

Foreword

The impressive conference on John Maynard Keynes and the collective book that it yielded were financed by a generous grant from The Thomas Guggenheim Foundation. We are deeply grateful to the foundation and in particular to Professor Thomas Guggenheim for the support and for his active participation in the conference.

I would like to take this opportunity to give you a few of my own reflections on John Maynard Keynes.

Since Keynes the Economist and his ideas will be discussed within this volume, I will not venture down the lane of “Keynesian Economics”. Nevertheless, I would like to say a few words about Keynes the man, the philosopher, the leader – his impact on human society and perhaps on the course of history – and if there is a lesson we may learn from his achievements.

I would begin by saying that Keynes and Keynesianism, as perceived in the simplest way, remind me of a famous quote from a philosopher and thinker named Antonio Gramsci. He might be paraphrased as advocating that we should switch from the pessimism of reasoning to the optimism of action.

This certainly reflects Keynes’s attitude toward economic policy, as he was an optimist and great believer in action. Keynes was the economist who challenged the famous definition of economics as “the dismal science”, and transformed it, as Reich (1999) noted, into “a revolutionary engine of social progress”.

John Maynard Keynes was cited as amongst Time Magazine’s “100 Scientists and Thinkers of Twentieth Century”, together with Einstein, Freud, Fleming (who discovered penicillin), Salk (who developed the polio vaccine), the philosopher Wittgenstein, the Wright brothers and others (Reich 1999). In my personal view, Keynes was high on this list.

Keynes was charismatic in presenting his ideas – the fact that he managed to recruit most of the greatest economic minds of the twentieth century as his disciples is testimony to the power of his personality. Among his most notable disciples are John Hicks, Joan Robinson, Richard Kahn, Roy Harrod, James Meade, Alvin Hansen, Paul Samuelson, James Tobin, Robert Solow, and among the “younger generation”, Joseph Stiglitz and Paul Krugman – and this is a very partial list. It was noted in an influential print media that Keynes, who died in 1946, “. . . was the twentieth century’s most influential economist. His ghost animated governmental

policies for 25 years after World War II". It was further said that "Keynes is enjoying an intellectual revival" (R.J. Samuelson).

Since the beginning of the 1980s, the world witnessed the fall of Keynesianism. It was accompanied by the flourishing of global market activity, especially in financial markets, and by the globalization of ownership and production. The shares of government expenditures decreased, inequalities grew, and strict policies to balance government budgets were implemented. This latter was reflected in U.S. policies, the Maastricht Rules, the recipes of the World Bank and the IMF, and in the formal economic policies of many other countries.

This is accompanied with the fact that in the 1960s economic growth in Western economies averaged 5% per year, and in the 1980s only 2.7%, and Europe had a rate of unemployment of 3% in the 1960s and 11% in the 1980s. This was not attributed to the change of the ruling political economic philosophy that switched from Keynesianism to Monetarism, a change that included a highly focused aim at reducing government involvement in the economy, a rigid striving for balanced budgets, and an indifference to social justice and income distribution. These differences in the rates of unemployment are typically explained as due to a rise of the "natural rate of unemployment" (a Friedmanist concept), which is allegedly due to over-taxation and over-regulation of governments, especially in the labor markets.

However, from 2007 or 2008, due to the financial crisis, we have been witnessing a revival of Keynesianism. People realized that there are dangerous flaws in human nature – possibly in the "Homo Economicus" – that lead to potential severe failures of free markets. One has only to note the abundance of words recently written and verbally expressed on human greed. Some of the most prominent economists have revived Keynesian formulas advocating massive government intervention. These include, among others, Robert Schiller, Paul Krugman, and Joseph Stiglitz. I apologize for not giving a comprehensive list at this time.

Economists and policy makers seem to realize that many of Keynes' ideas that fell into oblivion, both in internal and international economic policies, are both relevant and probably the only efficient recipe to avoid a world catastrophe, a prolongation of a state of deflation, and the potential emergence of extremely undesirable regimes. This resulted in massive government expenditures in the U.S., Europe, and other countries, and significant budget deficits and the re-emergence of forgotten Keynesian ideas such as the need to increase international coordination of fiscal and monetary stimulus through the IMF and the World Bank. These were ideas advocated and expressed by Keynes in Bretton Woods in 1944, and reduced by the American delegation there headed by Harry Dexter White.

Another of Keynes' ideas from Bretton Woods, the institution of an international reserve currency that he called the "Bancor", was raised recently by the Chairman of the Chinese Central Bank. He, more than anybody else, understands the problems and risks of the extensive accumulation of national currencies, namely the dollar, the euro, and the yen in the foreign exchange reserves of countries, thus advocates the switch to an international reserve currency as a substitute.

