Keynes On Markets:

A Survey of Heretical Views

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ABSTRACT. The heart of modern *economics* is the study of "the market," eventually ensuing in the *General Equilibrium* model. J. M. *Keynes* ignored this line of inquiry but from 1907, when he was at the India Office, to the 1940s, when he made proposals for the post-war *reconstruction* of the *financial system,* he often addressed himself to the functioning of *markets.* He is critical of many markets for promoting *instability,* and especially for embodying low values (greed, fears). It is suggested that Keynes' views on markets were shaped by his personal experiences as an investor; by his realistic, non-theoretical approach; by his anti-Benthamite values and by his sensitivity to the *unemployment* and "chaos" they often caused.

I

Keynes and Free Markets

IN A 1925 ESSAY Keynes quotes with approval Professor John R. Commons' sweeping view of the evolution of economic systems. The American institutionalist saw mankind as passing through three epochs. The first is "the era of scarcity" which ended in the 16th century. The second is the "era of abundance" which culminated in the liberalism and *laissez faire* of the 19th century. The third is "the era of stabilization" that arose in the 20th century from the ashes of the previous period.

> In this period . . . there is a diminution of individual liberty, enforced in part by governmental sanctions, but mainly by economic sanctions through concerted action, whether secret or semi-open, open, or arbitrational, of associations, corporations, union, and other collective movements of manufacturing, merchants, labourers, farmers and bankers.

The passage from the second to the third epoch is that "from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interest of social justice and social stability.[1]

Keynes' approval of this vision raises many questions. To what extent was it inspired by the comparative economic success of communist Russia? By what extent was it strengthened by the fact that Nazi Germany was the only major country to cope with the Depression successfully? We know that in

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the preface to the German translation of *The General Theory* (1936) Keynes went so far as to note that his theory of output "is more easily adapted to the conditions of a totalitarian state" than to a state characterized by a large measure of *laissez faire*. And why so? Because in a totalitarian state, "national leadership is more pronounced," so that the free play of market forces can more easily be interfered with.[2]

We do not wish to pursue here the question of Keynes' political ideas, except to note in passing that, perhaps, when older, Keynes outgrew the youthful "Burke essays" just as he outgrew *A Treatise on Probability*. We rather wish to address a narrower, more technical question: what was Keynes' attitude toward the free market as a key capitalist institution? Are there specific cases of criticism of free markets? And if such cases exist, on what grounds did he criticize them? In what follows it is shown that Keynes' attitude toward markets was very pragmatic and, hence, often negative.

The first instance of what may be called a realistic and critical attitude toward free markets came in March 1907. When Keynes was attached to the India Office it came to his attention that India's near monopoly in the production of jute (from which sacks are made) was threatened by a widespread adulteration, as merchants sold wet jute "unfit for use, or at any rate inferior, even after it had been cleaned and dried."[3] Now, a dogmatic believer in free markets and in the "Invisible Hand" would argue that "the consumer is king" and that the market itself would solve the problem: the inferior jute would not be bought, so that the dishonest merchants would have to mend their ways or go bankrupt. Keynes' argument is precisely the reverse: adulteration, if unchecked, will "naturally become universal." In time, "the general level of excellence which is expected will steadily sink until dishonesty is so well known that it becomes honesty again." Also, the dishonest merchants, with their lower costs, can lower the price and drive the honest producers out of business. In an early statement of what was to become the fallacy of composition, Keynes concludes that "while adulteration is plainly opposed to the interests of the trade as a whole, it is nevertheless to the interest of every individual to practice it," since his profits then rise. Thus it is not surprising that he advises the Indian government to pass legislation to protect the buyers of jute.

