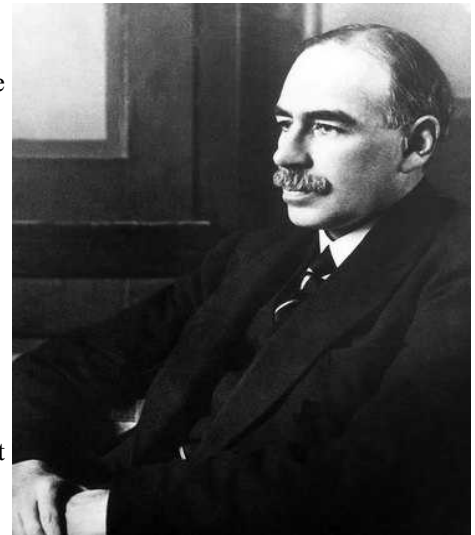


John Maynard Keynes

British economist, journalist, and financier **John Maynard Keynes** (June 5, 1883 – April 21, 1946) has been called the outstanding intellectual of his age. He was versatile, creative, enlightened, and bold in his outlook. He combined the capacity for original thought and the knack for putting his ideas into action. His theories influenced governments on both sides of the Atlantic Ocean. Many of his ideas were radical and most of them were controversial. Keynes laid the foundations for modern macroeconomics with his work *The General Theory of Employment, Interest and Money* (1936). He asserted that full employment is not a natural condition but is determined by effective demand. Earlier economics earned the title “the gloomy science” due to the pessimism of economists, who often took the position that nothing could be done and nothing should be done to solve economic problems. Keynes was ever an optimist, firmly believing that the problems of unemployment and the occurrences of recessions and depressions could be licked. He advocated public deficits, either for works to stimulate the economy or subsidies to the poor and unemployed.



Keynes was born in Cambridge, England, the son of Dr. Neville Keynes, a Cambridge economist and logician. His mother Florence Ada Brown was a successful author and a pioneer in social reform, once having served as the first female mayor of Cambridge. From his preparatory school, Keynes went to Eton, where he won the Senior Mathematics Prize in 1899, and again in 1900. He won a scholarship to King’s College, Cambridge, to study Classics and Mathematics. There he blossomed as a shrewd participant in controversial arguments and discussions and became president of the University Union Society, an undergraduate counterpart of the House of Commons. Keynes was invited to join the exclusive secret society, “The Apostles,” consisting of dons and undergraduates who met to discuss ethical and political issues. His first paper was on the theory of probability, but as he came under the influence of Alfred Marshall, the leading Cambridge economist, his interests moved away from mathematics and towards politics and economics. No mathematical genius, Keynes was twelfth Wrangler in the Mathematical Tripos in 1905 and ranked twelfth among those receiving a First Class degree.

Keynes began a serious study of economics, attending the lectures of Marshall and Arthur Pigou. In August 1906 he took the Civil Service examinations and placed second of the ten accepted that year. Keynes was miffed with the results of the

examination. He ranked first in logic, psychology, and the essay, but unaccountably did poorest in mathematics and economics. Keynes later explained, "I evidently knew more about Economics than my examiners." After the competition he was appointed to a position with the India Office. Keynes preferred to enter the Treasury Department, but the person who finished ahead of him in the examination chose that post. Unhappy in his work, Keynes left the Civil Service in 1909 to return to Cambridge as a Fellow and in 1911 he was made editor of the *Economic Journal*, Britain's foremost economics publication. About this time Keynes fell in with the "Bloomsbury group", a collection of upper-class Edwardian aesthetes including Virginia Woolf, Arnold Bennett, H.G. Wells, John Galsworthy, Clive Bell and Lytton Strachey. This circle of friends subscribed to a "modernist" view, namely that it was within the power of human beings to change things.

