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Keynes and Economics: The Early Stage *

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1. Introduction

The following pages offer a contribution to the understanding of Keynes's débuts as an economist, in the hope we might dissipate a few myths, some created by Keynes himself, others by disciples or adversaries. Following some preliminary remarks on these misunderstandings, we will recall how Keynes became a professional economist, showing that he did not arrive to economics by chance, that this was indeed a natural result of his early preoccupations and thinking. But, even when he was a confirmed economist, economics remained secondary for Keynes, after ethics and politics, and this until the end of his life. We will examine this in part three of this paper, where we consider how Keynes viewed economics in the first decade of our century. We will show that certain important themes in his economic reflections, his view of laissez-faire in particular, are clearly present in early works, and that the methods he would later apply to economic studies were built up at that date. In the last part of this paper, we will turn to Keynes's early theoretical economics, examining in particular his reflections on the quantity theory of money, in his lectures notes. We will show that his position towards this theory -- at least in its most simplified version -- was already somewhat critical at that early stage, drawing on his philosophical and methodological views.

The evolution of Keynes's economic thought is usually considered, using his own words, as "a long struggle of escape" from the so-called "classical" orthodoxy. In the preface to the French translation of the *General Theory*, dated February 1939, Keynes told his readers that his book "registers my final escape from the confusions of the Quantity Theory, which once entangled me" (*JMK*, vol. 7,¹ xxxiv). For one of Keynes's biographers, Robert Skidelsky, "the

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¹ This is how we refer to the volumes of *The Collected Writings of John Maynard Keynes* (1971-89). For the unpublished manuscripts kept at King's College Library, we use the reference numbers of the papers (see A

history of the Keynesian revolution is largely a story of Keynes's escape from the quantity theory of money. What is interesting to the student of Keynes's thought is how little hint of escape there was before the First World War. At Cambridge Keynes expounded the quantity theory with all the fervour of the true believer" (Skidelsky 1983, 214). Milton Friedman considers that "Keynes was a quantity theorist long before he was a Keynesian" (Friedman 1974, 159) and writes of "the strictly quantity theory approach of his *Tract on Monetary Reform*" (Friedman 1969, 152). For Hayek, Keynes, despite his radical rationalism, "as an economist . . . was, even at the time when he achieved international fame, still an old-fashioned liberal. In his celebrated articles in the *Manchester Guardian Commercial* in 1921 and 1922 he still believed in free trade, the international gold standard, and the need for more saving" (Hayek 1995, 229). For Sayers, "The young Keynes . . . is classical, in the sense in which he himself came to use the term" (Sayers 1972, 599).

This raises many questions. The first problem is of course the definition of what the orthodoxy is from which Keynes escaped. Keynes himself constructed the classical theory to which he contrasted his general theory, but that classical theory is something of a straw man. In fact, the picture of economic thinking at the turn of the century is somewhat more complicated. Marshall, Walras and Wicksell, for example, did not hold the same views on many important questions. And even when we consider the single individual, it is often difficult to classify his positions unambiguously. This is the case, in particular, for the economist who is often presented as the principal representative of the orthodoxy from which Keynes liberated himself, Alfred Marshall. A careful reading of Marshall's writings gives the picture of a man who was himself far from the classical orthodoxy described by Keynes.² And of course, the orthodoxy in which Keynes was brought up at the turn of the century was different from the one he was struggling with in the 1930s. It also varied between countries. It is only after 1950 that a somewhat well-defined "core" emerged.

Neither are things simple with regard to that important element of the classical tradition attacked by Keynes, the quantity theory of money. Up to this day, there is no agreement on the definition, significance and scope of what is considered one of the oldest economic theories. A recent collection of essays (Blaug et alii 1995) is a good testimony to this. The identification of classical theory and quantity theory can also be questioned. Laidler (1991) describes the complexities in the evolution of the quantity theory of money between 1871 and 1914, showing in particular that the relations between the gold standard and the quantity theory, which are sometime presented as two components of the classical orthodoxy against which Keynes

Catalogue of the Papers of John Maynard Keynes in King's College Library, Cambridge, Cambridge: Chadwyck-Healey, 1995).