The "Invisible Hand" is also absent in the financial markets. During the war Keynes began to trade in stocks and foreign currencies, an activity that continued throughout his life and was, in fact, his major source of income. Much of what he will say about markets is the result of his experiences as an investor-speculator. In 1919—his views on the Treaty and on European reconstruction being well known to influential opinion—he was invited to attend a private and unofficial conference at Amsterdam called by Dr. Visserling (head of the Bank of the

Netherlands) and including people who, like Keynes, took a dim view of the European economic situation. At Amsterdam, Keynes learned that, even though Germany's economy and her international trade position were precarious, she had become the recipient of large amounts of foreign exchange: "foreign speculative purchases of marks [had] been on a quite extraordinary scale."[4] Germany, in fact, was able to pay certain foreign loans out of the proceeds of sales of marks. But, Keynes notes, "if for any reasons the speculators take fright, a very disastrous collapse of the rate might easily occur." A few months later in a lecture at Manchester he would warn that it is a "popular delusion" to expect the exchanges to always tend to swing back to par. Speculation can be stabilizing or destabilizing: "If speculators acted unwisely . . . the movement of the exchanges simply tended to be more violent than otherwise." So, what were the vast army of speculators going to do? Would they cut their losses? And how would they take their profits? And when?[5] These were not merely rhetorical questions: by 1920 Keynes himself was speculating on a thin margin. He thought he knew what the speculators would do: they would sell marks, thus forcing the currency down. Instead the mark kept on appreciating and by April 1920 Keynes lost over 22,000 pounds (over $500,000 at today's prices).[6] Assuming that he regarded himself as the rational and knowledgeable investor who could correctly anticipate market movements, the experience answered his question about the rationality of the market in the negative.

Shortly afterwards, Keynes raised anew the issue of the wisdom of the market. He estimated that in 1923 U.K. savers sent abroad two thirds of their savings, mostly by making loans to governments and to local authorities for the building of "socialised works"—harbors, electrical projects, roads, etc.[7] The peculiar thing was that the rate of interest received was no higher than that prevailing at home, while the risk of default was much higher. Experience did not seem to matter. Even though "the Southern States of U.S.A. [in the Civil War], Mexico, all Central America, most of South America, China, Turkey, Egypt, Greece, the whole of the Balkans, Russia, Austria, Hungary, Spain and Portugal have all defaulted in whole or in part at one time or another" people still invested abroad. Indeed,

> The limit of absurdity . . . was reached early this year [1924] when £2,000,000 was borrowed by Southern Rhodesia on about the same terms as a large English borough would have to pay, more cheaply than the Port of London, and much more cheaply than most of our industrial and commercial undertakings at home. Southern Rhodesia is a place somewhere in the middle of Africa with a handful of white inhabitants and not even so many...as one million savage black ones. The security has no British Government guarantee behind it . . . the terms of the loan are farcical.[8]

Clearly, the market for foreign investments was not peopled by knowledgeable, rational economic men. The results were deleterious not only to the investor but to England which is "starved" of the necessary development funds ("crowding out" can apparently be caused by other than government borrowing!). "Is England a finished job?" Keynes asked rhetorically. He did not think so: roads had to be adapted to the needs of the motor car, homes had to be built, the advantages of electricity had to be brought to every one, large sections of cities were decrepit and ready for rebuilding. Domestic returns were as good as foreign ones, risk was lower and domestic investments were socially better: not only did they provide home employment but if a domestic investment fails the nation retains the investment (a popular housing project, the Underground of London, etc.), while in the case of a foreign investment all is lost. "We are drifting [Keynes adds] into financing port improvements, housing, electrical developments, etc., abroad at low rates of interest, while forgetting similar projects at home. Yet it is not true that there is nothing at home which wants doing."[9]

How can one correct the mistakes of this free market? By now Keynes had travelled far from *laissez faire* and so blurted out his "heresy" (his word): "I bring in the State; I abandon *laissez-faire* . . . The conditions for its success have disappeared."[10] He does not spell out what these "conditions" were, but one can see here the germ of his critique of orthodox economics of *The General Theory*. In any case, Keynes clearly sets his own judgement above that of the market.

