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Source: *The Review of Economics and Statistics*, Nov., 1946, Vol. 28, No. 4 (Nov., 1946), pp. 178-182

Published by: The MIT Press

Stable URL: https://www.jstor.org/stable/1925411

KEYNES' CONTRIBUTIONS TO ECONOMICS: FOUR VIEWS

JOHN MAYNARD KEYNES

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THE son of a distinguished Cambridge economist (still living), John Maynard Keynes was nurtured in the atmosphere of high Cambridge intellectuality. In economics the authority of Alfred Marshall was supreme. In the *Principles of Economics*, which appeared when Keynes was seven, Marshall had embodied the gathered lore of the subject; all that was acceptable in the great writers of the past was preserved with loving piety; warring schools were reconciled; above all he had welded the materials into a single system and stamped it with the characteristic impress of his master mind. The work had architectonic quality and seemed to have finality.

Jevonian and other revolutions having been put in their proper perspective, Marshall gave his pupils the sense that it would be vain and injurious to attempt any radical reconstruction in the fundamentals of the subject. His programme of work for them was to study the workings of the economic system in all their rich and varied detail, with the aid of principle; it was a programme for the development of applied economics. Although Keynes had gifts qualifying him to be a pioneer in fundamentals, he had many other gifts well qualifying him to be an applied economist. Marshall's programme was therefore quite acceptable and attractive. Much of Keynes' best work was done before he showed any signs of breaking away from that programme.

In his masterly obituary notice of Marshall,[1] he defined the relation of the *Principles* to the progress of the subject in terms that might well have been acceptable to Marshall. While his tribute to Marshall's many-sided gifts is ample and sincere, it is possible to read into his appraisal of the *Principles* a certain attenuating tendency. "Marshall," he wrote, "arrived very early at the point of view that the bare bones of economic theory are not worth much in themselves and do not carry one far in the direction of useful, practical conclusions." [2]

From a broad methodological point of view there is something anomalous in a body of principles being both constructive and final. We have, of course, examples in the relative finality of Euclid and Newton. But economics . . . It must be remembered that Keynes was also a logician, author of the notable *Treatise on Probability*. He was a pupil or associate of such deep philosophers as W. E. Johnson, A. N. Whitehead, G. E. Moore, and Bertrand Russell. This would guarantee intellectual emancipation. Pupils of Marshall with a more circumscribed methodological horizon might easily fall into the error of attaching undue authority to a settled corpus of economic doctrine. Surely one must suppose that the "principles" were either less constructive or less final than appeared at first sight. Keynes' appreciation tends to minimize their constructive character. I remember, some time after this notice had appeared but long before he had thoughts of himself making a radical reconstruction, his saying to me about the *Principles* with his quick mischievous twinkle, "haven't you yet discovered that that book is void of content?"

Applied Economics being the prescribed fare, what should he select? Currency, and, in particular, the Indian currency, was the answer. The British gold standard did not at that time

[1] *Economic Journal*, September 1924. Reprinted in *Memorials of Alfred Marshall*, ed. A. C. Pigou, 1925 and in *Essays in Biography* by J. M. Keynes, 1933.

[2] *Op. cit.* p. 342.

offer much scope for original work. The Indian currency was a live issue, and Marshall himself had done some of his best work on this subject, embodied in his monumental evidence before a succession of Royal Commissions. Keynes derived some practical knowledge from his short spell in the India Office. The result was his book on *Indian Currency and Finance* (1913), a work of quite incredible maturity and authority for a young man of 29, and his contributions to the Report of the Royal Commission (1914). Chapter two of the book remains a classic, and there are many other passages scattered through its pages that retain a live interest.

