ROGER E. BACKHOUSE AND BRADLEY W. BATEMAN

1 A cunning purchase: the life and work of Maynard Keynes

Yet I glory
More in the cunning purchase of my wealth
Than in the glad possession

Ben Jonson, *Volpone*

PORTRAIT OF THE ECONOMIST AS A YOUNG MAN

On 21 June 1921, Maynard Keynes delivered the presidential address to the annual reunion of the Apostles – a secret society of the Cambridge University students and alumni which included such luminaries as Alfred North Whitehead, Bertrand Russell, G. E. Moore and Henry Sidgwick.[1] What had united the Apostles of Keynes's own generation were their commitments, learned from G. E. Moore, to absolute truth and to the search for friendship and beauty. The ideal career for Keynes's cohort of Apostles would have been to become an artist, creating beauty and living in a community of other artists with whom one had close bonds of friendship. But what should one do if one simply did not have the talent to become an artist? In his address, Keynes seems to suggest that the best option for those who lack artistic talent may be to use their talents to pursue a career in finance or business. Quoting Ben Jonson, Keynes argued that the true reward of such activity lay not in wealth itself so much as in the 'the cunning purchase of . . . wealth'.

It is hard to know why he picked out finance and business rather than, say, engineering. However, in citing Jonson's *Volpone* to make his argument, Keynes demonstrates that he has not completely severed his Moorean roots. For the *state of mind* that one achieves in the pursuit of money is all important. Keynes spurns the money-making motive as it is commonly understood (the desire for money for its own sake) and embraces something more subtle and complex: the enjoyment obtained in using one's talents to pursue an end.

By 1921, when he delivered his address, Keynes had come through Eton (where he had won numerous prizes) and King's College Cambridge, graduating with first-class honours in mathematics (twelfth wrangler, the twelfth person on the first-class honours list, a place he had forecast precisely). He had then learned economics studying for the Civil Service examinations, in which he came in second place overall. Second place meant that he had missed out on the one position open that year at the Treasury and that he had to be content, instead, with a position in the India Office. There, he had written his first book on economics, *Indian Currency and Finance*, while continuing to work on his study of the philosophical foundations of the theory of probability, work which gained him a Fellowship at King's in 1909 (and was later published in an expanded form as the *Treatise on Probability*). Eventually he had been able to move to the Treasury (1915), which had sent him with the British negotiating team to the Versailles Peace Conference. His resignation in protest, the reasons for which had been written up in *The Economic Consequences of the Peace* (1919), turned him into an instant celebrity, and the book's royalties (it was a bestseller on both sides of the Atlantic) had given him financial security. However, despite having experienced what many would have considered a meteoric rise to prominence as an economist, he was still experiencing doubts about his vocation.

His outlook in 1921 can profitably be juxtaposed alongside the retrospective view expressed in the much better-known 'My early beliefs' (1938). By the time he wrote this essay, he had established his reputation as an economist with his great trilogy: *A Tract on Monetary Reform* (1923), *A Treatise on Money* (1930) and *The General Theory of Employment, Interest and Money* (1936). The first of these, originally published as articles in the *Manchester Guardian Commercial*, used the monetary theory of his teacher, Alfred Marshall, to launch a sharp attack on government policy of returning to the Gold Standard at the pre-war exchange rate. It marked a further stage in the marriage of economics with a polemical critique of economic policy that had started with *The Economic*

Consequences of the Peace and that continued, in *The Economic Consequences of Mr. Churchill* (1925), his support for the Liberal Party's public works policies in such pamphlets as 'Can Lloyd George do it?' (1929), 'Proposals for a revenue tariff' (1931) and 'The means to prosperity' (1933). By 1938, he had also been heavily involved in advising government, as a member of the Macmillan Committee and the newly formed Economic Advisory Council.[2] His *Treatise on Money* marked a change in audience: it was a two-volume work aimed at academic economists, and it involved theoretical innovations in the field of monetary economics that went beyond anything found in his earlier work. Though analyzing policy under the restored Gold Standard, he was turning his attention to the theoretical foundations in a way he had not done before. However, though this was to have been his *magnum opus*, he soon became disillusioned with it and embarked on the change of direction that led to the *General Theory*. In the present volume, Maria Cristina Marcuzzo's essay on Keynes's correspondence with other Cambridge economists shows how he used the intricate web of economists at Cambridge as a sounding-board for developing his last great work in economics.