It must have been with a sense of satisfaction that a few months later in 1924, he read an exposé in *L'Humanité*—organ of the French Socialist Party—of the intrigues by which czarist Russia was able to hide the disastrous state of its finances from French investors who lent it more than half of their savings between 1900 and 1914. All of which were lost.[11]

In the three examples we have examined—India, the foreign exchange market and U.K. investments overseas of the early 1920s—Keynes' critique is based on a recognition of human characteristics like greed, ignorance and irrationality which were strong enough to thwart any "automatic" movement toward "equilibrium." After England's 1925 return to the pre-war parity with the dollar (£1 = $4.86), Keynes added a technical dimension to his critique of markets. The return to gold in the face of British wartime and post-war inflation left the pound greatly overvalued, which necessitated a consistent deflationary policy on the part of the Bank of England. While most economists expected this policy to lower wages and prices quickly, Keynes pointed out that some markets do not have sufficient "fluidity:" they are "jammed." Prices do not fall rapidly enough, so that the system may remain in a kind of "spurious" equilibrium for a very long time. Economists, Keynes says, are enamored with equilibrium positions, but "I want to study what happens during the process of disequilibrium—one which lasts long enough to observe it."[12] Addressing the Macmillan Committee in 1930, he elaborated on this: "Experience [shows] that it may be a very long time before you will get the full results of unemployment . . . I do not think we have yet got [in 1930] the whole of the unemployment due to what happened in 1925."[13] The policy of deflation works very slowly, the various prices and wages reacting differently to the deflationary policy of the government, depending on the degree to which markets are "jammed." First, he says, there are type A goods: staple raw materials used in international commerce (copper, wheat, cotton, etc.). Domestic and foreign prices adjust to each other "within a few minutes" by virtue of the integrated world commodity markets. Then there are B goods that use A goods as raw materials (bread, processed foods and clothing), and these prices may fall slightly. For labor costs (type C goods) there is no automatic force bringing them down to the level of A and B prices. They come down only "by the pressure of unemployment and trade disputes." Goods and services of type D—freight, insurance, government services—use purely domestic inputs, especially labor. They, too, are rigid. Class E goods consist of manufactured articles that use A, C and D inputs. Whether the price of these items are rigid or not depends on the proportion of the three inputs that they use. Coal, iron, steel and shipping—traditional British exports—do not use much A but mostly the insensitive C and D type goods, and so their costs do not fall much. The failure of many domestic prices to decline thus justifies the workers' resistance to wage cuts, which, in turn, prevents prices from falling.[14] (Chapter 2 of *The General Theory* would also recognize the wisdom of unions in resisting money wage reduction).

Keynes' realistic analysis is a far cry from the idealistic conclusions of theory: "when demand falls, prices fall." Looking at the system realistically, Keynes found a whole spectrum of price responses to falling demand: each commodity, strictly speaking, responds at its own speed. A similar, more theoretical analysis of the same problem of the response of prices to money deflation is found in Chapter 21, Section III of *The General Theory.* There the analysis includes a barrage of complications, seriously maiming the theoretical quantity theory of money relation between M and P.

But there is more: in competitive commodity markets faced by falling demand, firms respond *perversely*: irrational behavior is the norm. The coal mines and textile mills attempted to ride out the depression of 1926 by the "half-witted policy" of increasing output! The true solution lies in "interfering" with free markets, Keynes says. Producers must engage in "some kind of cartel" internally and, if possible, with German producers.[15] The goal should be to prop up prices, shrink inventories and raise profits. International cartels *already exist,* Keynes says, in diamonds, nitrates, jute, Franco-German potash, platinum, bismuth, cobalt and quicksilver. When the industry is in a few strong hands, Keynes notes, a cartel develops naturally. When there are too many small and "ignorant" producers, it is both "inevitable and right that the government should intervene. It is *laissez-faire* gone crazy to maintain the contrary."[16]

What can we conclude from this exercise? First, as in the other three cases, Keynes looks at markets realistically and historically: he is not content with abstract, textbook-type demand and supply analysis. He is not cowed by concept like the Invisible Hand fixing everything for the best. He introduces real time; he disaggregates and sees things organically. Institutional matters receive their due: unions and cartels exist and they cannot be destroyed. Keynes, in fact, accepts these new institutions and is willing to build on them because they promote stability. Far from seeing "the market" as the embodiment of reason, he sees it as prey to blind forces and to various ideologies.

