

Marketplace



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'Robert Skidelsky has moved away from Keynes and closer to the Keynesians'

In 1936, Keynes published *The General Theory of Employment, Interest and Money*, usually regarded as the 20th century's most important work on economics. Central to the *General Theory's* larger argument was "the principle of effective demand", that employment depended on the demand for output. With demand or "expenditure" therefore being so important, economists needed a view on the determinants of national expenditure.

Despite the single theory implied by book's title, it actually contained two theories about aggregate expenditure. The first was traditional, that expenditure depended on the quantity of money. The second was novel, that expenditure could be equated with the sum of consumption and investment and should be seen as a multiple of investment. The revolutionary element in the *General Theory* arose from the sidelining of the monetary side of the story and the promotion of the new, alternative theory.

The technical claim that expenditure was a multiple of investment led to the more politically charged statement that expenditure was a multiple of private *and public* investment. Further, if private investment were too weak to motivate a level of aggregate expenditure consistent with high employment, the state should deliberately boost public investment. Keynes proceeded to assert that "a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment".

So it is the second of the two theories—the multiplier theory of aggregate demand—that culminates in the set of notions widely seen nowadays as distinctively "Keynesian". This goes much beyond Keynes in stressing the virtues of fiscal policy and the vices of monetary policy. Some of them also boast that the relatively full employment in most industrial countries between 1945-1975 resulted from governments' adoption of their approach to economic management.

All of which is fine, if you are prepared to overlook a mass of contrary evidence. In *Keynes: The Return of the Master* (Allen Lane, 2009), Robert Skidelsky turns out to be far more Keynesian (in the interventionist, fiscalist sense) than he was in his justly celebrated biography of Keynes, published in three volumes between 1983 and 2001. One argument of the latest book, and espe-

cially of its chapter on "The Keynesian revolution: success or failure", is that the leading industrial economies performed better in the 30 Keynesian years from 1945 than in the following 30 post-Keynesian years when monetary policy was revived to combat inflation. He also blames the current Great Recession largely on New Classical Economics, and the related notions of "rational expectations", real business cycle theory and the efficient markets hypothesis, which are associated with today's University of Chicago. "To the non-economist [the premises of New Classical Economics] will seem mad; but they are the only way most economists nowadays know how to do economics."

But *The Return of the Master* is too glib. For example, chapter five simplifies to the point of caricature. Skidelsky acknowledged in a subtle and worthwhile discussion in the biography (chapter 16 of the second volume) that Keynes's influence on macroeconomic thinking in Germany and France was minimal. But until 1975 their economic performance was better than that of both Britain and the US, where Keynes had a big impact.

Skidelsky draws blood in his assault on New Classical Economics. Taken to its logical extreme, New Classical Economics proposes that, because people are so smart they will anticipate anything policy makers can do for them, policy makers shouldn't try. Skidelsky is right to attack this sort of nonsense. Keynes's writings support his attack, since they emphasise uncertainty and risk and the power of policy to alter macroeconomic outcomes. Skidelsky also wrongly overlooks the monetary dimension of the current crisis. The main cause of the drastic cyclical upheaval through which the world economy is now passing, as of the Great Depression between 1929 and 1933, and of the UK's boom-bust cycles in the 1970s and 1980s, is a large fluctuation in the rate of money growth. It is the first of the two theories in the *General Theory*, not the overblown and over-politicised second theory (of multipliers, fiscalism and the rest), that speaks with most relevance to today's policy makers. Skidelsky has moved away from Keynes and closer to the Keynesians since completing his biography. Like them, he has underestimated the importance, robustness and topicality of his hero's contributions to monetary policy and banking thought.