by 50% but there was still high unemployment. The problem still remained that the banks were afraid of inflation and the Federal Reserve Board discouraged lending even though the economy was in crisis (very much the same mistake being made by the Troika during the EU's post-2008 austerity programme). In 1937 (against Keynes's advice) Roosevelt called for a balanced budget. Unemployment started to rise again and the economy headed for depression once again. Keynes wrote to Roosevelt “*the present slump could have been predicted with absolute certainty*” (18). Roosevelt listened and changed policy to a



Keynesian model of deficit spending.

The British also listened to Keynes; Lloyd George the Chancellor of the Exchequer, published an election pamphlet 'We Can Conquer Unemployment' which was based on the same Keynesian criteria as used by Roosevelt. Many would argue that it was not Keynesian policy that brought the USA out of the Great Depression, but the arrival of the Second World War. Keynes replied that although (as always) governments manage to find massive amounts of capital for war that was apparently unavailable during peace time, and that this certainly creates wealth by recreating full employment, that the New Deal was the right thing at the right time but was not nearly large enough and required more political courage than was apparently available. The problem is political – the wealth owners (who tend to hold sway in political circles) hate the idea of their wealth diminishing via inflation, even though the alternative of allowing a Schumpeterian collapse results in a much worse situation for everyone – rich and poor alike.

Keynes had been working for many years of a new demand-based approach to creating wealth and employment, and this resulted in his perhaps best-known and least-read book, *The General Theory of Employment, Interest and Money* in 1933 (17). Least read because it is technical, long and complicated, and is a theoretical work that even he does not always apply once faced with his later confrontations with the real world – particularly in the 1940's in preparation for the Bretton Woods meeting. Best known, because this was a fundamental break with what Marx termed 'classical economists' who followed Ricardo and Mills and their predecessors. Many economists and philosophers describe and explain the present and the past, but few suggest pragmatic solutions for the future; Keynes does. By concentrating on demand from consumers who are also workers (a thoroughly Marxist perspective), rather than on savings and investment by the capitalists, Keynes changed the economic paradigm.

### **The General Theory of Employment, Interest and Money**

Marx would not have approved of Keynes, since Keynes, although he considered that capitalism led to financial and economic crises, thought that there was no alternative than capitalism. He wanted to tame capitalism. For Marx, taming capitalism would not bring the proletariat to a state of revolution. Keynes opposed the traditional idea that investment creates supply and that supply creates its own demand. He considered that economic crises were due to insufficient demand as well as by an inefficient and greedy financial system, and that therefore the role of government was to regulate the economy in order to ensure sufficient demand and full employment. *“Only the government can solve capitalist crises through stimulus and regulation, ensuring adequate demand and full employment”* (19, p.69)

This entailed a rethink of the economic paradigm. There was no Smithian 'Invisible Hand' that allowed the economy to sort itself out all on its own; government needed to control the system. The other thing was the primordial position of employment. Instead of employment (wages) adapting to prices to find equilibrium, Keynes promoted full employment whereby the employed have salaries that create demand that stimulates business investment within a slightly inflationary economy. Who benefits from inflation? The debtors, not the creditors. If employment is primordial, then currency value and inflation are secondary. The rich creditors want to focus on currency stability whereby employment becomes the flexible criterion (as in the current Eurozone where the Maastricht criteria and Growth and Stability Pact don't include employment at all). If the private sector doesn't create full employment – then the government should step in through the public sector. For Keynes full employment is not only morally necessary, but economically and politically necessary too.

*“ The decadent international but individualistic capitalism, in the hands of which we found ourselves after the war, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous – and it doesn't deliver the goods. In short, we dislike it, and we are beginning to despise it” (22).*

In 1933 Keynes also wrote *The Means to Prosperity* (21) in which he described the multiplier effect. Keynes showed mathematically the effect of investment expenditure on the total economy. It isn't a question of how much money is spent, but how fast it races round the economic system. For example, the government invests in new public infrastructure. The initial expenditure will multiply income in the national economy because some of the income generated by buying capital goods will be spent on consumer goods, part of which will be spent too and so on. This will also generate higher tax revenues from direct and indirect tax sources allowing the government to continue investing or to balance its books. But don't fall into a familiar error - Keynes was not in favour of nations running up debts – but to use this mechanism when demand was insufficient to create full employment. As mentioned in the introduction, Keynes also believed in Free Trade – until it hit employment. When that happened in the UK, he was happy to change his stance and support tariff barriers to protect employment.

