

*Author of what is considered the definitive biography of that most eminent post-Victorian John Maynard Keynes, the distinguished economic historian Lord Robert Skidelsky has also written extensively on Eastern Europe and life after communism.*

*Lord Skidelsky draws on his extensive knowledge of Keynes and his milieu to paint a vivid portrait of the multifaceted man and his impact on economics and the world economy.*

## **Genius, Businessman, Bohemian: The Many Masks of Keynes**

INTERVIEWER: You've described John Maynard Keynes as a genius. What kind of a genius?

LORD ROBERT SKIDELSKY: He was a genius because he had this ability to think at right angles from existing thought and therefore was able to overcome the opposition between traditional points of view between capitalism and socialism, laissez-faire and planning, and lift the discussion onto a new plain. I think that is the mark of an original—to be able to take the discussion off in right angles from where it is at the moment. I think there was another aspect of this greatness as an economist, and that is that he was very much involved in the affairs of the world. He wasn't an ivory-tower person, and that made him particularly powerful as an economic statesman.

INTERVIEWER: So he was both a theorist and a practitioner?

LORD ROBERT SKIDELSKY: He was both theorist and a practitioner, and I think the two fertilized each other.

INTERVIEWER: He's an extraordinarily complex character, and just as a human being is fascinating. But how do you describe the forces that shaped him, that motivated him?

LORD ROBERT SKIDELSKY: The forces that shaped him were twofold. On the one hand he was a product of a late Victorian upbringing in an academic milieu. He was born in Cambridge. His father was an academic. He spent all his academic life tethered to Cambridge, and through Cambridge tethered to the British establishment. So there was always an element of Victorianism about him. But on the other hand, he lived through the most turbulent times imaginable—20th-century first world war, which destroyed his gilded youth; then the interval

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years with depression and so on. And so I think those two forces shaped him as a economist. He never entirely renounced the faiths of his fathers, but he adapted them to the new requirements of the 20th century. That's as he would have seen it.

INTERVIEWER: What do you mean by the phrase "faiths of his fathers"?

LORD ROBERT SKIDELSKY: Well, that was what Roy Harrod, his first biographer, called the "presuppositions of Harvey Road," where he was born, particularly the duty of the elite to lead the people, to give guidance, and quite a strong sense of what it is to be an economist, and let's say certain economical aspects to his character. He hated inefficiency. He wanted to see value for money. He was always thought to be rather economical in his hospitality. So there was this strong streak of Puritanism about him.

INTERVIEWER: Now, like one of your cats, you said he sort of led multiple lives. What were the three lives he led?

LORD ROBERT SKIDELSKY: Well, you can think of him as being located in three different places: his academic life in Cambridge, his business and artistic life partly in London, and then of course his country life at Tilton, where he retired to write his great works. So that's one way in which his life was bifurcated, but it was also split between many different activities. He was an economist; he was an investor; he was a patron of the arts and a lover of ballet. He was a speculator. He was also confidant of prime ministers. He had a civil service career. So he lived a very full life in all those ways.

INTERVIEWER: First let's go through some of those facets of his life one by one. He was, of course, an academic. How distinguished an academic was he?

LORD ROBERT SKIDELSKY: Well, he gained his supreme distinction through his theoretical books, particularly *The General Theory of Employment, Interest, and Money*. Until then I would say that his academic reputation was rather precariously poised. He hadn't quite made it. He'd written some brilliant books, but he hadn't made any wholly successful theoretical contributions. So I think *The General Theory* was important for his academic reputation, but he had achieved an enormous reputation as a public man with flashing polemics like *The*

*Economic Consequences of the Peace*, which really made him world-famous. And so he was a great authority on all matters financial long before he achieved a potential Nobel Prize-winning book, and he would certainly have got a Nobel Prize had it been established for economists, which it hadn't been then.

INTERVIEWER: Now, from a very young age he moved in the highest circles of the government, and when he was in 20s or something, he went out to India to kind of sort out the currency there?

LORD ROBERT SKIDELSKY: After he graduated he had spent two years in the India office as a civil servant. He never actually went to India. It was one of the peculiar features of the time that one could legislate on India from afar without ever bothering to visit the place. And he certainly pronounced on India, but he never went there. It was through the India office [that] he made connections with a number of leading politicians, but I don't think before the first world war he moved in the highest political circles. It was when he went to the Treasury in the first world war that he started to meet prime ministers and advise them.

INTERVIEWER: He was also at the same time a businessman, a speculator. How did he dress all the time, by the way? He was always wearing a homburg cap, wasn't he?

LORD ROBERT SKIDELSKY: Well, he tried to put on the curtailments of a conventional man of business, though of course a lot of his life was highly bohemian. But his moustache, his suits—they all were a bit of a façade to make him respectable in the world he wanted to influence. But they were one of his many masks.

INTERVIEWER: Many masks. Is it also true that even during the Depression he made money for his Cambridge college playing the market?

LORD ROBERT SKIDELSKY: He was a very successful investor, but not consistently successful. He was a successful investor for the institutions which he ran, at King's College, Cambridge. The King's College, Cambridge Chest, where he had discretion as bursar, scored spectacularly during the years of the Depression. I think he increased its assets from about 30,000 to 500,000 over 20 years, which was pretty good going when you consider the Great Depression

was in the middle of that. He was also very successful as a personal investor. He ended up leaving about £10 million in today's values. That's not a huge fortune by modern standards, but it was a big fortune by the standards of those days. His investment philosophy, curiously enough, changed in line with his economic theory. He learned a lot of his theory from his experience as an investor, and this theory in turn modified his practice as an investor. So towards the end he rejected speculation and upheld what he called the philosophy of faithfulness, that you should be married to your share like a man to his wife. That was in the days when marriage was not quite as fleeting as an experience as it's become since.

INTERVIEWER: He more than dabbled [in the market]; he was a speculator, an investor. What kind of things did he invest in?