Keynes' appreciation of cartels was not a fluke. To husband its small stock of gold after 1925, the Bank of England had to prevent domestic short-term interest rates from falling below the foreign rates. Naturally, high short-term rates pulled up long-term rates, too, which slowed down the economic growth of the country. Keynes suggested "decoupling" long- from short-term rates: the six largest banks that dominated the supply of credit, "acting as a cartel," he says, should have no problem in raising short-term rates without affecting the domestic supply and price of long-term credit.[17] Naturally, Mr. Norman, Governor of the Bank of England, did not see how this could be accomplished, and, in fact, the operation does imply a rejection of *laissez faire* and a spirit of "national leadership" which may well be inconsistent with democratic institutions.

World War II afforded Keynes other opportunities to express his views on free markets. By June, 1940 most of continental Europe outside the Soviet Union was under the dominion of Germany. It was then that Walther Funk of the Reich Propaganda Office broadcast a vision of the "New Order"—a united Europe, centered on a stable, goldless mark, aiming at full employment, social security and stability. Mr. Harold Nicolson, his British counterpart, ridiculed Funk's claims and asked Keynes to prepare a reply to Funk. Keynes reminded Nicolson that he was not an apologist for the City, the gold standard and *laissez faire*: "I am certainly not the man to preach the beauties and merits of the prewar gold standard." The truth is, he continued, that three fourths of Funk's proposals reflected his own ideas of what England should offer. In the 1930s, free markets for foreign exchange had led to chaos: "a country could be bankrupted merely because it lacked gold." Funk and Schacht evolved "something better:" a system of *negotiated* rates that had nothing to do with a country's possession of gold. Although they used their discovery to the detriment of their neighbors, "the underlying idea [of bilateralism] is sound and good." We, too, Keynes continues, have learned the lessons of the interwar years, and "let no one suppose that we

. . . intend to return to the chaos of the old world."[18] Countries should adopt the system of bilateralism developed by Funk and Schacht, making it more humane by genuine negotiations among equals. Exchange rates should be set "by agreement" with the aim of creating a balance between exports and imports for each country. The pound sterling bloc that would emerge from a system like this, Keynes says, would have greater economic appeal than the mark bloc: it would be used not only within the Empire but also in Egypt, Iraq, Argentina, etc., while the German mark could be spent only within the confines of conquered Europe, characterized by roughly the same climate.

Bilateralism and concomitant distrust of free markets informs Keynes' scheme for a Clearing Union (CU), his plan for the reorganization of international exchanges after the war. This is not the place to review Keynes' CU proposals, but they are at one with his anti-market ideas. Except for very brief periods, he says, the problem of maintaining a balance of payments between countries has never been solved.[19] Whenever an imbalance developed (as is "inevitable"), the burden of adjustment is thrown completely on the debtor country. But no matter how deflationary its policies, the country will get no nearer to equilibrium. Speculators will make matters worse by betting against the weak currency. Accordingly, Keynes' CU proposals call for giving each country a quota in proportion to its contribution to international trade and then setting exchange rates with a view to provide initial equilibrium. As imbalances develop, *both* the debtor and the creditor countries will have to adjust their exchange rates.[20]

CU also takes a dim view of free markets in investments, which he feared would be exploited to find "the better 'ole" for one's money. These markets would cause exchange rate instability. Just as in *The General Theory,* he favored making stock investments "permanent and indissoluble, like marriage,"[21] so he thought that foreign investments should be similarly permanent, embodied in factories rather than in liquid financial paper.

