

Keynes, the Keynesians and Monetarism

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Preface

Since my first collection of papers and articles, *Reflections on Monetarism*, was published in 1992, I have written several further papers on monetary economics and British economic policy-making. When these papers were being prepared they seemed rather miscellaneous, but they were all related in one way or another to Keynes, the Keynesians and monetarism. This collection brings the new papers together in one volume. I have included three of the pieces from *Reflections on Monetarism*, since they also were concerned with the reputations of Keynes himself and the two schools of thought which have quarrelled about his legacy. The three pieces have been rewritten to bring them up to date.

I would like to make three remarks on presentation. First, in the text of the book the different pieces are called 'essays'. I think this is the best way to characterize them, because the argument of the book is not sufficiently consecutive to justify the use of the word 'chapter'. However, I hope that – with the various changes I have made for this book – there is enough substance and thematic unity for the word 'essay' to be more appropriate than 'paper'. Secondly, as this is a personal collection, a case could be made for using the first person throughout. But I try to avoid the first person in my work, as (in my opinion) resort to the phrase 'in my opinion' is the last refuge of the person who is losing the debate. As far as possible, an argument should be substantiated by an appeal to facts or logic. But relentless use of the third person ('the author said . . .') can sometimes become stilted and clumsy. I have therefore adopted the first person in the Introduction, the short notes which preface the book's different parts, the second part of the exchange on the 1981 Budget with Professor Nickell in Essay 10 and the autobiographical Essay 15. If the result is inconsistency, I apologize. Finally, the essays often refer to the same events or people, and the result is a certain amount of repetition. With harsher editing, the repetition could no doubt have been reduced. Nevertheless, I feel that each essay has something to add, while the excision of passages and phrases in Essay A similar to those in Essay B would impede the flow of the argument in Essay A. So I have left the offending passages and phrases in Essay A. Again, I apologize if the outcome is less than ideal.

In the Introduction to *Reflections on Monetarism* I mentioned a number of people who had helped me in my work over the previous 20 years. The list has not changed much and perhaps I should not embarrass them again by

repeating the exercise. But I would like to express my thanks to Sir Alan Budd of Queen's College, Oxford, Professor Vicky Chick of University College London, Professor Charles Goodhart of the London School of Economics, Professor Stephen Nickell of Nuffield College, Oxford, Walter Eltis of Exeter College, Oxford, and Professor Geoffrey Wood of the Cass Business School in the UK, the late Professor Milton Friedman, Professor Thomas Mayer and Professor Allan Meltzer in the USA, and Professor David Laidler in Canada. Their own work has been a stimulus and inspiration to me, as this collection shows. I have often disagreed with them, but they have always taken my work seriously (when many others have not) and exchanged views with me in an open-minded way where the only objective is to establish the truth. In late 2005 Professor Goodhart kindly arranged for me to become a visiting research fellow at the London School of Economics' Financial Markets Group. I am particularly grateful to Professor Nickell for his permission to reprint the exchange on the 1981 Budget (which appears here as Essay 10) and for the courteous way in which the exchange was conducted. I would also like to acknowledge that three of the essays evolved from contributions to Institute of Economic Affairs (IEA) publications, edited by Professor Philip Booth. My thanks are owed to both the IEA and Professor Booth.

Most of the essays here were written while I was working at Lombard Street Research, the research company I founded in July 1989 and have now left. I would like to thank Simon Ward (now at New Star Asset Management) and Stewart Robertson (now at Aviva, the insurance company) for their contribution both to my work and to the success of Lombard Street Research. Professor Gordon Pepper – who bravely took on the chairmanship of Lombard Street Research a few years ago – continues to challenge me in several ways and I must again say 'thank you'. More recently Ed Nelson has questioned my interpretation of various macro-economic developments in these years and I must thank him for spending so much time trying to put me straight.

None of the above is in any way responsible for the judgements and analyses in this book. I alone am to be blamed for all the mistakes and infelicities. I should also be held to account for any unjustified roughness to particular individuals. However, the 20 years to the mid-1990s were a period of bitter controversy among British economists, as well as of macro-economic turmoil that was painful to millions of people. It seems to me that – if the individuals in key positions made mistakes – they deserve to be criticized. (They would have been praised if they had got it right.) I like to think that some of the ideas I injected into the public debate helped in the policy improvement from 1993 onwards, but perhaps I am kidding myself.

