PART ONE

Keynes and the Keynesians

Most British economists in the 40 years from 1945 regarded themselves as 'Keynesians', but this did not mean that they read Keynes. It was easier to absorb Keynesianism by studying macroeconomics textbooks (which from the late 1940s presented the multiplier theory of national income determination developed in books III and IV of The General Theory*) and by listening to the leading Keynesians of the day (Kahn, Harrod, Mrs Joan Robinson, Kaldor). But the leading Keynesians had their own agenda. Most of them had studied in the Cambridge of the 1930s and 1940s, where some form of socialist society was seen as an ideal to be admired and supported. Their political tendencies had an important effect on the kind of economics they liked to do. Marx himself had said that a communist society would have no use for money and banks, while even in a mixed economy (such as Britain had become by the 1950s) the 'planning' of state-owned industries could replace the resource allocation role performed by the financial system in a free market economy. The Keynesians therefore downgraded the teaching of monetary economics and denied that the quantity of money had a significant role in the economy.*

Ironically, Keynes himself was fascinated by money and finance. The result was that over time the Keynesians lost touch with what Keynes had actually written. In the first essay here, 'Were "the Keynesians" loyal followers of Keynes?', based on a piece which appeared in Encounter *in 1975, I contrast the views on inflation expressed in Keynes's writings with those articulated by the leading Keynesians in the 1970s. Keynes was an intellectual chameleon, but undoubtedly he thought that inflation had monetary causes, and he had little time for centralized control over prices and incomes. The Keynesians' advocacy of incomes policy therefore had no justification in Keynes's work. (In a rather similar piece, entitled 'Keynes on Inflation' in the 1981* Federal Reserve Bank of Richmond Economic Review, *Thomas Humphrey even suggested that there were 'enough monetarist elements' in Keynes's analysis 'to qualify him as at least a partial monetarist as far as inflation theory is concerned'.)*

The misrepresentation of Keynes was made easier by the complexity of The General Theory. *The second essay, 'What was Keynes's best book?', endorses and elaborates a brief comment in Skidelsky's biography of Keynes, by arguing that* The Treatise on Money *(published in 1930) is superior to* The General Theory *(1936). The essay is an expansion of a review of the second volume of Skidelsky's biography, which appeared in* The Spectator *in November 1992, just a few weeks after the pound was expelled from the European exchange rate mechanism on Black Wednesday. Who can say what*

Keynes would have thought of the debates about the ERM which were such a prominent feature of British politics in the late 1980s and early 1990s? But for virtually all his career he was opposed to basing interest rate decisions on the exchange rate, particularly if the exchange rate were fixed as part of an international gold standard. The case against gold was spelt out in, for example, his 1923 Tract on Monetary Reform, *a book praised by the arch-monetarist Milton Friedman. So it was curious that most Keynesian academic economists were vocal protagonists of the ERM in the late 1980s. The most likely explanation was that they saw a fixed exchange rate as an alternative to money supply targets, which the majority of them abominated. As I noted in an inaugural lecture to an honorary professorship at Cardiff Business School in November 1990, Keynes had in fact proposed a policy regime rather like money supply targeting in the* Tract. *The intellectual origins of the Keynesians' friendliness towards the ERM were to be sought not in Keynes, but in the UK policy-making elite's (and particularly the Bank of England's) long commitment to the gold standard.*