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KEYNES, kanz, John Maynard (1883-1946)

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Elite

Pica

(A)

1 KEYNES, John Maynard (1883-1946),
 2 English economist, whose work was influential
 3 in ending "laissez faire" as the dominant rule
 4 for economic policy. Although a variant of
 5 economic theory is called Keynesian economics,
 6 Keynes did not found a school; he set off a
 7 series of movements that radically changed the
 8 ways economists view the world and the perceptions
 9 of economists and the public about the possi-
 10 bility of controlling the economy.

(C)

11 Life. Keynes was born in Cambridge, England,
 12 on July 5, 1883. His father, John Neville Keynes,
 13 was a university lecturer and outstanding admin-
 14 istrator at Cambridge University and the author
 15 of a standard book on The Scope and Methods of
 16 Political Economy.

17 Keynes was educated at Eton (1897-1902) and
 18 Cambridge (Kings College); (1902-05). He studied
 19 economics for a civil service examination and
 20 worked in the India Office (1906-08). He became
 21 a lecturer in economics at Cambridge (1908),
 22 fellow of King's College (1909), editor of the
 23 Economic Journal, and secretary of the Royal
 24 Economic Society (1911). In 1915 he accepted a
 25 position in the British treasury.

26 He was the principal representative of the
 27 treasury at the Paris Peace Conference (1919).
 28 Emotionally disturbed by developments at the
 29 conference, he resigned and wrote The Economic
 -- Consequences of the Peace (1919), in which he

Approved for Publication with alterations

Signed H. J. J. J.

Date Oct 10 1950



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1 strongly objected to the economic-reparations
2 features of the Treaty of Versailles.

3 After World War I, Keynes worked in London
4 during the week, ~~while~~ teaching and carrying
5 out supervisory duties at Cambridge on weekends.

6 Between 1920 and World War II his principal
7 publications were A Treatise on Probability (1921),
8 A Tract on Monetary Reform (1923), A Treatise on
9 Money (1925), Essays in Persuasion (1931), Essays
10 in Biography (1933), and The General Theory of
11 Employment, Interest and Money (1936). In 1937,
12 Keynes contracted a heart ailment that essentially
13 ended his career as an academic economist.

14 In 1940, Keynes became an adviser to the
15 chancellor of the exchequer. He was a principal
16 British delegate and negotiator at the Bretton
17 Woods Conference (1944), Stage II of Lend⁼Lease
18 (1944), arrangements for a United States loan to
19 Britain (1945), and the inauguration of the
20 International Monetary Fund and the International
21 Bank (1946). Keynes was a main architect of the
22 structure of international monetary and financial
23 institutions that arose after World War II. In
24 1942 he was named 1st Baron Keynes of Tilton.

25 In 1925, Keynes married Lydia Lopakova, who
26 had come to England with Diaghilev's Ballet.
27 Throughout his adult life he maintained a close
28 friendship with a group of brilliant authors,
29 artists, and philosophers. Later, with additions,
30 they constituted the Bloomsbury group. He died



C

1 on April 21, 1946, in Firle, Sussex.

2 Works. Keynes' main fame as an economist

3 rests upon The General Theory of Employment,

4 Interest and Money (1936). In this work Keynes

5 took issue with the ruling economic theory of

6 his day, the neoclassical theory of Alfred

7 Marshall, and the proposition that asserted that

8 the normal functioning of a market (capitalist)

9 economy leads to full employment. Keynes showed

10 that a market economy can operate at less than

11 full employment and that market processes can

12 be ineffective and even perverse in eliminating

13 unemployment. His analysis of how monetary and

14 financial arrangements affect the economy is the

15 rock upon which arguments for active governmental

16 fiscal and monetary policies rest. Keynes'

17 revolution transformed economics from a descriptive

18 and analytic study into a policy-oriented disci-

19 pline that is relevant for the management of a

20 capitalist economy. To Keynes, enlightened

21 intervention by the government in the economy

22 would show better results than those achieved

23 by policies of laissez faire.