Finally, I am grateful to the various editors for permission to reprint the various papers and articles.

Acknowledgements

Essay 1: Revised and updated version of an article 'Are we really all Keynesians now?' in the April 1975 issue of *Encounter*, originally republished with the permission of the editor of *Encounter* in the author's *Reflections on Monetarism* (Aldershot, UK and Brookfield, US: Edward Elgar, 1992).

Essay 2: Revised and expanded version of a book review of the second volume of Skidelsky's biography of Keynes, which appeared in *The Spectator* of 7 November 1992, by kind permission of the publisher of *The Spectator*.

Essay 3: Revised and updated version of a lecture given at Cardiff Business School in November 1990, and first published in the author's *Reflections on Monetarism*.

Essay 4: Reprinted, with minor changes, from the author's 'Did Britain have a Keynesian revolution? Fiscal policy since 1941' in John Maloney (ed.), *Debt and Deficits: An Historical Perspective* (Cheltenham, UK and Lyme, USA: Edward Elgar, 1998), with the copyright held by the author.

Essay 5: Revised version of a paper 'Fashions and continuity in British fiscal policy', which appeared in the March 1999 issue of *Economic Affairs*, by kind permission of the Institute of Economic Affairs.

Essay 6: Revised and updated version of chapter 4 'The philosophical implications' of the author's *Monetarism: An Essay in Definition* (London: Centre for Policy Studies, 1978), by kind permission of the Centre for Policy Studies.

Essay 7: Revised and updated version of a paper 'British and American monetarism compared', given at the 8th Keynes seminar at the University of Kent and published in Roger Hill (ed.), *Keynes, Money and Monetarism* (London: Macmillan, 1989), by kind permission of Palgrave Macmillan.

Essay 8: Revised version of an article 'The futility of deficit financing as a cure for recession' in *The Times* of 23 October 1975, by kind permission of *The Times*.

Essay 9: Reprinted, with minor changes, from the paper 'Why the 1981 Budget mattered: the end of naïve Keynesianism' in Philip Booth (ed.), *Were 364 Economists All Wrong?* (London: Institute of Economic Affairs, 2006), by kind permission of the Institute of Economic Affairs.

Essay 10: Reprinted, with minor changes, from an exchange between the author and Professor Stephen Nickell in the December 2006 issue of *Economic Affairs*, by kind permission of the Institute of Economic Affairs and Professor Stephen Nickell.

Essay 11: Revised and updated version of an article 'Monetarism: success in practice, failure in theory' in the *Times Literary Supplement* of 18 April 1997, by kind permission of the *Times Literary Supplement*.

Essay 12: Revised version of a paper 'Monetarism: a rejoinder' in the July–September 2004 issue of *World Economics* (Henley-on-Thames: NTC Economic and Financial Publishing), in response to an assessment of monetarism by Thomas Mayer and Patrick Minford in the April–June 2004 issue, by kind permission of the editorial board and publisher of *World Economics*.

Essay 13: Revised and updated version of a paper 'The UK's achievement of economic stability: how and why did it happen?' in the October–December 2002 issue of *World Economics* (Henley-on-Thames: NTC Economic and Financial Publishing), by kind permission of the editorial board and publisher of *World Economics*.

Essay 14: Reprinted, with minor changes, from the author's paper 'Money, asset prices and the boom–bust cycles in the UK' in Kent Matthews and Philip Booth (eds), *Issues in Monetary Policy: The Relationship between Money and the Financial Markets* (Chichester: John Wiley and Sons, 2006).

Essay 15: Reprinted, with minor changes, from the author's paper 'The role of money in the British business cycle: a personal perspective' in the third 2004 issue of *The Business Economist*, by kind permission of the editor of *The Business Economist*.

'[I]ncomes and [the] prices [of securities] necessarily change until the aggregate of the amounts of money which individuals choose to hold at the new level of incomes and prices thus brought about has come to equality with the amount of money created by the banking system. This, indeed, is the fundamental proposition of monetary theory.'

(Penultimate paragraph of Chapter 7 of *The General Theory of Employment, Interest and Money* by John Maynard Keynes)