Keynes' CU was superseded by Morgenthau's Stabilization Fund which eventually was embodied in the International Monetary Fund. Keynes fought a rearguard action, slowing down (but not deflecting) American enthusiasm for a return to *laissez faire.* In 1941 he called bilateralism "a legitimate arrangement greatly in the interests of both parties"[22] once it was cleansed of its Nazi spirit. In a letter to the U.S. Secretary of State, Dean Acheson, he wrote that the proposed restoration of free trade and free exchanges "must call up . . . all the old lumber, most-favoured-nation clause and the rest which was a national failure. . . . It's the clutch of the dead, or at least moribund, hand."[23]

As late as 1946 Keynes still had at the back of his head Funk's bilateralist world. At the eleventh hour, doubting that what he had negotiated at Bretton Woods and Savannah was in the best interest of England, he wrote the *Queen*

Mary memorandum (March 1946) "condemning American policy with extraordinary ferocity and passionately recommending H. M. Government to refuse to ratify the [I.M.] Fund and [World] Bank"[24]

During the war Keynes took an interest also in the negotiations on internationally-traded commodities. His ideas also reflect a distrust of free world markets and harken back to his approval of cartels of the 1920s. In the ten years before 1938 Keynes found tremendous fluctuations: the price of rubber fluctuated by 96% between maximum and minimum; cotton by 42%; wheat by 70%; and lead by 61%. Sugar, coffee, tin, wool, maize showed comparable fluctuations. Keynes attributed these oscillations to the very nature of free markets. A free market "abhors the existence of buffer stocks" and is "inherently opposed to security and stability."[25] "Most participants in the market [are] more interested in a rapid turnover" than in holding stocks for the long term, Keynes says, echoing his observations about the stock market and the foreign exchange markets. He proposed to lessen this volatility by setting up a body of experts in each internationally-traded commodity (a Tin Control, a Coffee Control, etc.) who would set a "reasonable price."

Keynes' 1938 reflections on international commodity markets are not only similar to his 1920s reflections on the coal and cotton problems, but are also inspired by his 1923–30 articles for the *London and Cambridge Economic Service*. Reprinted in Vol. XII of *The Collected Writings*, these articles take up nearly 400 pages and follow the vicissitudes of cotton, wool, jute , copper, tin, lead, nitrate, spelter (zinc), rubber, sugar, coffee, tea, petroleum and wheat. The articles are time-bound, factual, statistical and historical surveys of supply and demand conditions for each of these products. More often than not supply and demand are affected by speculation and assorted irrationalities, and prices fluctuate too much.

II

Sources of Keynes' Views

WHAT WERE THE REASONS for Keynes' unconventional attitude toward free markets? In addition to what was said above, for a complete answer his education, his psychology, his philosophical beliefs would have to be considered. Here we can only give a brief sketch. A major reason is that Keynes, early in his life, "escaped" the emotional attachment to free markets that his Cambridge colleagues had. In a 1930 essay he mused on how wonderful it would be if economists could view themselves as humble dentists Would it not be wonderful if, like dentists, they were free from ideological beliefs, technicians fixing a machine?[26] Isn't stability a desideratum? And don't cartels promote it? The main reason economists opposed cartels—Keynes felt—are ideological. They are *not* dentists: they do not take a dispassionate, clinical view of things. They are under the power of an obsolete ideology (of false consciousness, Marx would say): *laissez faire*. He, Keynes, had freed himself of it: in 1930 he even admitted to the Macmillan Committee that the Russian experiment held "an immense theoretical interest" for him![27] Why cannot economists be so open-minded?

Furthermore, Keynes' education in the matter of markets was unique: economists learn about markets in their graduate training from textbooks that go behind the surface (monetary) manifestation of things, stressing utility, opportunity costs and other "real" "underpinnings." But Keynes learned about markets also *from life*: his very livelihood depended on the vagaries of financial markets. He saw markets as the focus of normal, if non-rational, human feelings: ignorance, greed, uncertainty, fears . . . emotions that are not grasped by theoretical generalizations, but "should not be beyond the purview" of economists. He learned that real markets are manipulated by businessmen and investors. Why not have them be manipulated by public authority, for the public good? Indeed, this is what Keynes himself did in his job at the Treasury during the First World War. In his three years there *he* allocated scarce foreign exchange among competing uses. How many pound sterlings should this ally be granted and for what purpose? It was not price and the buyer's "utility" that regulated these allocations, but John Maynard Keynes following expedient principles.