Some points may be worth noting. His classification of the various kinds of gold and gold exchange standards gives a practical illustration of both the Marshallian maxims, "natura non facit saltum" and "the one in the many." Then there is his great penetrating power, a desirable but rare attribute in applied economists, which exposed the essential and actual working of the systems. The formal garb had to be torn asunder. The book is impregnated with a correct appreciation of the best monetary theory of the time; but there is also a strong sense of institutional development and the changing modes of operation of the fundamental laws. And there is the notion that collective wisdom can help in the perfecting of institutions, to make them better vehicles of the fundamental forces. He was far from those who thought of the gold standard as a rigid formula. It was a complex arrangement which could be progressively developed to relieve the lot of humanity. He has to rout the conservatives, as on later occasions, with incisive argument and satire. In his enthusiasm for the gold exchange standard, he throws out the hint that it may be nearer to the future ideal than the British gold standard system (p. 36). In this he could draw support from Ricardo, a more respectable authority, really, than Lord Overstone. He stresses the point — a familiar type of argument, later, with him in other connections — that what the British took to be the orthodox model of a gold standard was really something quite exceptional. It was made possible by the peculiarly dominant position of London in the international short-loan market. It is worth noticing that at this time he fully supported Marshall in urging, against the advocates of silver monometalism for India, that the advantages of exchange depreciation were trivial and short-lived. In one passage (p. 101) he hints that the time may not be far distant when we shall be ready to put something better in place of the gold (or gold exchange) standard itself.

Marshall wrote in glowing terms about Keynes' Annex to the report of the Royal Commission. He was "entranced by it as a prodigy of constructive work. Verily we old men will have to hang ourselves. . . ."[3] A later tribute from Marshall on Keynes' *Tract on Monetary Reform* (1923) may be worth quoting. "I am soon to go away; but, if I have opportunity, I shall ask new-comers to the celestial regions whether you have succeeded in finding a remedy for currency maladies."[4] Is it fanciful to detect in this pleasant expression of congratulation a governessy — and prophetic — note? You are a currency expert; you are doing very well; but remember your place; you are a specialist in a certain branch of applied economics! Did he scent danger?

However, his pride in his pupil was great and genuine. Edgeworth, too, generous but critical, cosmopolitan in his economic studies, and not in the least likely to be carried away by the fashion of a school, had an unbounded admiration for Keynes. On two occasions I remember his throwing his arms to high heaven and wagging his beard in a transport of eulogy.

The Economic Consequences of the Peace (1919) is a great work, ever fresh. Keynes' mastery of prose, his power of characterization, of debate and persuasion, his easy handling of quantitative problems, glow. The trend of his thought undoubtedly was that Germany must continue to play an important part in the economic progress of Europe. Her elimination would impose an unbearable strain on the world economy. (The idea that a state of affairs which all have taken for granted — in this case the international economic equilibrium — was something special and precarious recurs.) Thus the tendency was toward a kinder treatment of Germany; whether that would have been wise at that time is still a matter of con-

[3] *Memorials of Alfred Marshall*, p. 479.
[4] *Op. cit.* p. 33.

troversy. But his explicit point, on which most stress is laid, that the quantitative reparations proposals were ill thought out, impractical, and absurd has not been seriously challenged.[5]

The currency expert shows his hand in the book. It is interesting to notice that the allegedly inflationist Keynes gives perhaps the most powerful indictment of inflation that has ever been penned (pp. 220–35).

His mind was much occupied by the question of inflation in those days. In October 1922 he was summoned to advise the German Government on how to end it; he returned shocked by the apathy and defeatism that he found in Berlin. But he was also exercised by the problem of deflation; and he began a series of warnings in the press and in his *Tract on Monetary Reform* of the foolishness and injuriousness of attempting to raise the value of the currency.

By this avenue he was led to embark upon his prolonged speculations on the workings of deflation, on the depression phase of the trade cycle, then more generally on depression and unemployment. He was bound to break loose from the confines of the "currency expert." His so-called *Treatise on Money* in two volumes (1930) had already got beyond the purely monetary aspect; he was there discussing the questions of investment and saving, familiar subjects for the trade cycle theorist. Was it the shade of Marshall that dictated the title of this treatise? Then, finally, he broke loose altogether and laid his profane hand on fundamental principles in *The General Theory of Employment, Interest and Money* (1936). By this time there is no doubt that he conceived that he had a contribution to make to the groundwork of economics second only in importance to that of Adam Smith.

Will the claim be justified? How, in particular, is his contribution related to the broad generalization implicit in economic tradition from Adam Smith to Edgeworth that property and freedom provide a framework within which enterprising man will achieve for himself his greatest economic good?