² See also Groenewegen (1995).

revolted, are not necessarily harmonious.³ The two are in fact very different things, the first being an organization, the second a theory. The quantity theory can as well coexist with flexible exchange rates, as is shown for example in Friedman's case.

There is, finally, the question of the evolution of Keynes's thought, not only in economics, but in his philosophical outlook, his world vision, his *Weltanschauung*. Here again, things are not simple. In the massive literature on Keynes, many contradictory interpretations are given, concerning in particular the evolution of Keynes's philosophy, of his economics, of his political vision, and of the links between these different dimensions. There are, in Keynes's published and unpublished writings, quotations to support many different interpretations. Such is the case with all great thinkers. We interpret an *oeuvre*, "that vast mass of verbal traces left by an individual at his death" (Foucault 1972, 24), with our lenses, our limitations, our prejudices and our vision, in the same way that our interpretation of the history of ideas, in economics as elsewhere, is influenced by our view on current issues.

Concerning Keynes, our reading grid emphasizes continuity, unity, and the close relations between the different dimensions of his vision: philosophy, politics, economics. This unity -- which is of course not devoid of evolution, transformation or even contradictions -- does not stem solely from Keynes's own mind. It is part of a general atmosphere, an *air du temps*, and it borrows from multiple and contradictory sources: his family environment, the "presuppositions of Harvey Road", the academic influences at Eton and Cambridge, Moore and the Apostles, Bloomsbury.⁴

2. How Keynes Came to Economics

Reviewing Moggridge's biography of Keynes, Richard Musgrave writes: "Thus it was by chance rather than by design that Keynes happened into the field of economics" (Musgrave 1993, 1438-9). This is a dangerous statement, the relationship between chance and design in human life being a very complex one. Who can be sure of the nature of the path that has led one to where he is today? Moggridge himself does not draw the same conclusion from his observations of Keynes's readings and some writings in 1905, which "cast some doubt on the view that Maynard's formal study of economics was undertaken 'out of indecision' or that his exposure to economic theory was limited" (Moggridge 1992, 95).

This is an explicit criticism of O'Donnell, who wrote that "Keynes's first formal study of economics was thus not taken with a professional economist's career in mind, but out of

³ See also Bigg (1990), Bridel (1987), Eshag (1963), and Green (1992), the latter challenging the view that the quantity theory of money is a necessary part of classical economic analysis.

⁴ See Harrod (1951), Moggridge (1992), Skidelsky (1983). See also Dostaler (1996).

indecision” (O’Donnell 1989, 14). Skidelsky, recalling that Keynes became a teacher of economics without a university degree in the subject, adds that “his reading was not extensive. He started on Adam Smith only in 1910, and never became erudite in the literature, as Foxwell was. His grasp of theory came not so much from reading about it as from working out the problems for himself, and discussing them with others. In this way he acquired a firm understanding of a fairly limited range of theory” (Skidelsky 1983, 206). For Hayek, “Widely read as Keynes was in many fields, his education in economics was somewhat narrow. . . . I fear it must be admitted that before he started to develop his own theories, Keynes was not a highly trained or a very sophisticated economic theorist” (Hayek 1995, 241-2).

These are questionable statements. Maynard’s father, John Neville, was lecturer in logic and political economy, author of *The Scope and Method of Political Economy* (1891), as well as of many entries in the Palgrave *Dictionary of Economics*. He was a former pupil and friend of Marshall, who asked him to read the manuscript and correct the proofs of his *Principles of Economics*. Maynard was thus raised in a milieu in which economics occupied an important place. Among the visitors to Harvey Road were Foxwell, Sidgwick, Wicksteed, Giffen and Palgrave. Neville, who was an eager reader, might have guided his son in the economic literature, among other areas. According to Moggridge, the posthumous third edition of Sidgwick’s *Principles of Political Economy* (1901), of which Neville corrected the first edition’s proofs (1883 -- the year of Keynes’s birth) is probably the first book on economics that Maynard read (Moggridge 1992, 100). But we find, in the detailed lists of books that Maynard started recording in 1896 (PP/34), books on history, philosophy, politics, which certainly contributed to form his vision of economics.

