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*The New Economics*

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# The New Economics

*Keynes' Influence on Theory  
and Public Policy*

EDITED WITH INTRODUCTIONS BY

SEYMOUR E. HARRIS

PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY



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*This volume is dedicated by its editor to those economists who, following the leadership of Lord Keynes, are endeavoring to make of economics a useful tool for the diagnosis and treatment of economic disease.*

## Preface

THE READER will learn what this book is about by reading the brief opening chapter. In sum, the book includes thirty-one chapters of new material (inclusive of ten chapters by the editor which summarize, integrate, and fill in some gaps, and a bibliography), and sixteen chapters of old material, inclusive of three speeches in the House of Lords by Keynes, the plan for a Clearing Union, and his 1937 *Quarterly Journal* article.

I acknowledge the aid I have had from my Secretary, Miss Lillian Buller, from Mrs. Anna Thorpe, for typing large parts of the manuscript, and especially from my research assistant, Mrs. Margarita Willfort, for editorial help, for checking references, and for numerous other aids. In providing some financial help, the Graduate School of Public Administration has also contributed in an important way to the consummation of this task.

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The Econometrica Society: "Mr. Keynes and Traditional Theory," by R. F. Harrod, in *Econometrica*, January 1937

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## Abbreviations

AER	<i>American Economic Review</i>
EC	<i>Econometrica</i>
EJ	<i>Economic Journal</i>
ECN	<i>Economica</i>
FRB	<i>Federal Reserve Bulletin</i>
ILR	<i>International Labour Review</i>
JPE	<i>Journal of Political Economy</i>
JRSS	<i>Journal of the Royal Statistical Society</i>
LA	<i>Living Age</i>
LBMR	<i>Lloyd's Bank Monthly Review</i>
MGCRE	<i>Manchester Guardian Commercial, Reconstruction in Europe</i>
N&A	<i>The Nation and Athenaeum</i>
NBER	National Bureau of Economic Research
NICB	National Industrial Conference Board
NR	<i>The New Republic</i>
NST&N	<i>The New Statesman and Nation</i>
NYT	<i>The New York Times</i>
PQ	<i>Political Quarterly</i>
QJE	<i>Quarterly Journal of Economics</i>
RES	<i>Review of Economic Statistics</i>
TL	<i>The Times (London)</i>
TNEC	Temporary National Economic Committee
YR	<i>Yale Review</i>

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## Lord Keynes

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### A GREAT ECONOMIST

LORD KEYNES, the great economist, died at Tilton, Firle, Sussex, yesterday from a heart attack.

By his death the country has lost a very great Englishman. He was a man of genius, who as a political economist had a world-wide influence on the thinking both of specialists and of the general public, but who was also master of a variety of other subjects which he pursued through life. He was a man of action as well as of thought, who intervened on occasion with critical effect in the great affairs of state, and carried on efficiently a number of practical business activities which would have filled the life of an ordinary man. And he was not merely a prodigy of intellect; he had civic virtues—courage, steadfastness, and a humane outlook; he had private virtues—he was a good son, a devoted member of his college, a loyal and affectionate friend, and a lavish and unwearying helper of young men of promise.

The Right Hon. John Maynard Keynes, C.B., Baron Keynes, of Tilton, Sussex, in the Peerage of the United Kingdom, was born on June 5, 1883. His father, John Neville Keynes, was a distinguished writer on political economy and logic and was for many years Registrar of Cambridge University. His mother was Mayor of Cambridge as lately as 1932. They both survive him. He was brought up in the most intellectual society of Cambridge. He was in college at Eton, which he dearly loved, and he was proud at being nominated by the masters to be their representative governor later in life. He won a scholarship to King's College in mathematics and classics, writing his essay on Héloïse and Abélard. He was President of the Cambridge Union, won the Members' English Essay Prize for an essay on the political opinions of Burke, and was twelfth wrangler in the mathematical tripos. Although



he did not take another trip, he studied deeply in philosophy and economics and was influenced by such men as Sidgwick, Whitehead, W. E. Johnson, G. E. Moore, and, of course, Alfred Marshall.