Keynes also owed his view of markets to his moral ideas. In 1938 he wrote to R.F. Harrod that "economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgements of value."[28] And from a moral point of view Keynes felt that markets, far from producing an "optimum" produced immoral results. In 1930, for instance, the chairman of the Macmillan Committee—having been treated to Keynes' explanation of the working of the economy—remarked that, therefore, we have to provide "economic hospitals" (welfare), just as we provide hospitals to soften that higher "law of nature," sickness and death. Keynes' reply was swift and suggestive of sensitivity to the sufferings of others. "I think [he said] that is the wrong analogy. I think we are forced by the use of the wrong weapon [a high bank rate] to have a hospital because it has resulted in there being so many wounded." It is time to forge "a new weapon of policy so that we have no need of hospitals." In reply to a committee member's question as to whether he, Keynes, believed that in a closed system there was "no need why anybody should be unemployed," he unequivocably replied, "Yes."[29] Keynes clearly did not share our contemporary enthusiasm for using unemployment in order to prevent inflation.

A similar moral judgement colored his views of the stock market. After a lifetime of experience he advised the members of the Estate Committee of

King's to stay away from it: "The management of stock exchange investments of any kind is a low pursuit having little social value and partaking (at best) of the nature of a game of skills, from which it is a good thing for most members of our Society to be free."[30] There are, he continued, more "constructive and socially beneficial enterprises" than speculating. One of them is Worlaby and Elsham, farm properties acquired by the College as investments which allowed men to "exercise a genuine entrepreneurial function in which many of our body can be reasonably and usefully interested." Farming and sheep raising were of more ethical values than high finance, a view with which thirteenth century religious writers would have agreed.

Keynes' moral scruples about speculation go back to the 1920s. In 1923 in *A Treatise on Money*, after observing that during the inflation of 1919–20 it was possible to borrow at 7% while raw material prices were rising 50%, he remarked that this left "a clear profit of between 30 and 40 percent per annum . . . to any person lucky enough to have embarked on this *sinful career*." Thus does a business man become a "profiteer" who will "lose the respect of society."[31] In 1931 he mused whether his own speculation against sterlings was "in the national interest."[32] And in 1937, after outlining certain investment decisions taken on expedient grounds, he added, "How rightly to govern one's current investment policies in the light of the above" is another matter, and the "rightly" must refer to the ethics of the decision, since its usefulness in making money had already been established.[33]

By the 1930s Keynes concluded that to try to beat the market holding out for short term gains was "anti-social." From time to time, he says, it is the "duty" of the serious investor to accept a depreciation of his holdings with equanimity: "any other policy is anti-social, destructive of confidence, and incompatible with the working of the economic system," a view which underlies the analysis of *rentier* activities in Ch. 12 of *The General Theory*.

In addition to misgivings about speculation on moral grounds there are also misgivings based on its effect on the psychology of the individual. Stock-buying develops "too unsettled and speculative a state of mind;" it requires more "nerve, patience and fortitude" than any other pursuit; it causes "considerable anxiety;" it makes one "lose one's sense of proportion." And the "fortitude required to speculate can be put to better use." "Continous anxious work on the telephone [is] none too good for health."[34] Upon news of the October 1929 Wall Street crash he wrote to Lydia, his wife, that he had been in a "thoroughly financial and disgusting state of mind all day."[35]

That Keynes' critique of markets is partly rooted on his ethics is not surprising. His 1938 autobiographical essay, *My Early Beliefs*, is, among other things, a confession of his anti-Benthamite views. He noted that society overvalues "the economic criterion" in decision-making and actions, thus destroying "the quality of the popular Ideal." Bentham's philosophy of financial calculation he called "the worm which has been gnawing at the insides of modern civilisation and is responsible for its present moral decay."[36] A reading of *all* Keynes's works—books, pamphlets, essays, letters and memos—shows his appreciation of standards other than the economic: ethical standards, standards of justice, of health, of duty are also important. He was concerned with social cohesion: "with the order and pattern of life amongst communities and the emotions which they can inspire." These standards and values are ignored by the markets and they justify interference with them. His radio address on "Art and the State" (1936) decries "the Treasury view" (cost-benefit analysis, we would call it) as "the sole respectable purpose" of a community, and proposes ignoring it in favor of a massive rebuilding of the South of London and of the similarly run-down sections of the older cities.[37]