It is rash indeed to attempt to sum up his contribution in a sentence. No one had a greater sense than he of the complexity of economic adjustments and of the numerous reservations that had to be made to a generalization. In his case these reservations always sprang from a strong sense of their importance, and not in the least, as in some writers, merely to safeguard himself from criticism — for on the latter point he was notoriously and signally indifferent. The theory of interest is, I think, the central point in his scheme. He departs from old orthodoxy in holding that the failure of the system to move to a position of full activity is not primarily due to friction, rigidity, immobility or to phenomena essentially connected with the trade cycle. If a certain level of interest is established, which is inconsistent with full activity, no flexibility or mobility in the other parts of the system will get the system to move to full activity. But this wrong rate of interest, as we may call it, is not itself a rigidity or inflexibility. It is natural, durable and in a certain sense in the free system inevitable. That is why he lays what may seem an undue emphasis on the doctrine that interest is essentially the reward not for saving but for parting with liquidity. Given the complex of forces affecting liquidity preference, such and such is the rate of interest that will naturally and necessarily, and, so long as underlying forces remain unchanged, permanently obtain. Yet that rate of interest may be inconsistent with the full activity of the system.

Sitting back in our chairs and thinking of the whole development since Adam Smith, what are we to make of this point? In itself it seems to lack the generality one would expect that a point having such fundamentally disturbing corollaries would require. It seems to be a special point, a minor flaw in a free system. None the less his argument hangs together. It has a cogency, a simplicity, a lack of the need of supporting assumptions, that are extraordinarily impressive. It sweeps many cobwebs away. It renders volume upon volume that have been written on cyclical depression outmoded. In this kind of work, so much depends on the selec-

[5] A book has recently appeared by M. Étienne Mantoux, unhappily killed in action, entitled *The Carthaginian Peace — or the Economic Consequences of Mr. Keynes.* While he has much of interest to say on the broad issue of a more lenient peace and appears to make some rather effective points against Keynes on matters of detail, the careful reader will observe that the treatment of the central Keynes thesis — the absurdity and impracticality of the actual proposals — is confined to pp. 117–32. The argument of these pages is singularly thin and unconvincing.

tion of the right concepts and the right assumptions. Otherwise the argument tends to leave a mounting total of alternative possibilities unconsidered. This power of selection is the kind of scientific genius required by our subject. I believe that Keynes had it. But this is not the place to attempt a verdict on his *General Theory.*

In the field of policy Keynes had a keen sense of the realities of the situation. He was practical and a man of the world. He was a tremendous fighter, prepared to take on great odds, but he was not inclined to be a crusader for a merely Utopian aim. I will only mention one point of weakness, which is relevant to his influence on very broad questions. He did not under-estimate the difficulty of persuading men of action to take a sensible line — the Paris Peace Conference was not his only experience of that! But he may have over-estimated his own influence over the thinking minority. I remember his coming into my room in 1930 and saying, "I intend to advocate a revenue tariff." I knew what he had in mind. It would have been altogether vain then to renew the campaign against the British gold standard as established in 1925; there was no sign of a move toward an international getting together; the clouds of depression were fast piling up; he had an accurate foresight that acute depression would cause domestic disturbances in many countries and war; he felt it important that the British external balance should be above suspicion, so that we at least might pursue an active recovery policy. None the less I said, "For Heaven's sake don't do that." He hastened to reassure me. "It is quite all right. We can reverse the process, when this phase is past." Few men in history can have had so great an influence as Keynes in moving the minds of men on social and economic questions. But I do not recollect anyone who, having initiated a movement of educated public opinion in one direction on a great topic, was subsequently able to "reverse the process."

When Britain left the gold standard in 1931, the case for the tariff disappeared and he said no more of it. It was some years, however, before circumstances seemed propitious for a renewed effort on behalf of economic internationalism. The movement to autarchy was everywhere gaining strength. Mr. Cordell Hull's initiative was a lone move and Keynes certainly did not regard a reduction of trade barriers as a sufficient basis for a workable economic internationalism. When the war came with its crushing burdens it seemed more than ever likely that Britain would have to be prepared to protect her own economic position by all methods available. When he began his draft of the "Clearing Union" he may still have felt it was rather a forlorn hope. But as the tokens of American co-operativeness began to come in, he became quite convinced that this was the occasion for a renewed effort on behalf of internationalism. He was always an internationalist at heart.