In 1906 he passed second into the Civil Service, getting his worst mark in economics—"the examiners presumably knew less than I did"—and chose the India Office, partly out of regard for John Morley and partly because, in those days of a smooth working gold standard, the Indian currency was the liveliest monetary issue and had been the subject of Royal Commissions and classic controversies. During his two years there he was working on his fellowship dissertation on Probability, which gained him a prize fellowship at King's. This did not oblige him to resign from the Civil Service, but Marshall was anxious to get him to Cambridge, and, as token, paid him £100 a year out of his private pocket to supplement the exiguous fellowship dividend—those were before the days of his bursarship of the college. Anyhow, his real heart lay in Cambridge. He lectured on money. He was a member of the Royal Commission on Indian Currency and Finance (1913-14). He served in the Treasury 1915-19, went with the first Lord Reading's mission to the United States, and was principal representative of the Treasury at the Paris Peace Conference and deputy for the Chancellor of the Exchequer on the Supreme Economic Council. After his resignation he returned to teaching and to his bursar's duties at King's, but he always spent part of his time in London. He was a member of the Macmillan Committee on Finance and Industry, and parts of its classic report bear the stamp of his mind.

In 1940 he was made a member of the Chancellor of the Exchequer's Consultative Council and played an important part in Treasury business. He was made a director of the Bank of England. In 1942 he was created Lord Keynes, of Tilton, and made some valuable contributions to debate in the Upper House. He was made High Steward of Cambridge (Borough) in 1943. His continued interest in the arts was marked by his trusteeship of the National Gallery and chairmanship of the Council for the Encouragement of Music and the Arts. In 1925 he married Lydia Lopokova, renowned star of the Russian Imperial Ballet—"the best thing Maynard ever did," according to the aged Mrs. Alfred Marshall. She made a delightful home for him, and in the years

after his serious heart attack in 1937 was a tireless nurse and vigilant guardian against the pressures of the outside world.

Lord Keynes's genius was expressed in his important contributions to the fundamentals of economic science; in his power of winning public interest in the practical application of economics on critical occasions; in his English prose style—his description of the protagonists at the Versailles Conference, first fully published in his *Essays in Biography* (1933), is likely long to remain a classic—and, perhaps one should add, in the brilliant wit, the wisdom, and the range of his private conversation, which would have made him a valued member of any intellectual salon or coterie in the great ages of polished discussion.

In practical affairs his activities in addition to his important public services were legion. As bursar of King's he administered the college finances with unflagging attention to detail. By segregating a fund which could be invested outside trustee securities he greatly enlarged the resources of the college, and, unlike most college bursars, he was continually urging the college to spend more money on current needs. From 1912 he was editor of the *Economic Journal*, which grew and flourished under his guidance, and from 1921 to 1938 he was chairman of the National Mutual Life Assurance Society. He ran an investment company. He organized the Camargo Ballet. He built and opened the Arts Theatre at Cambridge, and, having himself supervised and financed it during its period of teething troubles, he handed it over, when it was established as a paying concern, as a gift to *ex-officio* trustees drawn from the university and city. He became chairman of C.E.M.A. in 1942 and of the Arts Council in 1945. He was chairman of the *Nation*, and later, when the merger took place, of the *New Statesman*; but he had too scrupulous a regard for editorial freedom for that paper to be in any sense a reflection of his own opinions. He also did duty as a teacher of undergraduates at King's College and played an important and inspiring part in the development of the Economics faculty at Cambridge. The better students saw him at his most brilliant in his Political Economy Club. He was interested in university business and his evidence before the Royal Commission (1919–22) was an important influence in causing it to recommend that the financial powers of the university should give it greater influence over the colleges.

To find an economist of comparable influence one would have

to go back to Adam Smith. His early interest was primarily in money and foreign exchange, and there is an austere school of thought which regards his *Indian Currency and Finance* (1912) as his best book. After the 1914-18 war his interest in the relation between monetary deflation and trade depression led him on to reconsider the traditional theory about the broad economic forces which govern the total level of employment and activity in a society. He concluded that, to make a free system work at optimum capacity—and so provide “full employment”—it would be necessary to have deliberate central control of the rate of interest and also, in certain cases, to stimulate capital development. These conclusions rest on a very subtle and intricate analysis of the working of the whole system, which is still being debated wherever economics is seriously studied.

Popularly he was supposed to have the vice of inconsistency. Serious students of his work are not inclined to endorse this estimate. His views changed in the sense that they developed. He would perceive that some particular theory had a wider application. He was always feeling his way to the larger synthesis. The new generalization grew out of the old. But he regarded words as private property which he would define and redefine. Unlike most professional theorists, he was very quick to adapt the application of theory to changes in the circumstances. Speed of thought was his characteristic in all things. In general conversation he loved to disturb complacency, and when, as so often, there were two sides to a question he would emphasize the one more disturbing to his present company.