LORD ROBERT SKIDELSKY: His investment career had a number of different phases. At first he was a speculator on currencies, particularly currencies, but that was in the early '20s, when currencies were floating. And he was a speculator just like [George] Soros today, but he didn't approve of floating exchange rates. But he thought, while they were there, you could make a lot of money out of it. After a time he came to the conclusion that currency speculation was a mug's game, and he said no one in the long run ever makes any money on it; you lose it if you go on with it. But he went on speculating in commodities, but gradually his investment policy became more cautious, and he made his big money really by investing in American utilities during the recovery from the Great Depression. In 1930 Keynes had almost no capital. It had all been wiped out, not on Wall Street but in the collapse of commodity prices in '29. So [in] 1930 he had nothing. By 1936 he had about a million dollars—no, much more than a million dollars. I am thinking of the wrong rate of exchange. Six hundred thousand pounds multiplied by four—\$2.5 million. So he made that amount of money between 1930 and 1936, but not by speculation, [but] by investing in very sound American stocks at a time when they were very underpriced, and he realized they were underpriced and that they were bound to make a very, very, very good recovery.

INTERVIEWER: Despite the money he made, he had a reputation as a stingy entertainer. You had a good story about that.

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LORD ROBERT SKIDELSKY: Yes. This is an aspect of his Victorianism, that he was generous in big things and quite stingy in small things. He realized the value of money. He kept accounts down to the nearest farthing of the currency as it was in those days. Vanessa Bell tells this story of Keynes giving 11 guests three grouse at one dinner in Tilton, and she said, "My eyes gleamed as the bones went round."

INTERVIEWER: Okay, so at the same time he led this extraordinary bohemian life. Just give us a sense of the people he knew and moved with.

LORD ROBERT SKIDELSKY: From about 1908 onwards—that's from the time he was in his mid-20s—he was a member of the Bloomsbury group, which was a group of Cambridge-related painters and writers who started living in the Bloomsbury district of London, and many of them became household names: Lytton Strachey, the biographer; Virginia Woolf, the novelist; Roger Fry, the art historian; and a number of painters—Vanessa Bell and Duncan Grant. And so Keynes rather remarkably was in that set, because he was not an artist in the sense that they were. I would say he was an artist in the use of language. He was also useful to them as an economist because he tended to manage their financial affairs, and later on when he made money, he helped them a great deal. But his particular close friends in that set were, first of all, Lytton Strachey and then Duncan Grant, with whom he had a love affair.

INTERVIEWER: Now, he was, as you've just alluded to, sexually complex. This is yet another of the masks he wore?

LORD ROBERT SKIDELSKY: It's very hard to understand the psychology of sex; I think we'd all agree on that. And certainly in the early part of his life, he was a practicing homosexual; that's to say, not a promiscuous one. I think that's important to add. He had a very... He adored Duncan Grant, and they had an affair which lasted two or three years. But then he switched, and in his late 30s, early 40s, he fell in love with a Russian ballerina, Lydia Lopokova, whose portrait, which you can see through there, was actually painted by Duncan Grant.

So the portrait of his wife was painted by his ex-boyfriend. They all lived in a kind of commune down here in the country. Well, it wasn't as close as it had been, because Bloomsbury didn't

really approve of Lydia. They thought she was a canary-brained sort of performer, and they were all very rational, and they liked high-minded discussion, and Lydia was inconsequential, very, very high-spirited, a great chatterer, and they didn't understand how this great intellectual genius could possibly see anything in her. In fact, it was an extraordinarily successful marriage, and they never bored each other. It was partly due to Lydia's absolutely inspired misuse of the English language. There's a famous occasion during the second world war when Keynes and his wife land at Ottawa Airport on a financial mission, and the whole of the Canadian government, headed by the high commissioner, Malcolm MacDonald, is on the runway to meet them, and Lydia rushes out ahead of Keynes, flings her arms around MacDonald, the high commissioner, whom she's never met, and explains, "So lovely to meet you, dear high commissar." And, you know, this was an example of her, of the language she used. Was it deliberate? Of course it was. She knew exactly the effect she was creating. Of course he fell in love with her on the spot.

INTERVIEWER: Of course Keynes was going to adore her, and he wrote to her constantly—almost daily, didn't he?

LORD ROBERT SKIDELSKY: He wrote to her almost every day. That was partly a consequence of their split life, because when Keynes married Lydia, he still retained his old bachelor habits in the sense that he spent part of the week in Cambridge, whereas Lydia very rarely went to Cambridge at that period. So the letters were mainly from him at Cambridge to Lydia in London and Tilton and vice versa. But still, the fact that they wrote to each other almost every day is a sign that their relationship was very, very close. They tried to have children, mind you, and I don't think Lydia was able to.

### ***Between the Wars and The Economic Consequences of the Peace***

INTERVIEWER: He was horrified by the terms imposed on the Germans at the end of World War I, wasn't he? Tell me what he did about that.

LORD ROBERT SKIDELSKY: He was in the Treasury in the first world war. He resigned in June 1919, just before the Versailles peace treaty was signed, in protest against the allied determination to extract huge reparations from Germany. He thought that it was a breach of faith; it was a breach of the armistice terms, Wilson's 14 points; and also that it was

economically nonsensical, because what Germany needed was to be reconstructed. And in fact what the whole of the European economy needed was to be reconstructed after the devastation of war. As he saw it, all the statesmen of Versailles could think about was how to squeeze money out of an already bankrupt Central Europe, and they gave no thought to how this economic machine, which had maintained the prosperity of Europe before the first world war, could be restarted. So this was the theme of *The Economic Consequences of the Peace*, with devastating portraits of [French Minister of War] Georges Clemenceau, [U.S. President] Woodrow Wilson, and [British Prime Minister David] Lloyd George, which made Keynes world-famous, because he became the great authority on the Treaty of Versailles. And all those who thought that the Treaty of Versailles was wrong—and there were many—regarded that book as their bible.

INTERVIEWER: What did he feel would result from this mistaken peace?

LORD ROBERT SKIDELSKY: The first sentence of the last paragraph of *The Consequences of the Peace* was, "... vengeance, I dare predict, will not limp," and vengeance, of course, came in the form of Adolf Hitler.