And so after a dozen years the time had come to "reverse the process." Alas, he found that it was not so easy. He found "how much modernist stuff, gone wrong and turned sour and silly, is circulating in our system, also incongruously mixed, it seems, with age old poisons." [6] Has he succeeded in "reversing the process" in Britain? Time will show. He certainly gave his sword to those who would carry on the fight on behalf of internationalism.

The question may be asked how he should be classed if we make a dichotomy into "centralist planners" and advocates of a free economy. Presumably he cannot be classified by this method. He certainly believed that a great increase of central management was necessary. On the other hand he wished to confine it to achieving those results which could not be secured as a result of uncoordinated individual effort. He advocated the broad qualitative controls involved in currency policy, budget policy, foreign exchange adjustment, etc. Latterly he often referred to the "horrible world" which seemed likely to result if the more detailed planners had their way. There is a fine balanced statement on pp. 377–81 of *The General Theory* most worthy of study. The case for individualism is excellently stated.

To me the moral of his work seems clear. If we accept the broad diagnosis of *The General Theory* — if we do not accept it, his main work has presumably no moral! — then, knowing what impedes the free system from working to the best advantage, we can remove the im-

[6] *Economic Journal,* June 1946, p. 186.

pediment. His lifelong effort to understand what is wrong with the machine implies an interest in the machine, implies that he wanted us to continue to use the machine, implies, in fact, that he was at bottom an individualist. For a totalitarian all that life work would have been of merely academic interest. But in contemporary economics Keynes had little interest in what was only academically interesting.

Whatever the final verdict on *The General Theory*, Keynes' greatness as an economist will not be questioned. His mental capacities had a far wider range than those usually found in professional economists. He was a logician, a great prose writer, a deep psychologist, a bibliophile, an esteemed connoisseur of painting; he had practical gifts of persuasion, political finesse, businesslike efficiency; he had personal gifts which made him have profound influence on those who came into direct contact with him. Economics, still young, only in part a fully specialist subject as yet, has gained from its contact with such a comprehensive intellect. I remember his once describing Ricardo as "the most distinguished mind that had found Economics worthy of it." We must surely judge Keynes' mind to be more distinguished than Ricardo's.

KEYNES AND THE GENERAL THEORY

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It would be a mistake, I think, to make too sharp a dividing line between pre-Keynesian and Keynesian economics. That some line has to be drawn I do not believe will be denied by anyone who will examine the economic literature before and after 1936. But every contributor to any field of knowledge stands on the shoulders of his predecessors. Specialists in any field of knowledge know that no one man ever single handed invented anything. In a sense there are no "revolutionary" discoveries. Nevertheless, in the progress of man's thinking new plateaus are from time to time cast up not unlike a geological upheaval. And these *are* revolutionary developments even though the constituent elements composing the structure can be found elsewhere and have long been well known.

If a stranger from Mars should undertake to read the literature of economics from, say, 1700 to the present day, he would be struck, I believe, particularly by the new direction and outlook injected by the publication of (a) *Wealth of Nations*, (b) the works of Jevons, the Austrians, and Walras, and (c) Keynes' *General Theory*. Scarcely has any issue of an economic journal or any serious volume since 1936 appeared which has not been influenced by, or primarily concerned with, the concepts and thinking of Keynes.

The record will also verify, I think, that friend and foe alike have experienced a considerable enrichment of their "mental furniture" by reason of the Keynesian contribution. This indeed is nothing new. Alfred Marshall's *Principles of Economics* was profoundly influenced by Jevons and the Austrians; though he was far from sympathetic when this "attack" on the classicals first appeared. There are plenty of parallels today.

While it is not possible now to assess the ultimate place of Keynes in the history of economic thought, it is safe to say that no book in economics has ever made such a stir within the first ten years of its publication as has *The General Theory*. And this interest continues unabated. It is further true, I believe, that economic research has tackled new problems and is better equipped with tools of analysis by reason of the work of Keynes. Moreover, a correct appraisal of Keynes' work cannot be made by confining attention to the contents of *The General Theory*. The Keynesian "revolution" is far from having been completed, and it is, accordingly, not pos-