His *Treatise on Probability* is a notable work of philosophy. Although using mathematical symbols freely, it does not seek to add to the mathematical theory of probability, but rather to explore the philosophical foundations on which that theory rests. Written clearly and without pedantry, it displays a vast erudition in the history of the subject which was reinforced by and reinforced his activities as a bibliophile.

Keynes had on certain occasions an appreciable influence on the course of history. His resignation from the British delegation to the Paris Peace Conference and his publication a few months later of *The Economic Consequences of the Peace* had immediate and lasting effects on world opinion about the peace treaty. The propriety of his action became a matter of controversy. Opinions still differ on the merits of the treaty, but about the point with

which he was particularly concerned, Reparations, there is now general agreement with his view that the settlement—or lack of settlement—was ill-conceived and likely to do injury to the fabric of the world economy. His subsequent polemic against the gold standard did not prevent a return to it in 1925, but largely added to the ill repute of that system in wide circles since. It was mainly through his personal influence some years later that the Liberal Party adopted as their platform in the election of 1929 the proposal to conquer unemployment by a policy of public works and monetary expansion.

He had a footing in the British Treasury in two wars. The idea of deferred credits was contained in the pamphlet entitled *How to Pay for the War*, which he published in 1940. From 1943 Lord Keynes played a principal part in the discussions and negotiations with the United States to effect a transition from war to peace conditions of trade and finance which avoided the errors of the last peace, and to establish international organization which would avoid both the disastrous fluctuations and the restrictions which characterized the inter-war period. He was the leader of the British experts in the preparatory discussions of 1943 and gave his name to the first British contribution—"the Keynes Plan"—to the proposals for establishing an international monetary authority. In July, 1944, he led the British delegation at the Monetary Conference of the United and Associated Nations at Bretton Woods, where an agreed plan was worked out. He was the dominant figure in the British delegation which for three months, from September to December, 1945, hammered out the terms of the American Loan Agreement, which he defended brilliantly in the House of Lords. He was appointed in February Governor of the International Monetary Fund and the International Bank for Reconstruction and Development, and in these capacities had just paid a further visit to the United States, whence he returned only two weeks ago. These continuous exertions to advance the cause of liberality and freedom in commercial and financial policies as a means to expand world trade and employment imposed an exceptionally heavy and prolonged strain which, in view of his severe illness just before the war, Lord Keynes was physically ill-fitted to bear.

His life-long activities as a book-collector were not interrupted even by war. His great haul of unpublished Newton manuscripts on alchemy calls for mention. He identified an anonymous pam-

phlet entitled *An Abstract of a Treatise of Human Nature*, acquired by his brother, Mr. Geoffrey Keynes, as being the authentic work of David Hume himself. He had it reprinted in 1938, and it will no doubt hereafter be eagerly studied by generations of philosophers. During the second war his hobby was to buy and then, unlike many bibliophiles, to read rare Elizabethan works. His interest in and encouragement of the arts meant much to him. From undergraduate days he had great friendships with writers and painters and, while his activities brought him in touch with many distinguished people of the academic world and public life, he was probably happiest with artistic people. At one period he was at the centre of the literary circle which used to be known as "Bloomsbury"—Lytton Strachey, Virginia Woolf, and their intimate friends. More than fame and worldly honours, he valued the good esteem of this very cultivated and fastidious society.

His published works included *Indian Currency and Finance* (1913), *The Economic Consequences of the Peace* (1919), *A Treatise on Probability* (1921), *A Revision of the Treaty* (1922), *A Tract on Monetary Reform* (1923), *A Short View of Russia* (1925), *The Economic Consequences of Mr. Churchill* (1925), *The End of Laissez Faire* (1926), *A Treatise on Money* (two volumes) (1930), *Essays in Persuasion* (1931), *Essays in Biography* (1933), *The General Theory of Employment, Interest, and Money* (1936), and *How to Pay for the War* (1940).

And finally there was the man himself—radiant, brilliant, effervescent, gay, full of impish jokes. His entry into the room invariably raised the spirits of the company. He always seemed cheerful; his interests and projects were so many and his knowledge so deep that he gave the feeling that the world could not get seriously out of joint in the end while he was busy in it. He did not suffer fools gladly; he often put eminent persons to shame by making a devastating retort which left no loophole for face-saving. He could be rude. He did not expect others to bear malice and bore none himself in the little or great affairs of life. He had many rebuffs but did not recriminate. When his projects were rejected, often by mere obstructionists, he went straight ahead and produced some more projects. He was a shrewd judge of men and often plumbed the depths in his psychology. He was a humane man genuinely devoted to the cause of the common good.

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