By the time Keynes had finished the *General Theory* and turned his attention, in 'My early beliefs', back to his earlier work in philosophy, he no longer felt the need to apologize for his pursuit of money-making and a career in finance, as he had when he had given his address to the Apostles sixteen years earlier. He did, however, want to reflect upon how far he and the others had come from their earlier foundation in the work of G. E. Moore. He had by this time served for many years as the bursar of King's, he was the portfolio manager for two large insurance companies and he had served as the personal financial adviser to a number of people. He had given generously to the arts, including his work on establishing the Arts Council and the Cambridge Arts Theatre. As Donald Moggridge's essay here shows, his academic work and his business life came together in the way he managed his intellectual property, negotiating contracts with his publishers that gave him a degree of involvement (and consequent financial rewards) that were entirely atypical of most author–publisher relationships. Money-making might, indeed, involve a degree of cunning and brilliance that was worthy of an Apostle, but by now it was *also* clear that it was a necessary activity for supporting the good things in life, including the arts.

In his theoretical work and his policy-making experience, he had learned to make the lives of working people more stable and so to create a better material life for them. The long genesis of his trilogy, culminating in the *General Theory*, no longer required an apologia.

Keynes's role as an economic problem-solver and a patron of the arts would continue through his last decade, despite his poor health. Tragically, he never reached old age, dying at the age of 63 in 1946. However, by then he could already look back on a career that included more than most economists manage, quite apart from his other roles. By 1946, he could see Keynesianism emerging and his disciples using his theories to argue for policies that went beyond anything he had envisaged. By the time of his death, his *General Theory* had already achieved its dominant place in economics, and the process of constructing the new Keynesian orthodoxy that dominated economic thinking for the next thirty years was well under way. His ideas had successfully been used to solve the problem of finding non-inflationary ways to finance the Second World War. The construction of national income statistics (along lines inspired by his theory) had become firmly established as a responsibility of government and was about to be taken up by the newly formed United Nations. And he had served as diplomat, economist and negotiator as head of the British teams that had negotiated with the United States over wartime finance and the postwar economic order.

KEYNES THE PHILOSOPHER

In the last two decades, a rich literature has developed in the study of Keynes's philosophical work.[3] The primary focus of this material has been on explicating his theory of probability. But not surprisingly, given the weight of Keynes's name, there has been controversy over the nature of his early work in philosophy. The official biography by Roy Harrod (1951), although an indispensable account of Keynes's life, minimized the connection between Keynes's philosophy and his economics. Discussion of Keynes's early beliefs might have led to open discussions of his homosexuality and so, for Harrod's iconographic purposes, the early interest in philosophy had to be dismissed as a youthful enthusiasm that the mature Keynes, the economist, had left behind. Much of the 'Keynes and philosophy' literature starts with the early life. It explores the beliefs of Keynes and his friends as they were formed under Moore's tutelage; it explores his relationships with Bertrand Russell, Ludwig Wittgenstein and Frank Ramsey.[4] This is a literature in which ethics is central, though tied up with epistemology and induction. A major strand in it is Keynes's work on uncertainty which came out of the same context, his ideas on uncertainty arising as part of his critique of Moore's ethics. This is potentially of great importance because of his claims about the role played by uncertainty in his mature economics; when defending his *General Theory* in 1937, he brushed aside the technical points made by his critics to argue that his main point was that we know very little about the future, in a way that appears to connect very easily with his *Treatise on Probability*.

One way into these controversies is to consider Ramsey's devastating critique of Keynes's *Probability*, which levelled Keynes's attempt to build a theory of probability on Platonic foundations. Until the past twenty years, philosophers always took at face value Keynes's capitulation to Ramsey in his review of Ramsey's critique (1931), published after Ramsey's death. However, during the 1980s, two Cambridge doctoral dissertations argued that Keynes had not, in fact, capitulated to Ramsey. One of these, by Anna Carabelli, argued that Keynes had always held the subjectivist position traditionally attributed to him *after* his capitulation. The other, by Roderick O'Donnell, argued that Keynes continued to hold what has traditionally been taken to be his *earlier* objectivist position and so that he never capitulated. In the present volume, Tiziano Raffaelli and Donald Gillies take the more traditional position, carefully explaining how Keynes formed his early objectivist position and how Ramsey's critique changed this in fundamental ways.[5] Raffaelli also shows how Keynes's argument for a new understanding of probability drew on several strands of Cambridge philosophy. In trying to act well, just as much as in trying to make money, one is always forced to make decisions that will play out in a world that one cannot foresee perfectly. Gillies shows convincingly that while this concern with an uncertain future never disappeared, Keynes's understanding of probability itself changed considerably over time. Whereas he had started in his early work with a Platonic idea of probability in which one can act on the basis of the future through knowledge of these objectively defined probabilities, his thinking evolved, in response to Ramsey's criticism, to encompass an idea of probability based on the idea that people tend to follow the herd and to make their estimates of the future in the hope that what the crowd is thinking can protect them.

