

Keynes, John Maynard | Encyclopedia.com

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(b. Cambridge, United Kingdom, 5 June 1883; d. Firlie, Sussex, United Kingdom, 21 April 1946),

economics, macroeconomics, unemployment, inflation, probability, rationality, politics. For the original article on Keynes see *DSB*, vol. 7.

Keynes was one of the greatest economists of the twentieth century, theoretically and practically. He also made a pioneering contribution to the philosophy of probability, and advanced political ideas relevant to modern societies. His energies were often focused on problems on a world scale, including [World War I](#), the inflation of the 1920s, the [Great Depression](#) of the 1930s, [World War II](#), and the post-1945 global trade and financial system. He was also a patron of the arts, an eloquent writer, a prolific correspondent, a longtime editor of the *Economic Journal*, an unflagging journalist, and a member of the [Bloomsbury group](#) of writers and artists.

Keynes was born into a middle-class family, with an academic father and a social activist mother. After Eton College, he graduated from [Cambridge University](#) with a degree in mathematics, not economics. He received his primary economics education from [Alfred Marshall](#) in preparation for the [civil service](#) examination, two years after which he began lecturing in economics at Cambridge. His first intellectual love at Cambridge, however, was philosophy. He became a follower of [George Edward Moore](#), the Cambridge ethical philosopher, and was also influenced by Bertrand Russell.

Philosophy . It was one of Keynes's criticisms of Moore's practical ethics that led him to philosophical work on probability. Not published until 1921 because of [World War I](#), Keynes's *Treatise on Probability* laid the foundations for the logical theory of probability as distinct from the relative frequency and subjective theories. The question Keynes sought to resolve was how to theorize rational but nonconclusive arguments. His solution, which conceived of probability as a logical relation between two sets of propositions (the premises and the conclusion of an argument), cast probability theory as the general logic of argument in which deductive logic was a special case. Such probabilities, known by logical intuition, express the degree of belief that it is rational to have in the conclusion, given the information supplied by the premises. Keynes developed these ideas into a distinctive theory of rational belief and action under uncertainty. On this theory, the rational is not necessarily identical with the true, and probabilities fall into heterogeneous noncomparable classes that limit their mathematical manipulation. His theory of rationality under uncertainty departs significantly from the theory of rationality deployed in mainstream economics.

Economics . Keynes first made his name internationally with his 1919 book, *The Economic Consequences of the Peace*, a trenchant critique of the rationality and morality of the Versailles Treaty at the end of World War I. His *Tract on Monetary Reform* of 1923 then explored the deleterious

effects of inflation and deflation, and proposed remedies to enhance price stability, including [central bank](#) regulation of the interest rate. In 1930 he produced *A Treatise on Money*, intended as his magnum opus on monetary theory. This remained within the quantity theory of money framework of his earlier work, but analyzed the price level in terms of efficiency wages and the gap between saving and investment with a view to embracing price level dynamics. Although original and insightful, the work came under considerable criticism, and Keynes set to work to remedy its inadequacies.

To this point, Keynes was essentially an orthodox economist in the Marshallian tradition, though always interested in criticism and innovation to improve theory and policy. The mass unemployment of the [Great Depression](#), however, impelled him toward a new economic theory that rejected much orthodox thinking. This new approach, published in 1936 as *The General Theory of Employment, Interest, and Money*, inaugurated a revolution in economic theory and policy, put macroeconomics on a sounder footing as the study of the economic system as a whole, and encouraged the collection of aggregate economic statistics. Two main ideas informed the new theory. First was the concept of unemployment equilibrium, which posited that deficiencies in aggregate demand could cause the economy to settle into equilibria with unemployed labor. The second was radical or nonprobabilistic uncertainty, which meant that much rational behavior was actually based on factors other than calculable forecasts, thus leading to suboptimal levels of private investment and aggregate demand. These ideas led to interdependency between real and monetary factors, which previous theory had kept separate. In policy terms, given that capitalism had no automatic tendency to full employment, state action would be required to achieve this goal, chiefly (but not exclusively) via investment in public works.

During [World War II](#), Keynes vigorously assisted the British government's war effort and postwar planning. In *How to Pay for the War* (1940), he outlined a plan of deferred pay to manage civilian demand so as to avoid inflation and strengthen social justice. In 1941 he proposed a scheme for an International Clearing Union with adjustment requirements on both creditor and debtor nations. With its demise, he contributed to the discussions that led to the 1944 Bretton Woods system for international finance and trade (a system reflecting American more than British views), and negotiated the American loan of 1945, which saved Britain from financial disaster. He fought hard to retain Britain's independence within the Anglo-American alliance, but

by war's end a marked transfer of economic and financial power from Britain to the [United States](#) had occurred. Throughout the 1940s he also promoted policies to generate high levels of postwar employment. He died in 1946 of a [heart attack](#), mainly brought on by overwork.

In the twenty-first century, Keynesian ideas still have considerable influence and powers of rejuvenation, although they are less widely accepted relative to the 1950s and 1960s, when they formed part of the economic mainstream.

Politics . Keynes sought a particular middle way between laissez-faire liberalism and state socialism. He favored planning but not central planning, individual liberty but not unfettered economic freedom, and greater social justice but not complete equality of outcomes. His vision of a better world was driven not by acquisitive materialism but by ethical ends for which a well-functioning economy was a prerequisite. For Keynes, economic prosperity was not to be pursued for its own sake, but only as a means to noneconomic activities promoting greater goodness and civilization.

Keynes was a marvelous (but not always clear) writer who created numerous memorable passages. His most famous saying is probably “*In the long run we are all dead,*” by which he meant that long-run thinking on its own is inadequate, and that rational policy making needs to be based on both short- and long-run considerations.

Keynes left many legacies, but the most enduring of all is an undying commitment to reason and persuasion, and to the capacity of humans to make the world a better place.

SUPPLEMENTARY BIBLIOGRAPHY

Keynes's extensive writings (not all of which have been published) have given rise to numerous interpretations and a huge secondary literature. While some of this literature is suitable for the general reader, much of it requires more specialized knowledge.

WORKS BY KEYNES

The Collected Writings of John Maynard Keynes. 30 vols. London: Macmillan; [New York](#): St. Martin's Press, for the Royal Economic Society, 1971–1989. Contains all his writings published in his lifetime and much previously unpublished material. General readers could start with *Essays in Persuasion* (vol. 9), *Essays in Biography* (vol. 10), or *The Economic Consequences of the Peace* (vol. 2), before turning to other volumes.

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