At the outbreak of WWI, Keynes was called to the Treasury Department to work on overseas finances. He hatched a clever way to balance French accounts by having the British National Gallery buy paintings by Monet, Corot and Delacroix at bargain prices. His work was so extraordinary that he was appointed to a position with the British delegation to the Versailles Peace Conference. Appalled at the vindictive nature of the peace settlement, he foresaw potential devastating consequences of the heavy "reparations" payments imposed on Germany. Citing his expectation of an impending "devastation of Europe," he resigned from the commission to publish a short book *Economic Consequences of the Peace* (1919), in which he denounced the absurdities of the peace treaty. He called Woodrow Wilson a "blind, deaf Don Quixote" and Georges Clemenceau a xenophobe with "one illusion – France, and one disillusion – mankind." He saved his best shot for Britain's Prime Minister David Lloyd George, whom he described as "this goat-footed bard, this half-human visitor to our age from the hag-ridden magic and enchanted woods of Celtic antiquity." Keynes predicted that the amount and the manner by which Germany was to pay war reparations to the victors would lead to future problems. He argued that the provisions of the peace treaty would initially impede Germany's post-war economy, lead to its repudiation of the treaty and finally result in a rearming of all Europe in preparation for another war.

The controversy over the book made Keynes an instant celebrity. The criticism of his views quickly subsided because soon after his predictions proved true. Returning to Cambridge, Keynes published his *Treatise on Probability* (1921), in which he dismantled the classical theory of probability and launched what has since become known as the "logical-relationist" theory of probability. Keynes claimed the "probable" is that which it is rational to believe. He did not subscribe to the frequency theory of probability that most students encounter in probability courses and championed the almost forgotten inductive concept proposed earlier by Jakob Bernoulli and Pierre-Simon Laplace. He argued that only in a limited class of cases are

degrees of probability numerically measurable. According to Keynes even if some meaning can be given to a set of non-numerical “mathematical expectations,” not every pair of these are numerically comparable in terms of more or less. Thus it is not always possible through a process of arithmetic to determine which of several alternatives is the most advantageous, and in addition the option with the highest probability is not always the best course of action. Keynes asserted that when the probabilistic relation does not lend itself to analysis, belief in generalizations could be strengthened by pure induction. He maintained that there was much to recommend believing that the preferable course of action was the one with the least risk.

During the crises of the 1920s, Keynes identified conservative economic policies as the cause of Britain’s economic problems. The employment crises after the world-wide Depression of 1929 inspired Keynes’ two great works, *A Treatise on Money* (1930) and the revolutionary *General Theory of Employment, Interest and Money* (1936). He argued that there should be both national and international programs leading to a unified monetary policy. Further, Keynes insisted that a national budget should serve not only the purpose of good financial planning for government revenues and expenditures, but that it ought to be used as a major instrument in planning the national economy. He believed that policies were needed to regulate the booms and slumps of the trade cycle and felt that the government had the responsibility of regulating the levels of employment and investment. Keynes’ principles were a full out attack on the *laissez faire* doctrine of economics, a basic tenet of classical economics, which holds that the owners of industry and business should be allowed to fix the rules of competition and the conditions of labor as they pleased, without government control or regulation. The term comes from a meeting of Jean Baptiste Colbert, the chief minister of “the Sun King” Louis XIV with a group of French businessmen. When he asked what he could do for them, one replied, *laissez nous faire* – “leave us alone.” Keynes’ views on a planned economy greatly influenced Franklin D. Roosevelt’s “New Deal” administration. During World War II and later, one western democracy after another subscribed to Keynes’ principal of full employment.

Although he previously had shown more interest in members of his own sex, in 1925, Keynes married talented and charming Russian ballerina Lydia Lopokova. This proved to be a very happy marriage, which his old mentor Marshall described as “the best thing Maynard ever did.” Keynes collected paintings and old books, including those of Newton, speculated in the stock market and as Bursar of King’s College made both him and the college rich. Economist Sir Alec Cairncross recalled Keynes’ lectures in the early 1930s:

“He had a resonant and melodious voice, lecturing conversationally in a matter-of-fact way without gestures. The argument was developed lucidly and systematically, assisted by an

occasional witticism, doses of what he called “symbolic arithmetic” and once in a while by reflections on one of his predecessors or by a flight into philosophic speculation.”

In 1942 Keynes was elevated to the peerage and took his seat in the House of Lords. In WWII he once again was tapped by the Treasury Department and proved instrumental in providing the framework for post-war economic recovery. While Keynes had been in no position to change the disastrous policies of the victors in WWI, the lesson was not lost on those who dictated the peace after WWII. This time the victors realized that the surest path to a permanent peace was to rebuild the economies of the vanquished so their new democratic nations would become trading partners. Having suffered from heart problems for many years and overstrained by wartime exertion, Keynes died of cardiac infarction on April 21, 1946.

Quotation of the Day: “There is no harm in being sometimes wrong – especially if one is promptly found out.” – John Maynard Keynes