Another way to frame Keynes's interest in philosophy is to look at his interest in ethical theory and the influences on this concern of his. Thomas Baldwin's essay takes a dispassionate look at one of the ideas in G. E. Moore that most fascinated Keynes and his contemporaries in the Apostles, the concept of the naturalistic fallacy. Moore argues in *Principia Ethica* (1903) that virtually all previous ethical theories have been erroneously based upon the fallacy that there is some thing in the world (e.g. utility) that always entails the good. In place of this view, Moore argues that good is an indefinable entity that cannot always be attached to some thing in the world. Utility may be good, or it may be bad. Only good is always good. This reductionism had the perverse effect of both freeing the Apostles to examine everything in the world afresh, to determine if it was, indeed, good, and also of releasing them from the traditional demands of ethical inquiry. 'By contrast if one adopts the traditional view that ethical values connect with possibilities for human fulfillment, the question of the value of love and beauty should be, in principle, susceptible of explication and sensible discussion' (see p. 239).

But there is much more to Keynes's early work in philosophy and the influences that shaped him during his undergraduate years. Keynes also wrote on Edmund Burke during his philosophical apprenticeship, and this influence shaped his later work in economics. Thomas Baldwin writes in his essay on Keynes's ethical concerns of how they were also shaped by Franz Brentano, while Tiziano Raffaelli in his essay discusses Burke's conservative influence.

Craufurd Goodwin's essay breaks new ground in showing how Keynes's economic thinking was influenced by the ideas of his fellow Bloomsburys, especially Roger Fry and Leonard Woolf. Goodwin shows that after leaving Cambridge, Keynes continued to develop his ethical thinking and arrived at a position that posits levels of ethical concern. First, one must meet the material concerns that sustain life (the actual life); but then, once these concerns are met, one is obliged to consider a larger set of human needs and activities (the imaginative life). These richer schemata must certainly have influenced Keynes's evolution from seeing money-making and financial knowledge as a good exercise of the mind to his more mature position in which he could appreciate it as a means to help workers achieve more stable lives and to support the arts. It also echoes the observation made in Baldwin's essay that Keynes was influenced by Moore to look beyond the simple calculus of utilitarianism.

THE PHILOSOPHER AS ECONOMIST

The question of how Keynes's work in philosophy influenced his work in economics has been complicated in recent years by the discovery that during the central years of his career as an economist, he explicitly eschewed the kind of rhetoric about uncertainty and expectations that so clearly influenced his *General Theory*. Early in his career, Keynes was a close adherent of the Cambridge theory of the trade cycle, which depended crucially on the roles of uncertainty and expectations. But as he progressed through the *Tract* and the *Treatise*, he turned against this earlier inheritance and became a sharp critic of the argument that either uncertainty or expectations have any important role in macroeconomic phenomena. By the time that he became a member of the Macmillan Committee in 1930, his commitment to a mechanistic model of the business cycle (driven by changes in the interest rate) was so strong that he engaged his fellow Cambridge economist A. C. Pigou in an acerbic exchange before the Committee, and tried to force him to admit that uncertainty and expectations were no part of a proper understanding of the current environment.[6] Pigou, however, refused to give up on the older Cambridge arguments that expectations were a central cause of the business cycle. Keynes was running an argument that the level of interest rates was the only factor necessary to understanding the business cycle, but Pigou would have none of it, believing that profit expectations of entrepreneurs were as important as interest rates.

Keynes held on to his mechanistic explanations of the business cycle until late 1933, a year into the composition of the *General Theory*. During this time, they led him into another disagreement, this time with Hubert Henderson. In 1929, the two had collaborated on 'Can Lloyd George do it?', but by 1932 they were diametrically opposed about the efficacy of loan-financed public works projects. Henderson had come round to the position that running large budget deficits would frighten investors, dampening their expectations of future profits and causing investment to fall off. This was anathema to Keynes, who stated in his letters to Henderson that arguments about the importance of expectations to the business cycle were ridiculous. Perhaps in response to his exchanges with Henderson, however, Keynes suddenly started to reclaim his youthful heritage in Cambridge business cycle theory, introducing expectations into several of his functions in the lectures he gave at Cambridge in the autumn of 1933. He had not then accepted Henderson's point about frightening investors with his policy initiatives, but he did come round to acknowledging the possibility in his final arguments in 1936, and he reiterated them in the year immediately following the publication of the *General Theory*.[7]

THE POLITICAL PHILOSOPHY OF KEYNESIANISM

Keynes wrote at a time when the British political system was undergoing profound changes. In Keynes's childhood, government alternated between the Liberal and Conservative Parties, this period culminating in the great Liberal administration of 1906. This administration marked a significant change, with the Liberal Party adopting more radical stances towards social reform, breaking away from Gladstonian Liberalism to introduce progressive income taxation, old age pensions, unemployment insurance and a raft of other measures. The intellectual counterpart to this was the so-called New Liberalism, represented by such thinkers as L. T. Hobhouse and J. A. Hobson, offering an alternative to the socialism of the emerging Labour Party. The interwar period was one of Conservative dominance, the left being divided between the Liberals, who were fatally split between Old and New Liberals, and the rising Labour Party.