24 Keynes' General Theory is an inquiry into

25 the principles that determine the overall behavior

26 of a capitalist economy. This work, together

27 with Keynes' contributions to the interpretative

28 literature that followed its publication, was

29 the culmination of Keynes' career as an economist.

30 It dealt with the interrelations among the



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1 monetary, financial, exchange, and production
2 dimension^s of an economy that is explicitly
3 capitalist, in the sense that businessmen and
4 bankers interact to finance investment activity.

5 The analytic method of standard economic
6 theory (both pre-Keynesian and today's) is first
7 to analyze exchange and production, while
8 abstracting from monetary matters, and then to
9 modify the results in the light of monetary con-
10 siderations. This methodology leads to the
11 quantity theory of money and ^{to} propositions that
12 exchange and production determine relative
13 prices and money determines the "price level"
14 (in the modern quantity theory money determines
15 money income).

16 In The General Theory, Keynes broke with this
17 tradition. He integrated money and finance into
18 the determination of both output and relative
19 prices. He did this by making investment depend
20 upon financial and monetary factors and by having
21 the markup on labor costs in the various produc-
22 tions depend in "equilibrium" on the ratio of
23 output to the cost of capital assets. Whereas
24 standard economics takes exchange to be the basic
25 activity, Keynes viewed investment and its financ-
26 ing as the economic activity that characterizes
27 a capitalist economy.

28 Owning and operating capital assets together
29 with investing involve time: capital assets pro-
30 vide inputs to production processes over time,



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1 and financial instruments are promises to make
2 payments over time. Because time is involved,
3 decisions to invest, finance, and compose
4 portfolios are made under conditions of "uncertainty."
5 With uncertainty, assets not only yield income
6 but also, in varying degrees, provide "insurance"
7 against various contingent outcomes. Under un-
8 certainty, where no calculable basis for es-
9 timating probabilities exists, history will affect
10 beliefs as to the likelihood of alternatives
11 occurring. [Inasmuch as assets are traded on
12 the basis of their yield under various contin-
13 gencies and as assets "carry" different propor-
14 tions of yield and insurance, a rise in the
15 subjective likelihood of events that makes insur-
16 ance valuable will change the relative prices
17 of assets. The price of the monetary unit is
18 always one, and possession of money assures that
19 units can fulfill contracts denominated in money.
20 A rise in the subjective likelihood that cash
21 to fulfill contracts will not be forthcoming
22 from the production process, therefore, leads
23 to a fall in the price level of assets that are
24 valued for the income they yield relative to the
25 price level of money, current output, and the
26 general level of money wages. [Keynes called the
27 relations that determine the price level of
28 assets "liquidity preference." A rise in liquidity
29 preference, which follows upon systemic failures
30 to meet financial commitments, will lead to a



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1 fall in capital asset prices relative to the
2 supply prices of investment output. This, along
3 with the impact of the change in liquidity
4 preference on new financing terms, will decrease
5 investment. Given consumption behavior, a fall
6 in investment activity leads to a fall in income,
7 employment, and profits. In this way Keynes
8 constructed an investment theory of business
9 cycles and a financial theory of investment.

10 Keynes' theory shunted aside the explanation
11 of employment and income distribution by the
12 forces underlying supply and demand. Upon the
13 appearance of The General Theory, a process of
14 interpretation and reformulation began that led
15 to the incorporation of the underemployment re-
16 sult of Keynes as a special case of the older
17 neoclassical theory. As a result, Keynes' theory
18 was changed from a deep critique of capitalism
19 as an inherently unstable system into a series
20 of banal rules for policy that emphasized the
21 superiority of fiscal interventions over control
22 of the money supply. By the mid-1960's the
23 revolutionary thrust of Keynes' critique of stan-
24 dard economics had been blunted. Only as the
25 capitalist economies began to misbehave in the
26 late 1970's was there a serious attempt by econo-
27 mists to recapture the gist of Keynes' theory.

28 HYMAN P. MINSKY

29 Washington University, St. Louis





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