THE KEYS TO KEYNES

John Hewson hasn’t married a Russian ballerina (yet) or mixed in avant-garde literary circles. Nor is he likely to be dubbed The Economist as Saviour. Peter Groenewegen (below) and Alex Millmow (over) digest two new biographies.


Economists are not exactly the flavour of the month. It might therefore seem strange to review a life of this dreaded species, particularly since a biography of the Australian economist who wants to be prime minister has gained such notoriety in recent weeks. And when the biography under review is subtitled The Economist as Saviour it can be assumed that even more eyebrows will be raised. The shock starts to fade when it is realised that this is the second installment of Robert Skidelsky’s biography of John Maynard Keynes, the first volume of which appeared nearly 10 years ago to catch the centenary of Keynes’ birth in 1883. Perhaps there may even be a sigh of relief because everyone who has heard about economics will have heard of Keynes, although few would be able to tell much of the life and thought of this most influential economist of the 20th century.

The Economist as Saviour covers the heyday of Keynes the writer on economics, from 1920 to 1937. It culminates in his General Theory of Employment, Interest and Money which appeared in 1936, and also covers his immediate defence of the radical departure in economic theory he presented in that great book. This gives Skidelsky’s second volume an immediate appeal to economists, who can compare its account with the stories recently told by Donald Moggridge in his Keynes biography ‘for economists’ and by Peter Clarke in his 1988 book on The Keynesian Revolution in the Making, directed at historians. However, the book will have much wider appeal. The blurb on the dust-jacket notes that the first volume has become a bestseller. This highlights more than its superb timing. It emphasises the quality of Skidelsky’s writing and the importance of his subject. The life of Keynes is that of thinker and doer who influenced the shape of much of the western world for decades after his death and whose influences on both economic theory and policy continue to this day. As evidence one could cite the shape which he gave to some of the world’s international institutions as part of postwar reconstruction—institutions which, like the International Monetary Fund, are still actively reconstructing various parts of the world. The impetus he gave to the adoption of national accounting as an official tool in economic policy formation is another continuing contribution. Both these major reforms, for which the world was his stage, fall, however, more within the ambit of the third and final volume of this trilogy. The first volume recounted how the economist was made by Cambridge, Eton, the civil service and Bloomsbury, ‘coming out’ posthumously in that volume as the protagonist of a gay science and ethics to bring joy to the lives of middle and working class alike. It is still worth savouring and enjoying for the insights it gives to the making of the young economist who, by its end, had himself become a bestseller through his Cassandra-like warnings about Versailles in his Economic Consequences of the Peace.

For the second volume, the Economist as Saviour is the economist tackling the problem of unemployment.
In Great Britain between the two world wars this was a problem of immense proportions, one which it subsequendy shared with most of the developed world during the greater part of the 1930s. Unlike many contemporary economists who want to reshape the world in the image of their textbooks, Keynes tackled unemployment as a problem which showed up the inadequacy of economic theory. This shows that, also unlike most modern economists, Keynes had a respect for facts and realised the difficulty of interpreting them. He was also fully aware of how easy it was to manipulate facts for the sake of defending the sacred texts of established theory. The Bloomsbury imp in Keynes, with its cynical disregard for authority, plus the healthily critical attitudes he had imbibed at Cambridge, meant that for him there could be nothing sacrosanct about received doctrines from the 'masters', no matter how wise and well-established. If the theory did not fit the facts, the theory had to be abandoned.

Much of this book tells the story of how Keynes achieved this in snake-like fashion by shedding the redundant and dying skin of defunct theory. A large part of this process comprised Keynes' growing disbelief in the efficacy of the market in various circumstances. He rejected free trade as the panacea for job creation in all circumstances, embracing protective policy when this could be defended as a short-run expedient in a situation of sharp unemployment and structural change. He rejected the dominant view of interest rates as the price which clears capital markets and, more specifically, the widely-held view that savings adjusted to changes in such rates rather than to changes in income. This difference in emphasis on causality in Keynes' explanation of saving remains crucial to contemporary policy discussion. The pre-Keynesian orthodoxy still haunts some ill-fated predictions in the Campbell Report on saving and rates of return.

Last but not least, for his general theory, Keynes rejected wage cuts as an efficient and effective mechanism to restore full employment, because much of the unemployment he analysed was largely explicable by deficient demand. The theoretical issues raised in these few sentences are very complex, and are perhaps better handled in more technical accounts of Keynes' economics than in the biography by Skidelsky, particularly since Skidelsky candidly admits that some of the subtleties of those economic debates are beyond him. Some of these subtleties are likewise redundant for the 1990s, since at least some of the facts have changed since Keynes produced his general theory. In short, there are better sources to learn about Keynes' economic revolution than reading this biography.

What does make this book particularly important is the detail it gives about the making of a good economist. Keynes himself had very decided views on this, which he learned from studying the lives and deeds of famous economists of whom he left biographical portraits. On the basis of these and Keynes' own fascinating life, Skidelsky constructs the portrait of an unusual economist with qualities which would satisfy even Donald Home. In a classic passage drawn from his biography of his 'master', the eccentric and authoritative Alfred Marshall, Keynes indicated that the economist "must possess a rare combination of gifts...he must be mathematician, historian, statesman, philosopher...in some degree...he must observe business life with the eyes of a highly intelligent angel". All these skills become dangerous if unwisely applied. Hence intuition, imagination, and creativity as well as perception are an essential part of the economist's armour. This makes good economists rare and savouries in economics rarer still. This in itself is a valuable lesson about economists since it highlights what Joan Robinson once described as one of the more important objectives in studying economics as it is generally practised. Such learning is indispensable "if you do not want to be fooled by economists".

By emphasising Keynes' understanding of what was required in order to make reasonable choices on the requisite models and appropriate levels of abstraction, and above all about the application of these theoretical models as firmly as possible within actuality, the book tells much about the making of the economist. But it also does more. Keynes' unusual courtship and marriage; his speculation and business activity as investment adviser to insurance companies and college; his lives as entrepreneur and patron of the arts; his life of recluse as a scholar and teacher at King's College hurrying to committee meetings combined with the journalist, the man of the City and the adviser to governments; his pursuits as art-collector and seeker after the rural peace of his secluded farm house; Keynes as breeder of pigs and producer of ballets; as critic of Stalin and Hitler; of Tories and Labour; his occasional flirtations with British fascism and skirmishes with Fabianism; his linking of economic cranks to economic wisdom and to the ravings of frenzied dictators: all make for great reading.

Much of this story is superbly told. It is also very instructive. If Australia's current severe unemployment is to be tackled with imagination and flair, we need economists with the requisite qualities. We do not need dreamers hankering after the world of some outmoded textbook, ready to sacrifice the national and social interest to appease far-flung and powerful financial markets who are largely engaged in that unproductive speculation which Keynes so deplored in his General Theory. Whether the economists needed will rise to meet the occasion is another question. After all, one aspect of the law of scarcity of which so many economists are so fond is that good economists themselves are rather scarce. If this book gives an insight into what to look for, and more importantly how to reproduce these requisite qualities, it will have made a more lasting contribution than simply telling a good yarn about the key episode in the life of a fascinating economist.

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