INTERVIEWER: ... He wrote *The Economic Consequences of the Peace* ... in a very short time?

LORD ROBERT SKIDELSKY: Well, *The Economic Consequences of the Peace* was written very, very quickly. He said, "I have kept up my rate of 1,000 words a day fit for the printers." That's how he described it. And he did it; he finished it in about three or four months. He started in June 1919, and the book was ready by October, November. It came out in December. In those days, publishers were much quicker with the old technology than they are with the new technology.

INTERVIEWER: Was he angry when he wrote it?

LORD ROBERT SKIDELSKY: Oh, yes. It was a book written with huge moral passion and economic eloquence. He really believed that the [Versailles] treaty was setting up a new war of revenge, and also that it was completely dislocating the economic life of Europe, already sufficiently shattered by the war but instead of trying to restore it, all the peacemakers could

think about were their own selfish concerns. And he was devastated about Woodrow Wilson, on whom they placed very high hopes initially, and described him as "the Presbyterian preacher bamboozled by the Welsh witch," the Welsh witch being Lloyd George.

INTERVIEWER: How did the great crash and the consequent Depression affect him?

LORD ROBERT SKIDELSKY: The Great Depression came at a point when his own thoughts were shifting. He'd written two very important theoretical books—*The Tract on Monetary Reform* in 1923 and *A Treatise on Money*, which came out in 1930—and both of them were attempts to explain persisting mass unemployment in Britain. But they were very British-focused, and they were focused on particular British institutions, particular rigidities in the British structure that had led to this low-employment trap in Britain. The world Depression changed his view because it was global, and it was the collapse of America, which hadn't been affected by the European war to anything like the extent that Europe had, which was not subject to any external shocks. It was the collapse of America which started him thinking that perhaps there was a fundamental flaw in the capitalist system, which meant that even very successful economies could suddenly collapse.

INTERVIEWER: Did he personally feel compassion for the unemployed or for the suffering that common people were going through at that time?

LORD ROBERT SKIDELSKY: I think that without wearing his heart on his sleeve, he certainly felt compassion. He felt that it was monstrously unfair that through the vagaries of the business cycle, masses of people should suddenly, through no fault of their own, find themselves out of work. He also felt that it was monstrous waste of resources; that in a world of scarcity, for resources to be unemployed, was just wrong. It was a condemnation of the system that allowed it to happen.

### ***The General Theory and the Invention of Macroeconomics***

INTERVIEWER: He set about working on his great book *The General Theory*. [And the Cambridge Circus formed.] Just describe the Cambridge Circus and how it operated.

LORD ROBERT SKIDELSKY: He started to work on *The General Theory* soon after the appearance of his *Treatise on Money* in 1930. I think he took up the pen to write the first bits of *The General Theory* in the autumn of 1931, and the reason was because we now had a world slump, and so *Treatise on Money* was a little bit obsolete. There were also technical problems with the *Treatise on Money* which he hadn't worked through. And in the early stages of writing *The General Theory* he was helped by a group called the Cambridge Circus, a group of young disciples you might say, young Cambridge economists, the chief of whom was Richard Kahn, whom Keynes described as his favorite pupil. Also the formidable Joan Robinson was very much involved. James Meade was around. All these became great economists in their own right later on, and they all helped him, particularly Richard Kahn who invented the theory of the multiplier, which was a key tool which Keynes used in *The General Theory*. But I don't think that they really wrote *The General Theory*. *The General Theory* was Keynes's. They helped him, and I don't think any of them thought that they contributed something crucial to it. They gave him a lot of criticism on the early drafts, but he was the genius that put things together.

INTERVIEWER: There's a sense that he was working against time here. Fascism was rising; the Depression was deepening. Describe the sense of pressure, urgency under which that book was being written.

LORD ROBERT SKIDELSKY: Of course it was written against the background of not only the collapse of the world economy, but the potential collapse of democratic government. Hitler became chancellor of Germany in 1933, and a lot of Keynes's younger friends started to become what he called "bolshy." There was a shift to the left, also a shift to the right, and in between democracy seemed to be losing ground, and with democracy the system of liberty. So Keynes did write against a background that [said] liberalism had to produce an answer to the Great Depression or liberalism would be swamped by totalitarianism. So *The General Theory* was conceived as a defense of liberalism, as liberalism's answer to the slump. He wrote that by right analysis of the problem it might be possible to preserve liberty, and that was the great appeal of *The General Theory* for many people, including many of the young economists.

INTERVIEWER: I think somebody used the phrase [that] he gave people hope.

LORD ROBERT SKIDELSKY: He gave people hope that unemployment could be cured without concentration camps.

INTERVIEWER: Without being too technical, is it possible to convey to a general audience what made *The General Theory* such a great and significant book?

LORD ROBERT SKIDELSKY: I think Keynes's greatness lies in two things. First of all, he invented macroeconomics, the science of aggregates. Before him, economics had really been concerned with how a given set of resources is allocated through the market system. So the question of the quantity of output was never discussed. It was always assumed that economies were at full employment. Keynes was the first person to show that it was possible for the output of an economy to be below its potential, and the classical economists had never seen how this could be possible. So I think that was what macroeconomics was about; it was about what determines the output of an economy as a whole.

The second element in his genius was that he showed or demonstrated how it was the misbehavior of money which caused the possibility of output being below its potential; that people could, when they got money, they could decide not to spend it if their confidence was low, and it was not spending the money which they were earning which caused unemployment to develop.

INTERVIEWER: So very simplistically, [Keynes's] solution to the slump was what, to spend more money?

LORD ROBERT SKIDELSKY: His solution to that set of affairs, that set of expectations which caused unemployment to be high, was for the government to spend the money which the private sector was unwilling to spend, because [of] the loss of confidence, the low confidence of businessmen—high-liquidity preference of savers, as he put it—preferring to hoard money rather than to invest it. So the government was the last resort. It was the last frontier. When the private sector failed, the government had to come in and restore and maintain full employment. But that was not a program of detailed interference. This is why macroeconomics was so important. Keynes was not a collectivist in the sense that I think of the term; that's to say, he didn't want to channel money in one direction or another direction

towards some set of preferences of the planner. He just wanted to boost the level of aggregate demand and then, having got to the right level, the price system of everything else characteristic of capitalism could continue as before.