Keynes had also been initiated by his father into practical economics. John Neville had always kept detailed records of his revenues, expenses, savings, securities value, as of many other things, such as his hours of work. He transmitted this habit to his son, asking him to keep records of his expenses while studying at Eton. The young Keynes was managing his affairs carefully and, for one who would later despise saving, was careful that his expenses did not exceed his revenues, as shown by his diaries (PP/34-40). Very early also, he began to supervise the accounts of others, of friends and organizations. He thus wrote to his father from Eton on 9 February 1902 that he had been elected to the committee of management of the school stores: “As far as I can make out, I am elected chiefly as a person competent to check the financial affairs. I am finding that like you when I am appointed to a committee I am invariably made to do all the work”.⁵ He also got involved in political debates, at Eton, where he was elected to the Eton Society, and at Cambridge, where he joined the Cambridge Union Society on his arrival and the University

⁵ This will remain invariably true until the end of Keynes’s life.

Liberal Club soon after; he became president of the two associations. At the Liberal Club, he spoke, among other things, on fiscal reform.

Of course, being good in accounts or interested in political debates does not make one an economist. But this shows that the young Keynes was not only living in the aethereal and unwordly universe of the Apostles. He was, so to speak, interested in a real world of which the economic aspect was very important. His formal training in economics started in 1905 and was of very short duration, at least by modern standards. At Eton from 1897 to 1902, he studied mainly classics and mathematics. He came up to Cambridge in Michaelmas term of 1902, where he prepared for the mathematical tripos. But reflections on economic questions already appear in some of Keynes's earliest papers, some of which were written while he was at Eton. They are present in his first printed writing, dated 1903, a review of volume 7 of *The Cambridge Modern History*, where we read, for example: "Questions of currency, the periodic mania for an inflated paper issue, the problem of state banks, and the arrangement of the tariff have been, for a hundred years, the main planks of the American politician's platform" (*JMK*, vol. 11, 503). Keynes was at that time very interested by the tariffs question.

In June 1905, Keynes graduated as twelfth wrangler in the mathematics tripos. It was during the summer of that year that he started in earnest to read "masses of economics", as he wrote to Lytton Strachey, on 8 July, adding: "From the latter I have discovered someone whom I had not realised to be very good -- namely Jevons. I am convinced that he was one of *the* minds of the century. He has the curiously exciting style of writing which one gets if one is good enough -- particularly in the 'Investigations in Currency and Finance', a most thrilling volume". Reviewing the *Essays on Economics* by H. Stanley Jevons, W. Stanley's son, for *The Cambridge Review* (8 February 1906), he described the father as "amongst the foremost thinkers of the nineteenth century" (*JMK*, vol. 11, 508).

On 20 July 1905, he wrote to Strachey: "I live a joyless, painless existence, rather interested in Political Economy with nobody to talk to". In fact, he was talking with Pigou; he even helped the latter correct the proofs of his *Principles and Methods of Industrial Peace*. This was the beginning of a long and tortuous relationship. On 8 September, back from a holiday in the Alps, he was "in the midst of Political Economy again". From a list of books read during the long vacation of 1905 (UA/24), we can note: Marshall, Jevons, Bowley, Cassel, Bagehot, Bastable, Ricardo, Edgeworth, Cournot, Pareto, Böhm-Bawerk.

In Michaelmas term of 1905, Keynes attended Alfred Marshall's lectures.⁶ This is the origin of the account according to which Keynes's formal training in economics lasted eight weeks, the length of a term in Cambridge. His notes and essays have been kept (UA/3/2). The subjects of

⁶ On the relation between Marshall and Keynes, see Groenewegen (1996).

Marshall's lectures were: domestic values, foreign trade, capital, theory of interest,⁷ taxation, public finance, modern business methods. There was a lecture on "the evils of speculation" and another on the literature of finance, starting with Bodin. The first essay that Keynes wrote for Marshall in October 1905 was on the construction of index numbers of general exchange value. In one of his other essays, he had to answer the following question: "What causes govern variations in the amount of employment in a country from decade to decade, assuming the condition of foreign trade to remain nearly unchanged?". As the second cause, Keynes lists: "The extent of the prevalence of a speculative or gambling spirit or of an oversanguine outlook exaggerating the booms and, in consequence, the subsequent depressions also". As he always did in his teaching, Marshall heavily annotated Keynes's answers. In a questionnaire filled for Marshall's lectures on 12 October, Keynes wrote that he was interested in "Advanced Economics mainly *analytic*," adding: "I am inclined to specialise on C. Money, Credit and Prices D. International Trade".⁸ On November 15, Keynes wrote to Strachey: "I find economics increasingly satisfactory, and I think I am rather good at it. I want to manage a railway or organise a Trust or at least swindle the investing public. It is so easy and fascinating to master the principles of these things".⁹