*“Ideas, knowledge, science, hospitality, travel- these are the things that should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national” (22)*

Keynes had the extraordinary opportunity to put into practice his ideas when the world was struggling out of a second world war, and desperately needed guidance. Keynes was the man with the ideas ready to help that new world take shape – but it didn't work out quite as he had hoped for.

### **Keynes vs Dexter White at Bretton Woods**

The British position at Bretton Woods had strength in the brilliant ideas and plans of Maynard Keynes, but the weakness of a failed empire. In 1914 Britain had a massive empire and was the biggest trading economy in the world. It was also the largest supplier of credit for investment. The First World War dented this supremacy and as the effects of the US Great Depression hit the UK, the British set up the Imperial Preference scheme which guaranteed that members of the empire buy and sell in pounds sterling, keeping them away from trade with the USA. After World War Two the situation was even worse; the USA held most of the world's gold resources, had debt control over most of the allies, and was the only country with an intact major productive infrastructure. The Americans used the Lend-Lease programme to break up the British Empire by insisting on the removal of the Imperial Preference Scheme, without which the British lost the last of their commercial power. They were in no position to impose terms at Bretton Woods. The British via Keynes and the Americans via Dexter White agreed on most points. The world had suffered greatly under currency instability after World War One as countries devalued to gain markets for their exports. A managed global economy was needed to stabilise exchange rates, stop devaluations and avoid speculation. The two men, however, proposed different mechanisms for this new global economic structure. Keynes promoted an International Clearing Bank using a virtual currency – the Bancor:

*Each item a country exported would add bancors to its ICB account, and each item it imported would subtract bancors. Limits would be imposed on the amount of bancor a country could accumulate by selling more abroad than it bought, and on the amount of bancor debt it could rack up by buying more than it sold. This was to stop countries building up excessive surpluses or deficits. ... Once initial limits had been breached, deficit countries*

*would be allowed to depreciate, and surplus countries to appreciate, their currencies. This would make deficit country goods cheaper, and surplus country goods more expensive, with the aim of a rebalancing of trade. (7, p.143)*

The Americans, however seized their chance to impose the dollar as the world's money. The American people, wary of funding European debt, supported the American position, as we can read in this report in The New York Times:

*The kid who owns the ball is usually captain and decides when and where the game will be played and who will be in the team. While international monetary stabilization is not baseball, it is a game. Gold is as necessary to that game as the ball is and bat are to baseball. Since the US now owns some twenty-two billions of the world's reported twenty eight billions of gold, we think Uncle sam is going to be the captain of the team or there will be no game... and the idea of "supplanting gold as the governing factor" and apportioning voting power on the basis of pre-war trade, which would give Britain about fifty per cent more voting power than the U.S., not only is not good baseball – it is not even cricket" New York Times, March 30, 1943. (7, p.167)*

The USA would enormously benefit from being able to print the world's reserve currency. There were other differences as well. The British government under Prime Minister Attlee was nationalising essential sectors of the economy (transport and energy) whereas the Americans wanted Britain to be part of a free-trade, capitalist Europe. In short, Keynes did his best to defend British interests, but had to swallow Dexter White's American system. The UK needed loans; the USA had the money, so the USA called the shots, and let's face it, the British would have done the same if they had been in the same situation. The rest of the world, perhaps with the exception of Russia, played marionettes to the system; there was virtually no possibility to vote – just to discuss and then agree to the plan that had taken so long to prepare.

Since the subprime crisis of 2007/8, many people have asked why the capitalist model apparently failed and what model could avoid such catastrophic events. Personally, I was waiting for a crash of this size to shake up the world with the hope that a new, inevitable, 21<sup>st</sup> century Bretton Woods would debate the fundamental economic and political paradigms in a world that had changed so much since 1944. I was, as were many others, deeply disappointed. We can, however, ask ourselves what John Maynard Keynes would have to say about it all.

### **Keynesian thoughts after the 2008 subprimes crisis**

The first thing he would point out, was that GDP growth in the world was much better under Keynesian policy (from the 1940's to the late 1970's) than under neo-liberal policy that started in the late 1970's under Reagan and Thatcher (see 13, p.117) if we ignore Friedman's previous neoliberal experiments under dictatorships in South America (23). During the Keynesian era, France and Germany saw their GDP grow by 4.0% and 4.9% respectively. The UK and US also had high growth rates. Under the neoliberal Washington Consensus era, growth had collapsed to 2.1% for the UK, 1.9% for the US, 1.6% for France and 1.8% for Germany. The lack of post-Keynesian growth is evident – even though different economist might disagree about cause and effect. Keynes would point to the fundamental market error of increasingly high wealth discrepancies under neoliberalism. Poor wealth distribution does two harmful things: it leaves too much wealth at the top that can't be spent and seeks investment opportunities. In Keynesian days this would have produced profitable capitalism as capital would find good returns in industry; this is no longer the case since we have deindustrialised, and spare money goes into financial speculation which adds exactly to the boom and bust problem of capitalism. The other problem with increasingly unequal