INTERVIEWER: Can you define macroeconomics again, more simply, for a general audience?

It's the science of aggregates. Now, that probably doesn't make enough sense. It's looking at the economy as a whole rather than looking at particular parts of it and showing how they mesh together. It's looking at the whole of the output of an economy and asking what it is that determines the level of output of the whole economy, not what is it that determines the level of a particular price, the price of shoes or the price of apples, but what determines the level of output of the economy as a whole. What is it that determines the level of employment? And then you have to look at the whole economy and not just sections of it, and that's what macroeconomics is about. And looking at the whole economy gives the government its levers to affect these things. It can either spend more money itself, or it can reduce taxes, or it can manipulate interest rates. And all of these things affect aggregates, they don't affect particular sectors.

INTERVIEWER: Is this macroeconomic way of looking at the world, is this something original [to] Keynes? Is this a breakthrough that he achieved in his book?

LORD ROBERT SKIDELSKY: Macroeconomics was really invented by Keynes. Before Keynes, there was a theory of money, the quantity theory of money, which maybe you could say is the start of macroeconomics. But Keynes's was a monetary theory of production. He incorporated the theory of money into a theory of production and showed how what people did with their money could affect the level of production.

INTERVIEWER: Just to recap, what was radically new, almost invented, if you like, by Keynes in *The General Theory*?

LORD ROBERT SKIDELSKY: ... Put simply, concepts we take for granted today, like gross domestic product, the level of unemployment, the rate of inflation, all [those] general features of the economy were invented by him. They all derived from his work. Before Keynes, these

concepts were not there. Economists talked about different bits of the economy. They said the coal industry was in trouble, or trade is bad, or there's a problem in cotton, or the farmers are being depressed. But it was always about little bits, and I think Keynes put all the bits together and got a science of the whole economy, and that's really what macroeconomics was about.

### **Keynes and Hayek: The Fox and the Hedgehog**

INTERVIEWER: That leads us to, of course, the fundamental difference between Keynes and Hayek. If Keynes saw the consumer economy as a whole, Hayek felt that was folly; that in fact you have to see it in nothing but teeny bits and all that. Can you try and define the difference, the radically different approach between Keynes and Hayek?

LORD ROBERT SKIDELSKY: Hayek always rejected macroeconomics. He believed—and I think this has been a major criticism of Keynes—that Keynes's big categories were not rooted in the little bits, by the little bits' individual motives and individual decisions, therefore they had no real substance. They were concepts that didn't exist because they hadn't got any foundations in individual behavior, and therefore it was leading economics down a false trail to think that governments could pull certain levers, and then get things to happen at the individual level. So Hayek rejected macroeconomics, but at the same time he rejected any government intervention during the Great Depression itself.

One difference between them was that Hayek was an ivory-tower economist, very, very long run, and tended to believe that error must be allowed time to play itself out, whereas Keynes was an activist who said in the long run we're all dead, and in the long run, if we allowed things to go on without remedy we'd get lots of Hitlers, lots of wars, and lots of Stalins. And he was right. Lionel Robbins, who was a great supporter, a great Hayekian in the early '30s, said Keynes was right, finally, and "I very much regret that I supported Hayek in the controversies with Keynes," because although it might be true that someone falls into the ditch because they've had too much alcohol, you don't let them lie there and wait for them to sleep it off when they're dying; you have to do something to revive them. And Hayek was very, very aloof to the political and practical consequences of doing nothing in the early '30s, and he never really came clean on that. So you may say this is a debate between the short

run and the long run, but for God's sake, you know, if you're interested in preserving a free society with a minimum disturbance, you'd go for Keynes of the early '30s and not for Hayek.

INTERVIEWER: Do you have a metaphor or an image or some way of trying to contrast Hayek's fundamental view with Keynes's?

LORD ROBERT SKIDELSKY: Well, Hayek liked the classical tradition from which he was descended. He really believed that economies had automatic thermostats. They sort of regulated themselves because of the logic of the market. Basically [he believed] unemployment shouldn't really be possible if wages were flexible, and it was government intervention that created the rigidities that prevented markets from working properly and therefore gave rise to all the disturbances which were then attributed to markets, whereas the real fault was government intervention. And you can argue this endless regress that you wouldn't have had a Great Depression had governments not intervened earlier to inflate the money supply, and that it was their fault, and that all business cycles are the fault of governments, et cetera, et cetera, but that doesn't address the practical problem. The reason the governments had intervened was in response to popular pressures of one kind or another, to the demand for social protection, and you then have to deal with the situation as you find it. Now, it's very valuable, and Hayek performed a very valuable service by pointing to the government as a source of many of the evils, and nowadays, I think, when societies are a lot richer, we can see the value of that. But again, I come back to the point that in the actual situations of the 1930s, it was just no good saying in 1932, "Well, the source of this collapse that the world economy lies in the government, and therefore if we could only get governments off our backs, everything would be wonderful," because that was not the alternative facing anyone at the time. The alternative was not the restoration of the free market, but lots more Hitlers and Stalins.

INTERVIEWER: What was the personal relationship like between Keynes and [Friedrich] Hayek?