Marshall, who did not succeed in managing Neville's career as an economist,¹⁰ hoped for better success with his son: "Marshall is continually pestering me to turn professional economist and writes flattering remarks on my papers to help on the good cause. Do you think there's anything in it? I doubt it" (Letter to Strachey, 23 November 1905). Keynes finally chose the civil service examination instead of the economics tripos established by Marshall a few years earlier. He was ranked second this time and did "worst in the only two subjects of which I possessed a solid knowledge -- Mathematics and Economics" (Letter to Strachey, 4 April 1906). From October 1906 to July 1908, he worked as a civil servant at the India Office. In March 1907, he was transferred to the Revenue, Statistics and Commerce Department. While in London, Keynes also attended the Economic Club of University College, and he joined the Royal Economic Society in 1907. His first scientific article, published in 1909 (*JMK*, vol. 11, 1-23), as well as his first book, in 1913 (*JMK*, vol. 1), have as their object Indian finance, of which he got a close knowledge while working at the India Office. His experience would also lead him to his appointment on the Royal Commission on Indian Currency and Finance, in 1913. This is an

⁷ It included a study of the historical development of the theory of interest since the scholastics.

⁸ This document, which is not in Keynes's papers, is quoted by Moggridge (1992), 95.

⁹ It is at that time that Keynes's career as an investor began; his first acquisition was four shares in the Marine Insurance Company bought on 6 July 1905.

¹⁰ Among other things, Neville Keynes turned down Marshall's offer to edit the *Economic Journal*.

instance of what would continue in all of Keynes's writings in economics: a continuous preoccupation with the practical problems with which he was concerned.

Keynes left the India Office after he was offered a lectureship in economics at Cambridge, when Pigou succeeded Marshall in the political economy chair. Writing to his father about Marshall's proposal, on 21 April 1908, Keynes said "that I should have at once to learn a little economics". This must have been a humoristic statement by one who had already explored the field, and knew very well how he intended to explore it further, as is shown by the following list of works to be written (A/9), dated 30 January 1909, that month during which Keynes started lecturing.¹¹

Papers to be written

The 'Long Run' in Economics (The element of doubt in the determination of value)

The Indian Gold Standard Reserve

Proposals for an International Currency

Mathematical Notes on the Median

English Gold Reserves

The Logical Basis of the Theory of Correlation

A Plea for a New Official Index Number of Prices

The Riskless Rate of Interest

Monographs

The Method of Index Numbers

The Theory of Crises and Commercial Fluctuations

Treatises

The Principles of Probability

Methods of Statistics

Textbooks

¹¹ On this, see O'Donnell 1992.

The Principles of Money
The Mathematical Organon of Economics

At that time, the second version of the “Principles of Probability” was already written and submitted to King’s College, where Keynes was elected fellow in March 1909.¹² Written in April 1909, a long paper on index numbers (*JMK*, vol. 11, 49-156) obtained the Adam Smith Prize. With heavy teaching and supervision assignments, Keynes was also writing profusely, in many different styles for different audiences, as will be the case during all his life. His first applied essay, geared to a large public, “Great Britain’s Foreign Investment”, was published in the *New Quarterly* on February 1910 (*JMK*, vol. 15, 44-59). The first of his numerous “Letters to the Editor” was published in *The Economist* in February 1909 (*JMK*, vol. 15, 18-9). He founded his Political Economy Club on October 1909.¹³ He was appointed editor of the *Economic Journal* in October 1911. At less than thirty years of age, Keynes was already at the centre of the economic profession in England.

In one of his last Apostle papers, “The present position of metaphysics in the society”, read on 29 May 1909, Keynes deplored the following change: “For the subject has become professionalized -- like mathematics and political economy” (UA/33). He could have become a professional philosopher or a professional mathematician. He became a professional economist; and this was not by pure chance or in reaction to events. It was, of the three paths, the most natural for Keynes to follow. The very quick start of his career as an economist was that of a well-prepared sprinter. But we will now see that his vision of economics was not the one which would become associated with the majority of professional economists. Paradoxically, economics was then and would remain for the rest of his life secondary in his *Weltanschauung*.