Neither did Keynes ignore the effect of the free market on popular culture, which has recently emerged as an important issue. Perhaps Keynes had an inkling of our cultural future when, in 1924, he went to the cinema to see a rendition of Thomas Hardy's *Tess of the d'Urbervilles*. Although advertised as "a masterpiece of literature [now] become a masterpiece of the screen," it left Keynes in shock: "Not a single cow is seen in this film, not a glimpse of the open downs . . . Let anyone who wants to vomit see Angel take from his pocket a picture of Tess . . . The horror of modern exploitation strikes in this film with overwhelming force. Profanation, vulgarity and falsehood cannot go much further."[38] He never forgot the experience. Soon after the war he raised the cry "Death to Hollywood!"[39] The spirit of his criticism is clearly anti-Benthamite.

Keynes' activities on behalf of the Council for the Encouragement of Music and the Arts (CEMA) are well known. In the spirit of his 1936 "Art and the State," in 1945 he expressed the hope that post-war reconstruction be not limited to "shelter and comfort," but that it would look to satisfying also "the human craving for solidarity,"[40] which was possible only by interfering with the narrow Benthamite values expressed in the market place.

Thus, it is not surprising that *The General Theory*, too, betrays Keynes' animus against free markets. The financial markets are viewed as sabotaging "enterprise," the making of goods, so much so that Keynes is in favor of legislation to make stock buying illiquid ("permanent and indissoluble, like marriage"). Looking at the future, he proposes the "euthanasia of the rentier," that is, the death of financial calculations. And, in the last chapter of *The General Theory* he decries "the arbitrary and inequitable distribution of wealth and incomes" set by the free market. While there is justification for *some* inequalities of both, he says, the inequalities existing "today" are too large,[41] a belief that, incidentally, implies rejection of the marginal productivity theory of distribution as a discription of the functional distribution of income. . And in the second chapter of *The General Theory* Keynes pays homage to the wisdom of labor unions in resisting a cut in wages.

III

Conclusion

WE HAVE REVIEWED many instances of Keynes' attack on free markets: the case of Indian jute; the 1919 speculation on the mark; the 1920s British foreign investments; the post-1925 deflationary policy of Mr. Churchill; the case of coal and cotton; Funk's bilateralism; Keynes' CU proposals; his proposals on internationally-traded commodities; his "cultural" observations (Hollywood); his concern for social cohesion (rebuilding of the cities). We have suggested that his views owed much to his practical involvement with markets during the First World War and as an investor; to his acceptance of the given ("cartels already exist"); to his preference for stability over the "chaos" of *laissez faire*; and to his belief that economics is a "moral science." His anti-Benthamism was also an important factor, since he thought that free markets embodied a Benthamite ethics.

It is clear that Keynes' micro-economics is as activistic as his macro-economics: in both fields, governments need to intervene for the public good.

Notes

1. J. M. Keynes, *The Collected Writings of John Maynard Keynes* (henceforth *C.W.*), Vol. IX, 304–5 ("Am I a Liberal?" August 1925).
2. *C.W.*, VII, xxvi. See also D. E. Moggridge, *Maynard Keynes: An Economist's Biography* (London: 1992), 610–11.
3. *C.W.*, XV, 8 ("The Position of the Jute Trade," 19 March 1907).
4. *C.W.*, XVII, 131 ("Note on the Exchange Value of the Mark," 20 Oct. 1919).
5. ———, 177 ("The Present State of the Foreign Exchanges," 16 Jan. 1920).
6. British prices have risen about 17-fold since 1920 and the pound is now worth about $1.50.
7. *C.W.*, XIX, 221 ("A Drastic Remedy for Unemployment," *The Nation and Athenaeum, N&A*, 24 May 1924).
8. ———, 281–2 ("Foreign Investment and National Advantages," *N&A*, 9 Aug. 1924).
9. ———, 224 (To the Editors of *The Times*, 28 May 1924).
10. ———, 228 ("A Drastic Remedy," *op. cit.*).
11. ———, 172 ("The French Press and Russia," *N&A*, 9 Feb. 1924).
12. *C.W.*, XX, 64, 68, 71, 72 and *passim* (The Macmillan Committee, 1930).
13. ———, 47–8.
14. *C.W.* XIX, 427–34 (letter to the Editors of *The Times*, 28 Aug. 1925).
15. ———, 535 ("Back to the Coal Problem," *N&A*, 15 May 1926).
16. ———, 546–52 ("The Control of Raw Materials by Governments," *N&A*, 12 June 1926).
17. *C.W.*, XX, 224–7 (The Macmillan Committee, 1930).
18. *C.W.*, XXV, 2, 8–9, 15 ("Proposals to Counter the German 'New Order'," 1 Dec. 1940).