LORD ROBERT SKIDELSKY: Keynes and Hayek were good friends in private life. I don't think they would ever be soul mates, but they had a relationship, and during the war, the second world war, Keynes gave Hayek a refuge in Cambridge when the LSE [London School of

Economics] in London was being bombed and the LSE moved to Cambridge. Keynes also was instrumental in getting Hayek elected to the British Academy in 1942, I think and they also corresponded a great deal on the history of economic thought, of which Hayek was a great master and in which Keynes was very interested. But in their economic theories they clashed pretty violently. Yet looking back at it, after this distance, it seems to me that they were, roughly speaking, on the same side. People often argue passionately about things which to a later generation don't seem quite as important as it did to them. And they certainly were analytically different, but as Keynes wrote when Hayek's *Road to Serfdom* came out, "Morally I'm not only moved to agree with you, but deeply moved. I want to express my deeply moved agreement with your thesis." That was a very remarkable thing to have [written] to Hayek, with whom he had quarrelled so violently on economic topics. It shows that they were both on the side of freedom, and during the second world war, when Keynes wrote his pamphlet *How to Pay for the War*, which was an anti-inflationary pamphlet, Hayek wrote endorsing it and saying this is exactly right, and he added... "I am so glad to see that we agree on the economics of scarcity even though we don't always agree when it applies."

INTERVIEWER: A couple of more anecdotes about Hayek's and Keynes's characters. They had a lunch once which went very well, but in a letter to his wife, Keynes wrote what he really thought.

LORD ROBERT SKIDELSKY: Hayek and Keynes got on very well in personal relations. There was a lunch at King's College in 1933 after which Keynes writes to his wife [that he had] a very nice time with Hayek. "He's delightful in his personal life, although his theories are complete rubbish."

INTERVIEWER: I think it was Hayek or somebody else who described them as the "old fox-hedgehog economists."

LORD ROBERT SKIDELSKY: This is an important difference between Keynes and Hayek. I think Hayek used the contrast. Keynes was a fox; Hayek was a hedgehog. I think fox is a very good description of Keynes. He was foxy because he was very inventive and because he was closely involved in affairs and because his antennae, and particularly his financial antennae, were so acute, he was always adapting his theory to the change or the situation. His ear was very

close to the ground. Hayek I think was more remote. Of course Hayek was affected by what was going on, but he was more detached from it, and therefore he thought there were certain fundamental truths; if you stuck to them, you would come out more or less all right in the end. And these were the truths of economics that had been taught for the previous century and a half. And Keynes was much more entrepreneurial in his economics. He was an economics entrepreneur really. [Keynesianism] wasn't entirely based on what had happened in the last week; it was also based on the feeling that capitalism was changing its nature, that it was much less individualistic than it had once been, that it was becoming more collective. He talked of capitalism was socializing itself .... There was much less value in trying to derive behavior from individual preferences when you had large corporations calling the tune, large trade unions setting wages. This was the sort of sticky economy. You could criticize Keynes for saying, "Well, let's break it up; let's get back to what it had been the 19th century." Curiously enough, to some extent we are getting back to some of the earlier conditions, not all of them but some of them. But that was, again, not a possibility in Keynes's lifetime. In that sense he was very much an economist of the first half of the 20th century, an economist shaped by the experience of two world wars and a Great Depression.

### **The "Intellectual Seducer"**

INTERVIEWER: ... You used the phrase I think that described Keynes as an intellectual seducer. He had a wonderful way with words, was a great writer. Is that part of the reason, at least, why Keynes's ideas seemed to prevail over Hayek's, certainly to begin with?

LORD ROBERT SKIDELSKY: I think the use of language was a very, very important part of Keynes's influence, particularly in his pamphleteering. He was a master of striking phrases. You can't really think of a phrase of Hayek's that lived. At least I can't off the top of my head. Where [Keynes's] phrases, like "In the long run we're all dead," or "Ideas are in the long run much more important than vested interests for good or ill," these sorts of phrases of Keynes's have entered the lexicon of discussion. But having said that, and having said that Keynes had this intellectual charm, that he was an enormous seducer, and when he was with you, you were excited by the flow of ideas, the flow of conversation, the fancy, the darting imagination, the insatiable curiosity about absolutely everything, forming theories off the top of his head which were brilliant—and maybe many of them were wrongheaded—his wisecracks, all this sort of thing made him a tremendous intellectual charmer. Hayek was rather reserved. He was

a very German academic in that kind of way. But having said all that, people do live on their books, and the intellectual charm fades away, and it's what's solid that remains. A lot of Hayek's work will, of course, survive because it is very, very solid, and he did have a profound understanding of the nature of knowledge in the economy, a profound understanding that it couldn't be centralized in some central planning organization, and I find that I refer to Hayek more and more in my own thinking. When I look at the catastrophes of state education systems, for example, it's all the nemesis of Hayekian planning. And so Hayek will live. He's the other great economist... Well, he's the second great economist of the 20th century. Milton Friedman, of course, is the third.

INTERVIEWER: And the first is Keynes?

LORD ROBERT SKIDELSKY: I would say so, yes. Well, I think the three great economists of this century were Keynes, Hayek, and Friedman. I'm not sure exactly how I'd rank them, except I think I would have to say Keynes and Hayek were the top ones in their profundity. But they are undoubtedly the great minds that have influenced economics this century. There are younger people coming up who eventually might be equally important. It's their influence, as much as anything else, that makes them great. Maybe none of them were brilliant theorists in the way that the economist's economist should be—people like [Ronald] Coase, for example, or [John] Muth, who invented very, very elegant theorems, and they are economist's economists. But these were great public figures who influenced the way we think about economies through their publicity as much as anything else.

### **Keynes in America: The New Deal, Bretton Woods, and the Loan Negotiation**

INTERVIEWER: Let's talk a bit about Keynes in America. Tell us the story of his first meeting with FDR.

LORD ROBERT SKIDELSKY: Keynes came to America in 1934 to look over the New Deal. He was sympathetic to it. In fact, he wrote very importantly after that particular visit, "Here in Washington, not in Moscow, is the laboratory of the new world. It's the laboratory of economics." That was a crucial decision for America against Russia. It wasn't central planning that was going to save us; it was the kind of experimentalism of the New Deal. There's very little he said about he said about that first meeting [with Roosevelt]. He doesn't try and give a

real description of the president. He noticed his hands because he always noticed hands, and he said his hands were good. Roosevelt doesn't say much about his meeting with Keynes. He said somewhere that he found him rather abstract, rather intellectual. Keynes had a habit of writing open letters to Roosevelt, which Roosevelt interpreted as really telling him how he ought to be running his administration, and he didn't really welcome this advice from afar. So their relationship was not close. It became a bit closer in the second world war when Keynes came over on a number of missions to the United States.