3. How Keynes Viewed Economics¹⁴

Economics, Ethics and Money

At the end of “Economic Possibilities for our Grandchildren”, first published in October 1930, Keynes wrote: “But, chiefly, do not let us overestimate the importance of the economic problem,

¹² He was not elected following the submission of the first version, in December 1907.

¹³ “The day before yesterday I founded a Political Economy Club for the undergraduates and am to give an opening presidential address on Wednesday” (Letter to Duncan Grant, 24 October 1909, quoted in Harrod 1951, 149). On the constitution of the Club, see the documents in UA/6/15, dated October 1909. On the importance of this Club, until the end of Keynes’s life, see Harrod (1951), 150-52, 327-30; Moggridge (1992), 188-90; Skidelsky (1983), 212-13.

¹⁴ See, for more developments of some elements of this section, Dostaler (1996).

or sacrifice to its supposed necessities other matters of greater and more permanent significance. It should be a matter for specialists -- like dentistry. If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!" (*JMK*, vol. 9, 332). Keynes surely did not consider himself a humble specialist. But these remarks reflect a hierarchy that would remain his until the end of his life, where, in the middle of his negotiations for Bretton Woods and other businesses, he kept a close eye on the affairs of the Committee for the Encouragement of Music and the Arts, which were for him what was truly important in the long run. The opening of the Art's Theatre of Cambridge, in February 1936, was an event of which he seemed as proud as the publication of the *General Theory*.

This hierarchy was set right from the beginning. It is often said that Keynes's interest in economics was more or less in contradiction with his "apostolic period" and in particular with his praise of Moore's *Principia Ethica*. Thus Harrod (1951) stresses the unwordliness of Bloomsbury and the Apostles. For Skidelsky, "Keynes, unlike Marshall, did not regard economics as a 'handmaiden of ethics' -- it was not the activity through which his ethical beliefs found expression. He was a follower of Moore, who had cut the links which for Marshall connected economics to ethics" (Skidelsky 1983, 209). It appears to us that right from the beginning, following his father, as well as Mill, Sidgwick and Marshall, Keynes viewed economics as a moral science, subordinate to ethics and politics. Aristotle, of whom Keynes was an enthusiastic reader,¹⁵ is most probably his earliest influence here. Later on, we find many allusions to the relations between ethics and economics in Keynes's lecture notes, and this is one of the first subjects he submitted to discussion in his Political Economy Club. In notes for a talk on the relation of economics to ethics, Keynes mentioned that it is very difficult to stick to a strictly scientific point of view in economics, politics being always inserted in (UA/6/15). Of course, Keynes came to economics also out of his concern with practical issues. But this path is not so distant from that of philosophy and particularly of ethics. Ethics is linked to human conduct, and human conduct is at the core of economic activity.

We also find an echo of Aristotle and his condemnation of chrematistics in the following quote from "Economic Possibilities. . ." about the money-motive, the main motor of capitalist economies, which Keynes hoped would disappear in a better future: "The love of money as a possession -- as distinguished from the love of money as a means to the enjoyments and realities of life -- will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in

¹⁵ "Have you ever read the Ethics of that superb Aristotle? the greatest of works and with few of the follies with which all his commentators seem to credit him. There never was such good sense talked -- before or since" (Letter to Strachey, 23 January 1906).

mental disease” (*JMK*, vol. 9, 329).¹⁶ Contempt and condemnation of the love of money, reflections on the fragility of all possessions, on the fleeting nature of wealth, are to be found in Keynes’s early essays and Apostle papers, as well as in his lectures, where he notes, for example that “The ethical value of wealth is not easily justified unless we regard the present state of affairs as purely transitional” (UA/6/15).

Keynes, of course, made a lot of money and felt comfortable with this. To Lytton Strachey, who was asked to join the staff of the *Spectator*, and was tortured by this decision, Keynes wrote, on 5 July 1907: “I think you are probably right to accept the *Spectator*. It is hardly possible to overestimate the importance of money”. But money was for him a means to live a good life, exemplified by the way of living of the “Bloomsberries”, to help his impecunious friends and to patronize art.