19. ———, 21.
20. ———, 33–40 ("Proposals for an International Currency Union," 8 Sept. 1941).
21. *C.W.*, VII, 160 (*The General Theory of Employment, Interest and Money*, 1936).
22. *C.W.*, XXV, 26 ("Post-War Currency Policy," 8 Sept. 1941).
23. *C.W.*, XXIII, 177–8 (letter to Dean Acheson, 29 July 1941).
24. R. F. Kahn, "Historical Origins of the International Monetary Fund", in *Keynes and International Monetary Relations*, A.P. Thirwall, ed. (New York: 1976), quoting George Bolton in *The Banker* (London, Nov. 1972). For an analysis of the episode, see my *John Maynard Keynes: A Study in the Psychology of Original Work* (London: 1994), ch. 12.
25. *C.W.*, XXVII, 131 ("The International Control of Raw Materials," 19 Apr. 1942).
26. *C.W.*, IX, 332 ("The Economic Possibilities for Our Grandchildren," 1930).
27. *C.W.*, XX, 184 (The Macmillan Committee, 1930).
28. *C.W.*, XIV, 297 and 300. (letters to R. F. Harrod, 4 and 16 July 1938).
29. *C.W.*, XX, 83, 98 (The Macmillan Committee, 1930).
30. *C.W.*, XII, 109 ("Post-mortem on Investment Policy," 8 May 1938).
31. *C.W.*, IV, 18 (*A Tract on Monetary Reform*, 1923). Emphasis added.
32. *C.W.*, XII, 35 (letter to O.T. Falk, 18 Sept. 1931.)
33. ———, 27 (letter to F.C. Scott, 4 Sept. 1937).
34. ———, 29, 38–9, 106, 109.
35. *C.W.* XX, 1 (letter to Lydia Keynes, 25 Oct. 1929).
36. *C.W.* X, 445 (*My Early Beliefs*, 1938).
37. *C.W.* XXVIII, 342-ff. ("Art and the State," 1936).
38. ———, 316–17 (review of "Tess of the d'Urbervilles," 1924).
39. ———, 372 ("The Arts Council: Its Policy and Hopes," 1945).
40. ———, 371.
41. *C.W.* VII, 374 (*The General Theory, op. cit*, 1936).

***In Memoriam:* Adolph Lowe, 1893–1995**

A PATHBREAKING ECONOMIST and a lifelong advocate of freedom, Professor Adolph Lowe, last surviving member of the faculty of Alvin Johnson's "university-in-exile"—the Graduate Faculty of Political and Social Science of New York's New School for Social Research—died in Wolfenbüttel, Germany on June 3, 1995. He was 102 years old.

Dr. Lowe was associated with the *American Journal of Economics and Sociology* from 1940 until his passing. Even earlier in 1935, in the course of preparing to found the *Journal,* I encountered his book, entitled *Economics and Sociology: A Plea for Co-operation in the Social Sciences.* The words that appear towards the bottom of the front cover of every issue of this *Journal* "constructive synthesis in the social sciences" are the words of John Dewey which were used by Lowe in his dedication of the book to both Franz Oppenheimer, the great Georgist and a founder of modern German sociology, and the latter's successor at the University of Frankfort, Karl Mannheim.

Despite the Journal's early championing of an interdisciplinary approach to social science and the widespread adoption of it in higher education, the first