INTERVIEWER: Going back then to the early '30s, would it be fair to describe FDR as an instinctive Keynesian?

LORD ROBERT SKIDELSKY: FDR was an instinctive experimenter. I don't think he would have ever claimed that he owed Keynes a particular allegiance. He tried one thing after another, and if it worked, or if it worked politically, he was prepared to give it a go. I think the Keynesian influence on the New Deal is not Keynes's direct influence on FDR, but Keynes's influence on a group in the American economics profession who then moved in to the New Deal agencies in Washington, largely via Harvard University and brought there by Alvin Hansen. A number of people who had been, at various times, at Harvard came into the New Deal. I'm thinking particularly of Lauchlin Currie, who became FDR's special advisor, and produced the first Keynesian blueprint of a New Deal in 1939—but it was as late as 1939, so that's how Keynesianism permeated the government. But I wouldn't say that the Keynesian revolution never really happened properly in the United States—till much later.

INTERVIEWER: Still, would it be fair to say that a lot of what FDR was doing in the New Deal before 1939, a lot of what he was doing was kind of the sort of thing Keynes was recommending?

LORD ROBERT SKIDELSKY: I don't think FDR was doing particularly Keynesian things in the earlier part of the New Deal. I think he was trying one thing after another, and certain things were clearly anti-Keynesian. I mean, Tennessee Valley Authority had nothing in particular to do with Keynes, but the analysis of the slump in terms of the power of trusts had nothing in particular to do with Keynes. The redistributionary policy of the second New Deal, which started in 1935, had nothing in particular to do with Keynes. The budget deficits Roosevelt ran

were very, very modest, and Keynes would have liked them to be bigger. And also Keynes was quite subtle. This is what Roosevelt didn't like. [Keynes] said: "If you believe in the capitalist system, you must give businessmen more confidence in your policies. Otherwise you won't get a proper recovery going, and you mustn't make anti-business noises." A great deal of the New Deal was very, very anti-business. One forgets, perhaps, the extent to which that was true. Although Roosevelt came as a sort of savior of American capitalism, people he was surrounded by, many of them were sort of socialist, but they were very anti-business, and business felt Roosevelt, FDR felt, was an enemy. And Keynes said it: "You mustn't give that impression. If you believe in capitalism, you must give capitalists the confidence to invest. That is what a government is there to do, and you mustn't frighten them with fears of confiscation."

INTERVIEWER: I want to finish the story here. What did Keynes do during World War II?

LORD ROBERT SKIDELSKY: During the second world war Keynes came back to the Treasury, where he had been [during] the first world war as an unpaid advisor to the chancellor of the Exchequer. He became a dominating figure in the Treasury, though he held no real official position. and he was the de facto chancellor of the Exchequer as far as the Americans were concerned. He led six Treasury missions to the United States, negotiating both on lend-lease and on the future financial architecture of the world. And domestically, in Britain, he was the main influence on the budgetary, fiscal policy adopted by the British government to pay for the war.

INTERVIEWER: Describe what was achieved at Bretton Woods and Keynes's role in that.

LORD ROBERT SKIDELSKY: The Bretton Woods agreement of 1944 was a compromise between Keynes's plans for an international clearing union and the U.S. Treasury plan, Harry Dexter White's plan, for an International Monetary Fund. And the compromise was weighted towards the Americans, because America had the power, and they also had the money. What Bretton Woods basically achieved was to set up rules governing exchange rate and also provided for a financial facility to tide countries over temporary balance-of-payments difficulties. The basic idea was that countries should never have to deflate because they'd gotten into serious balance-of-payments problems. In other words, it was an attempt to learn

the lessons of the collapse of the gold standard in the 1920s and the Great Depression. It was a very durable system, because the institutions are still there today.

INTERVIEWER: Describe the huge stress [Keynes] was under at the end of his life, negotiating the American loan, and how that possibly contributed to his death.

LORD ROBERT SKIDELSKY: Of course one of the great underrecognized plots of the second world war was the war between Britain and America, the war for future position after Germany was defeated. And that battle really came to a climax when Keynes went over to Washington in 1945 to negotiate the American loan, because Britain ended the war virtually bankrupt, and it needed money to restore itself, but the Americans had the money, and they attached strings. Keynes tried very hard to cut the strings. He wanted a grant or an interest-free loan for \$5 billion. The Americans offered much less, and they said, "In return you will do this; you will do that. You'll make sterling convertible. We want various conditions." And he was torn between American turning the screw more and more, and his own government refusing to accept the terms. Keynes was convinced that Anglo-American cooperation was the key to the future, so he was finally prepared [to accept] the loan on whatever terms the Americans wanted to impose, but the struggle broke him, and he came back mortally ill. He hadn't been well through the war, but this really broke him. And he made a brilliant speech to the House of Lords in December 1945 defending the loan, and four months later he was dead.

### **Keynes's Legacy: Are We All Keynesians Now?**

INTERVIEWER: Yet after his death, Keynesianism, as it were, grew and grew. Can you describe the rise the growing influence of his ideas, and how long that lasted?

LORD ROBERT SKIDELSKY: Well, it's very hard to know how far Keynesian ideas were important in generating the "golden age of capitalism," which was said to have lasted from about 1950 to 1970, the early 1970s. I don't think Keynesian ideas did have very much influence in creating the world boom. I think the world boom was going to come anyway. I think there were lots of things that governments did, especially the American government, which had Keynesian effects, but weren't carried out for Keynesian reasons. For example, Marshall aid, which was very important to the reconstruction of Western Europe, was undertaken for anticommunist reasons, and American military spending, which tended to fuel

the world again, made the American economy recession-proof and made much of the world recession-proof as well. And of course that's perhaps what Keynes might have advocated, but it wasn't undertaken because Eisenhower or Kennedy said, "Oh, we believe in Keynes; let's do it for those reasons." They did it for political reasons. So I wouldn't say that Keynesianism, as such, had a great deal to do with the boom of the '50s and early '60s. But where I think Keynesianism did have a part to play was perhaps in sustaining the boom for longer than it might have naturally lasted, and in a way in which I don't think has been brought out, which is that governments in Britain and most of the world in the 1950s and until the mid-1960s tended to run budget surpluses. That was the Keynesian remedy for inflation. He didn't want high interest rates; he wanted budget surpluses. Eisenhower ran budget surpluses. The British governments ran budget surpluses. It was only when they abandoned that fiscal rectitude which was part of the Keynesian legacy that inflation started to take off. Now it's the odd, you know, it's a surprising way of putting it, [but] everyone assumes that Keynes stood for inflation and that Keynesians were inflationary by nature. It wasn't that. I don't think that Keynesians were particularly inflationary, and certainly Keynes wasn't.

I think that one of the things we now forget is that during the height of the so-called Keynesian era in the 1950s and early '60s, governments in Britain and the United States, on the whole, ran budget surpluses, not deficits, and they ran budget surpluses for very good Keynesian reasons.

INTERVIEWER: So that leads to my next question: Would Keynes have been a Keynesian at the time when [Nixon] said, "We're all Keynesians now"?

LORD ROBERT SKIDELSKY: Well, no original genius would ever adopt the label of his followers, and Keynes would have been as inventive as ever, assuming he'd gone on living forever. He would have been as inventive as he had been before, and I believe he would have wanted to tackle the supply-side problems of the full employment economy much quicker than the so-called Keynesian government. I think he would have also been fiscally a lot more prudent in the 1960s, and I think he would have gone on developing his theory. I think he would have come very, very quickly to the theory of the natural rate of unemployment which was hidden there in *The General Theory* and which Friedman finally brought out.

INTERVIEWER: Still today, Keynesianism does seem to be in retreat, almost discredited. Is he a defunct economist?

LORD ROBERT SKIDELSKY: I don't think Keynes is defunct. I think a particular version of Keynesian policies is defunct, but Keynes's model, the way he thought in terms of aggregates, is not defunct. Every government treasury and finance ministry runs quasi-Keynesian models of the economy. They have their inflation gaps and their output gaps. All the same, what they do about them is [that governments are] not so anxiously interfering as perhaps they were before. But I don't know, I would have thought that the Fed runs a very fine-tuned monetary policy in the United States. Fine-tuning is the essence of Keynesianism, and I would have thought the Fed is Keynesian. It's not fiscally Keynesian, but it's Keynesian in the monetary sense.

INTERVIEWER: So when we look at the huge retreat of governments from the marketplace in the last 15 or 20 years, it's not as simple as Keynes lost, Hayek won?

LORD ROBERT SKIDELSKY: It's certainly not as simple as Keynes lost, Hayek won, because I don't think they were opposites. Hayek was opposed to central planning; Keynes was not a central planner. Keynes didn't fit into Hayek's schemes of opposites, and that became very clear when they argued very amicably about the implications of *The Road to Serfdom*. It was central planning that Hayek trained his weapons on, and therefore one can never say really Keynes lost, Hayek won, because they were so much on the same side. It was just that they differed on the crucial question of how much economic damage a free society could stand before governments needed to do something about it. Hayek probably thought economies were rather more stable than Keynes did, but he didn't think they were completely stable. Keynes tended to say, "We can't take these political risks." Hayek tended to say, "Well, we've got to, in order to learn better things in the future." But these were matters of judgment.

### **"Turbo-Charged Capitalism" and Globalization of the World Economy**

INTERVIEWER: In looking at the world today, is what we're looking at really the complete triumph and permanent triumph of the markets, the free markets—"turbo-charged capitalism," as somebody called it?

LORD ROBERT SKIDELSKY: The big question about globalization today is how stable the world economy is. We've had quite a lot of evidence that it's not as stable as people would hope—the big financial crises, which have had enormous spin-off effects. If it's stable, if they are too many disturbances of other kinds, like in the Great Depression, then I think things will carry on more or less as they are. And there will be opposition here and there to globalization, but it's containable. If, on the other hand, the global economy is very unstable—if, for example, the United States crashes to any extent, then that affects Western Europe, then there will be huge opposition developing to globalization and free markets, and many of the old demons will start coming back. So I think that's the \$64,000 question, and I don't know the answer to it. No one does. We live and learn through events, and we haven't had the big one yet. Will it come or won't it? I don't know.

INTERVIEWER: When you look at the anti-WTO demonstrations in Seattle, would you say that they're panicked, or are they asking the right questions?

LORD ROBERT SKIDELSKY: Seattle is chicken feed. I don't attach any importance to it all. Provided that the world economy continues to deliver increasing incomes without being too volatile, then it will solidify; it will grow. We'll develop better institutions, and we will move into a 21st century, which at the end of the 19th century people hoped the 20th century would develop into, into an era of peace and plenty and growing civilization. If, on the other hand, the economy starts to falter, then we're in a different ballpark straight away, and anything can happen. There are all kinds of tensions which can be contained within a framework of prosperity or will start to come to the surface again, very nasty things. Protectionism, nationalism, racism, chauvinism, Russia going wrong, China becoming aggressive—all these things are perfectly possible, but I do believe that if the economics go right, the other problems can be contained. If the economics go wrong, they can become devastating.

INTERVIEWER: Another WTO-type question. Do you see a way in which environmentalism, social regulation, often for the best motives, could choke off or limit the growth of the free market and prosperity?

LORD ROBERT SKIDELSKY: The itch of the state and politicians to intervene is always there, and it can be triggered off by absolutely anything. Environmentalism is one obvious concern.

If you take worst case scenarios, you can produce an avalanche of regulation that is capable of stifling almost any economic activity. The problem, or the interesting question, is that the state has lost ground. People no longer believe in the state as owner of the economy, so we live in a world which is now completely dominated by the private sector in which the mixed economy has disappeared. So what's the state to do? One way you can come back is by excessive regulation, and that's what is happening at the moment. The urge to intervene now expresses itself in regulatory form. Perhaps in the United States that always was the chief form in which it expressed itself. And regulation is driven by all kinds of things—health concerns, environmental concerns, and so on.

INTERVIEWER: The big point is made, but if you can be a bit more specific....

LORD ROBERT SKIDELSKY: Well, that leads into the whole obsession of our time with human rights, and these are being defined more and more elastically. There are more and more things are added to them. These claims of the disabled, gender claims, claims of minorities give rise to more and more regulation, and sometimes they are really the mask for a new form of protectionism. For example, we cannot eat products that are made by child labor; therefore we must exclude them. [This] is a classic kind of trade union argument given a moral stature whereas, in fact, I think most economists would argue that allowing poor countries to export your own is the quickest way of getting them out of poverty and getting rid of the child labor. So I think in these ways, the global economy can generate pressure for continual and growing interference, although ostensibly the state has lost the battle against the market.

INTERVIEWER: Yes, but the pressure groups can now work on a global scale, can't they? Can't they coalesce internationally and in effect operate simultaneously all over the place?

LORD ROBERT SKIDELSKY: Pressure groups can operate on a global scale, but of course that isn't always to the benefit of governments. One way which governments clearly lost power and are losing power is in their control of taxes. As the tax base becomes increasingly mobile, governments can't simply fleece their subjects in the way they could when economies were more closed.

INTERVIEWER: Yes, and in general, modern technology makes it harder for governments to regulate people, doesn't it?

LORD ROBERT SKIDELSKY: I think that's the great question, whether regulation is increasingly or decreasingly effective. I'm not an economic determinist. I think politics determine things in the end, maybe not in the very long run but in the medium run, and if politicians want to regulate something, they'll find a way of doing it, and they'll find a way of suppressing the economic forces tending to go against it, at least over periods of 10, 20 years. So I'm not utopian about markets. I'm not utopian about markets in a double sense. I don't believe that they're necessarily very stable, and I don't believe that governments have lost their power to check and suppress them.

### **Writing in Keynes's Shadow**

INTERVIEWER: Now a couple of personal questions for you. You spent 20 years, as it were, living with Keynes. How did you feel at the end of this sort of epic project that's just drawing to an end?

LORD ROBERT SKIDELSKY: Well, after 20 years of keeping Keynes company, so to speak, I feel both tremendously liberated by the fact that he's now dead... (laughs)—at least dead in my book—but also sad, because I enjoyed his company so much. I think a great antidote to boredom when you're dealing with someone like Keynes is just to go and read what he wrote. I mean, it's so sparkling, and you pick it up, and his writing, almost anywhere, and there's something effervescent about it. So whenever I felt discouraged, I just, well, just started reading Keynes again almost anywhere and then became inspired to go on writing. It's also true [that] one of the nice things about writing a biography is that if you ever feel like arguing with your subject, the biographer has the last word.

INTERVIEWER: (laughs) Have your own attitudes towards Keynes changed in this period of time? Did you start out one way and end up another?

LORD ROBERT SKIDELSKY: I think I started out with a great admiration. That admiration still lasts. I think I've become a lot more critical of him as I have gone on writing. After all, I started writing in the late '70s, and we were all still steeped in Keynes then, and it was almost

heresy to sort of challenge. It had started to be challenged in the United States, but in Britain hardly at all. And so as the 1980s disclosed new possibilities and new imperfections in the Keynesian system, as new theoretical contributions came through in the work of Milton Friedman and the rational expectations, the revolution, one really started to realize some of Keynes's limitations and also started to realize that he was a product of his day, and that the world had changed, and therefore he was going to be less central in the economic life of the future than he had been in the past. All that realization flooded in as my biography went on, but it didn't diminish my admiration for Keynes or my joy in his company.

INTERVIEWER: Just tell us a little bit about this house we're in now. First of all, whose house was this, and how did you come to acquire it?

LORD ROBERT SKIDELSKY: Well, the house is part of the estate of Lord Gage. Lord Gage, incidentally, had an ancestor called Gen. Gage who lost the first battle of the American War of Independence to the Americans, the Battle of Bunker Hill. After that the family didn't flourish very much in higher politics, but they had large estates in Sussex. And Keynes came here with other members of the Bloomsbury group to get houses in the country. They leased their houses from the Gage estate, and I lease Tilton, I don't own Tilton. Lord Gage is my landlord just as Lord Gage was Keynes's landlord.

It's an old farmhouse. It's very beautifully situated. It's been a great pleasure living here, and living to some extent in Keynes's shadow, though the house is done very differently now from what it was like in his day. After all, in the 1930s they had a staff of almost 10 to look after the two of them.

INTERVIEWER: Where did he do his writing?

LORD ROBERT SKIDELSKY: He did his writing right here in this room. He wrote most of *The General Theory* here. It's very congenial for writing purposes, very quiet, very relaxed. And he didn't write in the way I would or any modern writer would. He tended to write longhand, and he used to sit in a chaise longue, really, with his legs curled up like this and with a writing pad and a pen, and he would write. And then when he had written enough, his typist would come, his secretary Mrs. Stephens would come and take it away and type it out, and then he would

look at it and make corrections, and then he'd send drafts out for people to look at. But it was a manual process, and he didn't even write at a desk. He didn't particularly like desks. He liked to write on a pad, half lying down.

Writing about Keynes in the room where he wrote his great works was very challenging. I think what I can say is that I felt that I had to somehow, in my own work, live up to the standards he had set. I don't mean live up to it in the sense of producing works of economic theory, but live up to it intellectually. I needed to be aware of any argument I was using, of Keynes looking over my shoulder and saying, "Well, that's not really very clear," or "That's absolute nonsense. That is totally barmy. You're absolutely mad." He used these phrases the whole time when he encountered arguments he didn't like. Then often he'd change his mind, but his initial reaction when he didn't like something was to assume it was crazy, mad, half-witted, and so I always needed to have that censor there, pulling me upwards.