John Maynard Keynes was a rebel – he diverged from orthodox classical economics to suggest a new paradigm that had as its goal the creation of a better

world. In this sense, he should be a role model to all of us, to all economists at large, and in particular to those in academia who produce and disseminate ideas and concepts that are later used by practioners and policy-makers.

Keynes began his career during World War I as a traditional neoclassical economist, having been a student of the noted Alfred Marshall. Somewhere along the line, he started to deviate from the fundamental notions and implications of classical economics in the realm of *laissez faire*, and adopted a different approach. In his “Tract on Monetary Reform” (1923), he articulated a conservative monetary policy, even though it expressed views on the need to implement government policies to achieve stability. The belief in the role of government as a stabilizing agent grew during the 1920s and 1930s, and peaked with the publication of Keynes’ “The General Theory of Employment, Interest and Money” in 1936.

One of the major lessons that should be learned is that there is a “herd effect” in human thought, which is particularly strong in academia, and in most scientific fields, whereby scholars tend to be prisoners of mainstream concepts and fashions. It requires much courage, strength, and persuasion to deviate from the existing consensus and introduce new and unorthodox ideas. This herd syndrome exists in most of the scientific fields, and also in economics. The potential damage of dogmatically applying ruling concepts – regardless of the circumstances and of their social effects – is in the close link between the prevalent economic thought with policy-making. This might lead societies to undesirable outcomes and conditions.

Keynes (1936, Preface) gave a superb example of originality and independence of thought from which human society, as a whole, has benefitted. He was quite specific in expressing his view on this issue: “. . . the difficulty lies not in the new ideas, but in escaping from the old ones”.

Keynes was criticized and accused in a number of fields. He was accused by the Right of being a Communist and Marxist. He was accused by the extreme Left of being a brutal capitalist and totalitarian, an admirer of the Nazis and anti-semitic. I believe that all these allegations were wrong and unjustified. Keynes, who wrote the following words (1933, 21–22), was, in my view, not a Nazi supporter or an anti-semite:

“... To our generation, Einstein has become a double symbol – a symbol of the mind travelling in the cold regions of space, and a symbol of the brave and generous outcast, pure heart and cheerful spirit. . . so it is not an accident that the Nazi lads vent a particular fury against him. He does truly stand for what they most dislike, the opposite of the blond beast – intellectualist, supernationalist, pacifist, inky, plump . . . How should they know the glory of the free-ranging intellect and soft objective sympathy to whom money and violence, drink and blood and pomp, mean absolutely nothing?”

In “The End of Laissez-Faire” (1926, Ch. III) Keynes sarcastically commented on Marxian Socialism: “. . . how a doctrine so illogical and dull can have exercised so powerful and enduring an influence over the minds of men and through them, the events of history . . .”. Moreover, In “Essays in Persuasion” (1930, 329), he wrote:

“... The love of money as a possession – as distinguished from the love of money as a means of the enjoyments 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 . . .”

These two citations are certainly evidence that Keynes was neither a Marxist nor a brutal Capitalist. Indeed, in “The End to Laissez Faire” (1926, Ch. 5), he also wrote: “for my part, I think that capitalism wisely managed can probably be made more efficient for attaining economic ends than any alternative system in sight”. Keynesian ideas evolved into what became the concept of the “mixed economy”, and later, at the end of the twentieth and the beginning of the twenty-first centuries, the idea of “public-private enterprise”.

John Maynard Keynes was a brilliant and charismatic man, with a legendary charm, supreme intellectual abilities, and a sharp – and at times, painful – discourse. He was adored by his followers as a prophet, and totally rejected by his opponents. Some people claim that he was one of the three most important economists in human history, the greatest and most influential economist in the twentieth century, and possibly in the beginning of the twenty-first century. Others – from both Left and Right – see in him the source of economic troubles, inefficiency, and injustice. Nevertheless, all, opponents and supporters, admire his greatness as a man and as an intellectual.

Bertrand Russell named Keynes one of the most intelligent men he had ever known and said: “Every time I argued with Keynes, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool” (cited in Hoggard 2008). His great opponent Friedrich von Hayek wrote after his death: “He was the one really great man I ever knew and for whom I had unbounded admiration. The world will be a much poorer place without him” (cited in Skidelsky 2003).

Although a conference in the history of economic thought usually deals with the thought of economists who are already dead, in view of recent events and policies, I believe that the news of the death – and here I mean the intellectual death – of Keynes and Keynesianism was premature.

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