Keynes was a Liberal, siding with the radical ex-Prime Minister David Lloyd George when the Asquith and Lloyd George wings of the party split. He is famous for saying that 'when the revolution comes, you will find me on the side of the educated bourgeoisie'. He described his own politics as firmly to the left: 'I fancy that I have played in my mind with the possibility of greater social changes than come within the present philosophies of, let us say, Mr Sidney Webb, Mr Thomas, or Mr Wheatley.[8] The republic of my imagination lies on the extreme left of celestial space' (JMK IX: 309). However, his home lay in Liberalism. Referring to Socialists ('who believe the economic foundations of modern society are evil, yet might be good', *ibid.*),[9] he contended that 'their historic creed of State Socialism, and its newer gloss of Guild Socialism' no longer interested them any more than it interested Liberals. Both parties of the left should continue, and should work together. His philosophical defence of this conclusion is worth quoting in full.

> The political problem of mankind is to combine three things: economic efficiency, social justice, and individual liberty. The first needs criticism, precaution, and technical knowledge; the second, an unselfish and enthusiastic spirit, which loves the ordinary man; the third, tolerance, breadth, appreciation of the excellencies of variety and independence, which prefers, above everything, to give unhindered opportunity to the exceptional and the aspiring. The second ingredient is the best possession of the great party of the proletariat. But the first and third require the qualities of a party which, by its traditions and ancient sympathies, has been the home of economic individualism and social liberty.
>
> (JMK IX: 311)

But if we can trace Keynes's concerns with socialism, the exact nature of his commitment to capitalism has never been well understood. Craufurd Goodwin's essay, however, would seem to suggest a broad Bloomsbury framework for understanding his commitment to capitalism that would also connect his commitment with his earliest concerns in G. E. Moore's work. Eventually, Keynes seemed to have come to a mature understanding of capitalism that saw it as the system most likely to sustain the 'actual life' of basic economic existence as well as the one most apt to create an adequate surplus for sustaining the 'imaginative life'. As Goodwin shows, these schemata reflect the art critic Roger Fry's vision of modern life, and also allowed Keynes to argue for capitalism as the best means to Moore's ends of art and friendship.

Likewise, the problems of capitalism that became leitmotifs in Keynes's writings drew, at least in part, from his experience as a

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main figure in Bloomsbury. As the chapters on both his aesthetics (Goodwin) and his economics (Leijonhufvud and Hoover) show, one of his central concerns regarding capitalism was that information was not well co-ordinated, and that this led to inevitable disruptions in output and employment. As his outlook matured during the creation of the *General Theory*, Keynes came to see the behaviours fostered by this lack of co-ordination as the source of additional economic problems. Faced with the uncertain future caused by repeated co-ordination failures, investors and financiers were reduced to behaving in ways that seemed to resemble those of gamblers at a casino. Keynes came to believe that the outcomes of investments rested largely on luck: on whether other investors making the same gamble stuck with it. If one's fellow investors lost confidence, this could easily cause a collapse in the value of one's own investments.

Keynes did not believe that this potential for the system to collapse necessarily meant that the system was liable to continual, unpredictable swings. While swings in behaviour *could* lead to swings in output and employment in his basic model, the problem on which he focused most intensely was the possibility that the whole system might swing into a state of low output and low employment from which it would become difficult to lift people's expectations. Should this happen, the whole system could get stuck near this low point and stay there indefinitely. Keynes saw this as the best explanation of the back-breaking stagnation that characterized the late 1920s and the 1930s in Britain. The biggest problem was not swinging up and down but becoming stuck at a low point.

Keynes's concern with the possibility of being stuck for long periods in a low-employment equilibrium position led to one of his best-known depictions of capitalists, as being driven by 'animal spirits'. He saw the collapsed expectations and the consequent economic depression as unnecessary aspects of modern capitalism, an unreasonable response to the abundance and possibilities available to entrepreneurs. He likewise saw the optimism and sanguine expectations necessary to an upswing as essentially a matter of outlook and 'animal spirits': what was really necessary for prosperity was not public works projects and government budget deficits, but hope and optimism on the part of capitalists. Thus, in a news broadcast on the occasion of Britain's departure from the Gold Standard in 1931, he focused on the psychological importance of the change: