

John Maynard Keynes. Volume 3: Fighting for Freedom, 1937–1946. By Robert Skidelsky. London: Viking-Penguin, 2001. xxv + 580 pp. Index, illustrations, photographs, tables, references. Cloth, \$34.95. ISBN 0-670-03022-8.

Reviewed by Jack High

The third volume of Robert Skidelsky's biography covers John Maynard Keynes at the height of his powers, from shortly after the publication of his *General Theory* in 1936 to his premature death, from a bacterial infection of the heart, in April 1946. The purpose of the volume is to "rescue Keynes from the economists and place him in the world of history where he properly belongs." The technique is to provide us with a wealth of historical detail, considerably more than is found in previous biographies of Keynes by Roy Harrod (1951) and Donald Moggeridge (1992).

One may wonder whether the rescue mission is necessary. Of economists who made their reputation in the first half of the twentieth century, none is more assured of a place in the Pantheon of Economists than Lord Keynes. His writings, his teaching, his personality, his thirty-four-year editorship of the *Economic Journal*, his devoted colleagues and followers, and his spirited critics have created a figure larger than life. We would have to go back to Alfred Marshall, or even David Ricardo, to find an economist of equal influence. Even if we grant that the rescue mission is worthwhile (and there is something almost noble in trying to save anyone from the dismal profession), I doubt that Professor Skidelsky will succeed. The volume contains too much economics to be followed by any but economists. We do learn something of the warm relationship between Keynes and his wife, Lydia Lopokova, an accomplished ballerina; of Keynes's fatal disease, which today could be cured with antibiotics; of his involvement in the arts, which included the launch of the Arts Council of Great Britain; of his affection for his parents, with whom he regularly lunched when in Cambridge; of his interaction with his old Bloomsbury group and the sad suicide of Virginia Woolf. But Keynes was primarily a man of the mind, and in the years before, during, and after World War II, his mind was concerned with the financial upheaval and aftermath of that

cataclysmic event. Skidelsky is too true to Keynes's life to slight the financial issues, which he presents in impressive detail. His modest claim, that "I trust that I have learnt some economics," belies his command of international finance and the difficulty of following Keynes's ideas. *Fighting for Freedom* is not light reading, even for economists.

Keynes entered the financial fray with *How to Pay for the War* (1940), a policy tract that opposed rationing and inflation. He thought that controls and rationing were too cumbersome and inefficient, and that they suppressed the price signals that would call forth greater supply. Besides, comprehensive planning was more appropriate to Germany's dictatorship than to Britain's democracy. He also thought that inflation would not be as effective at raising funds as it had been in World War I, because labor unions would require wage increases in advance of rising prices. The only traditional means of finance remaining was an increase in taxes, which was politically unpopular. Keynes, ever resourceful, suggested compulsory savings, achieved by taking money from the worker's paycheck during the war and repaying with interest when the war ended, which would have the additional advantage of increasing aggregate demand at war's end and thus mitigating an expected postwar slump. Labor strenuously objected to the compulsory aspect of savings, and Britain did not implement Keynes's ideas. It turned instead to planning and rationing. Nevertheless, in one of the more intriguing arguments of the book, Skidelsky claims that Keynes's ideas on war finance were important, because they won broad support among economists and revealed that Keynes was as worried about inflation in times of full employment as he was about unemployment in times of recession. This restored Keynes's reputation among critics of *The General Theory* and helped to launch Keynesianism: Keynes showed his ideas could be used to quell inflation as well as reduce unemployment, and they were more compatible with the operation of the price system than were controls.

Skidelsky's interpretation of the International Clearing Union, Keynes's plan for a postwar monetary system, has created controversy. The usual interpretation is that Keynes's Union and the plan put forth by Harry Dexter White of the U.S. Treasury were similar in aim and scope. The Bretton Woods Agreement negotiated in 1944, which created the International Monetary Fund and the World Bank, was the joint product of

White and Keynes. Skidelsky, however, emphasizes the differences between Keynes's Union and White's plan. In particular, he says that White's plan functioned more like a gold standard, whereas Keynes's Union created a fiat currency (bancor) that would finance balance-of-payments deficits in a way that put less pressure on devaluation. J. Bradford DeLong, in a penetrating and largely laudatory review of Skidelsky's work in the *Journal of Economic Literature* (March 2002), criticizes Skidelsky for making too much of these differences and especially for highlighting the friction between the United States and Great Britain. On these issues, says DeLong, Skidelsky "seems to lose his moorings."¹

DeLong is right to draw attention to the commonality between White's plan and Keynes's, a commonality that Keynes himself emphasized and that Skidelsky would not deny, but the plans had two large points of contention that were based in the economic interests of the two countries. One difference was that the Clearing Union offered only one-way convertibility: governments could exchange gold for bancor, but they could not redeem bancor or their own currencies for gold. Gold did not anchor the Clearing Union in the way that it anchored Bretton Woods. Britain was opposed to a gold standard, while the United States favored one. Second, a country that ran large trade surpluses (think of modern Japan) would build up credits in the Clearing Union. "Credit balances exceeding quotas at the end of the year would be confiscated and transferred to the reserve fund" (p. 206). In this way, Keynes's Union put pressure on trade-surplus countries to revalue, instead of putting the onus on the trade-deficit countries to devalue. Keynes, of course, expected Britain to be a deficit nation, and the United States a surplus nation at the end of the war.

Whatever position we take on the controversy over Bretton Woods, there is no doubt that there was much friction between the United States and Britain in postwar negotiations. The cold war has obscured how little sympathy the United States had with the British empire. Roosevelt and Secretary of State Cordell Hull were determined to end Britain's system of trading preferences, which favored nations in the empire. The preferences hurt U.S. exports, especially in agriculture, and they threatened a return of

¹ J. Bradford DeLong, "Review of Skidelsky's *John Maynard Keynes: Fighting for Britain*," *Journal of Economic Literature*, 40 (March 2002): 155–162.

the trade wars. Moreover, influential policy makers, including Harry White, believed that Russia, not England, would be America's most important postwar ally. For its part, Britain felt that it had borne proportionately heavier costs for fighting the war than North America, and it wanted Canada and the United States to recognize its special contribution by providing aid. Based on his earlier negotiations over Lend-Lease, Keynes was confident that he could get an interest free loan from the United States to help Britain's transition from a peacetime to a wartime economy. Thanks to a poor negotiating strategy and a lack of American sympathy, Keynes was unable to secure terms as favorable as Britain expected, which hurt his reputation in Whitehall and diminished Britain's postwar financial position. The clash of American and British interests in financial negotiations is one of the most illuminating parts of Skidelsky's narrative.

Skidelsky constructs a richly detailed portrait of Keynes. He does not shy away from Keynes's faults—overconfidence, opportunism, rudeness at times—but overall the impression is favorable. Besides his brilliance, his industry, his fertile imagination, qualities for which he is well known, Keynes was loyal to those with whom he worked. It is inconceivable that Keynes would have secretly passed information to the Americans, as White did to the Russians. We learn, too, that Keynes, hard though he worked, had a rewarding personal life; fittingly, Keynes spent the last afternoon of his life walking along a footpath toward his beloved Tilton discussing poetry with Lydia. He also carried out civic duties at Eton, Cambridge, and the Arts Council. In fact, all his efforts toward war finance were performed as civic duty; he served as an unpaid advisor to the British government.

Skidelsky ends with a brief account of the rise and fall of Keynesianism and the ascendancy of monetarism and rational expectations. We could conclude from Keynesianism's descent that Schumpeter's criticism—that the theory was not general and that it missed the longer-term dynamics of capitalism—hit pretty near the mark.² We might also add that Keynes underestimated the difficulty of economics. “Is it not, intellectually regarded, a very easy subject compared with the higher branches of

² Joseph A. Schumpeter, “John Maynard Keynes,” reprinted in *Ten Great Economists* (New York, 1951), 275, 283, 286.

philosophy and pure science,” he asked.³ Well, no. Otherwise, how are we to explain the egregious errors of the great philosophers regarding economic doctrine, or how late they came to a roughly accurate conception of economic laws, and how even now the leading lights find it so difficult to agree on fundamental economic methods and propositions? Keynes’s underestimation of his subject matter, joined with his impatience, produced a theoretical edifice that was less sound and less stable than Keynes believed. But we should also add that the descent of Keynesian economics is not the whole story, nor its end. There is the Keynesian framework, which even so formidable a critic as Milton Friedman adopted to criticize Keynesian doctrine, and which still stands.⁴ There are the national income accounts, which bear a close resemblance to Keynes’s aggregate categories. There are post-Keynesians and new Keynesians. And there is the Keynes who, despite his mathematical gifts, expressed his ideas mainly in words, who kept his work relevant to events, who revised his ideas in the light of criticism, and whose methods may yet be recognized as an important contribution to economics. *Fighting for Freedom* has added interest, drama, and depth to a story that is still being written.

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³ John Maynard Keynes, “Alfred Marshall,” in *Essays in Biography* (New York, 1963 [1951]), 140–41.

⁴ See Don Patinkin, “The Chicago Tradition, the Quantity Theory, and Friedman,” reprinted in *Essays On and In the Chicago Tradition* (Durham, N.C., 1981), esp. 242, 249.