wealth distribution is that, as Marx clearly underlined, workers are consumers. High unemployment levels, and poorly paid workers removes the demand from the economy. Now some people suggest that budget deficits as countries bailed out their banks and then hid debt under quantitative easing is Keynesian due to the printing of money (or nowadays, the electronic creation of virtual, fiat money). But this is a mistake. For Keynes, spending money, not printing money, is the solution. Providing cash to banks does not create jobs, it keeps those who created a failing system healthy and wealthy. Keynes would be turning in his grave. Keynesian era employment was high in comparison to a post-Keynesian world. In the UK an average of 1.6% of workers were unemployed, in France only 1.2%. After the late 70's, UK unemployment rose from 1.6% to 7.4%; in Germany from 3.1% to 7.5%.

*A variety of social democratic, Christian democratic and dirigiste states emerged in Europe after the Second World War... What all these various state forms had in common was the acceptance that the state should focus on full employment, economic growth, and the welfare of its citizens, and that state power should be freely deployed, alongside of or, if necessary, intervening in or even substituting market processes to achieve these ends. Fiscal and monetary policies usually dubbed 'Keynesian' were widely deployed to dampen business cycles and ensure reasonably full employment. A 'class compromise' between capital and labour was generally advocated as the key guarantor of domestic peace and tranquility. (24, p.10)*

Within a globalised world, a country that maintains Keynesian policies of high employment cannot compete under Free Trade as its production costs are inevitably higher. Some sort of balancing or protectionism is necessary. But under neoliberalism, whether in the USA or in the EU, the old mantra of avoiding inflation, opening free trade, and ignoring unemployment has been the unhappy creed.

*As early as 1982, Keynesian economics had been purged from the corridors of the IMF and the World Bank. By the end of the decade most economics departments in the US research universities – and these helped train most of the world's economists – had fallen into line by broadly cleaving to the neoliberal agenda that emphasised the control of inflation and sound public finance (rather than full employment and social protection) as primary goals of economic policy. (24, p.93)*

Many economists, such as Joseph Stiglitz, Jeffrey Sachs and Paul Krugman have moved towards more socially responsible positions are aware of the weaknesses of the capitalist system under neo-liberalism, and have started to promote Keynesian policy. I'm sure that Keynes would approve of Skidelsky's summary, that:

*Since the 1980's, we have operated on a completely different principle, allowing inequalities of wealth and income to grow to levels normal in the 1920's, but which we thought had been banished. In the USA and Britain, the median level of incomes shrank as a percentage of GDP; and globally there was increased inequality between rich and poor countries. This development was largely a consequence of abandoning full employment policy, reducing marginal tax rates for the very rich, slimming down social provision, de-regulating the financial system, and freeing capital from national control. One consequence of the new paradigm was that access to credit replaced the welfare state as the basis of the social contract. (13, p.178)*

Perhaps we could look at Keynes's proposals for the IMF as useable for the Eurozone. The

idea of balancing balance of payments surpluses and deficits is really needed – but as well as proposing a malus/bonus system within the Bancor, he also proposed the possibility of controlled exchange rate changes (up or down); obviously this cannot be done within the eurozone, but an alternative would be to increase the EU budget from 1% GDP to perhaps 2% and to attach the use of the stabilising factor of structural funds to those countries with a balance-of-payments deficit. This could work as an equilibrating similar to Keynes's Bancor system. This is, unfortunately, unlikely to occur under the current German-controlled austerity programme. What and who is the economy for? Keynes answered that question in a perhaps naïve, fairy-tale essay that this great moralist, philosopher and economist wrote in 'Economic Possibilities for our Grandchildren', a highly optimistic outlook on the benvolent use of growing wealth, on the increase of leisure time and culture, and on a morality-based economy that served that people rather than just the rich and wealthy:

*There are changes in other spheres too which we must expect to come. When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease. All kinds of social customs and economic practices, affecting the distribution of wealth and of economic rewards and penalties, which we now maintain at all costs, however distasteful and unjust they may be in themselves, because they are tremendously useful in promoting the accumulation of capital, we shall then be free, at last, to discard. (25)*

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