Laissez-Faire

As we noted in the introduction, Keynes is considered, by some interpreters, to have been an “old-fashioned liberal” until the 1920s. *The End of Laissez-Faire*, published in 1926, would thus appear as one of the first frontal attacks against a doctrine of which he was previously a partisan. In the *General Theory*, according to this view, he would then have given a rationalization for this condemnation of laissez-faire. We do not agree with this widely-held interpretation. Condemnation of laissez-faire is present in Keynes’s first writings, even before the Apostle period, as well as it is a theme of the first published paper he recorded in a list that he started in 1908, a review article of a study of social and industrial problems in West Ham, written by E. G. Howarth and M. Wilson: “Anyone who is interested in the effect which unbridled individualism and *laissez-faire* in such matters may have on the development of a community should turn to the account given in this volume of the doings of swarms of small builders, working with little or no capital for immediate profits, and unhindered by bye-laws or by an ordered scheme of development” (*JMK*, vol. 11, 174).

In early essays, written at the beginning of the century, Keynes praised great intellects such as Abélard (UA/16) and Bernard de Cluny (PP/33), who rejected the religious orthodoxies of their time, but he criticized “their complete acceptance of the fact of misery, of pessimism with regard to this life, without any corresponding Joblike outburst against deity for permitting it, or any theological doctrine explaining and excusing him” (PP/33). This would become a crucial idea in Keynes’s later work and action. Misery, poverty, unemployment are unacceptable on ethical

¹⁶ There is here, in the late twenties, a Freudian connection, which is absent in the period under survey. It is in the 1920s that Keynes became familiar with Freud’s writings. On this see Dostaler (1997).

grounds.¹⁷ They are also dangerous on political grounds, revolutions, destructive of civilization, originating from these situations. Moreover, they are inefficient on an economic ground. Being man-made evils, rising from an inefficient organization, they can be eradicated by political action.

These ideas are developed in Keynes's essay on Burke, written in 1904 (UA/20/3), where we find his first elaborate argument against the doctrine of *laissez-faire*, which Burke borrowed from Adam Smith. A contemporary of Smith, Burke was "the earliest advocate of its principles in the House of Commons". Keynes accepted many of Burke's ideas, his doctrine of expediency in particular, and the fact that there are no ultimate ends in politics. Politics is a doctrine of means, to procure the well-being of people. Keynes was also sensitive to some of Burke's arguments against self-government: the fact that those he would later call "more or less illiterate voters" (*JMK*, vol. 9, 295) were not able to understand their real interests, and that an intellectual elite -- of which he surely considered himself a representative -- was best able to deal with their problems. But Keynes was very critical of Burke's economics, "dominated by *laissez-faire*", and condemned his justification of inequalities:

But he certainly holds that there is a point beyond which no individual ought to be interfered with on any pretext whatever, and that there are certain spheres, in particular those of property and commerce, which ought, absolutely and without exception, to be left to individual action. (UA/20/3, 20)

Most defenders of the rights of property are ready to admit the evils of a very unequal distribution; but this difficulty caused Burke no qualms. He declared that no alternative distribution would produce any appreciable increase of good, and urged that it is of the essential nature of property to be unequal. This is a line of argument of which Burke is overfond and which leads him into more than one fallacious position. (*ibid.*, 22-3)

According to a testimony by Sheppard recalled by Harrod, Keynes, who "was violently opposed to *laissez-faire*" proposed the following definition of conservatives and liberals in a speech at a Liberal meeting while he was undergraduate: "let there be a village whose inhabitants were living in conditions of penury and distress; the typical Conservative, when shown this village, said, 'It is very distressing, but, unfortunately, it cannot be helped;' the Liberal said: 'Something must be done about this.' That was why he was a Liberal" (Harrod 1951, 192). One

¹⁷ Of course, poverty was central to the monastic ideal. Skidelsky (1992, 64-6) argues that Keynes had more nuanced views about the ethical value of suffering. See O'Donnell (1997) for a criticism of Skidelsky's interpretation.

must notice here that the term conservative is used as synonymous with partisan of laissez-faire, while a liberal is opposed to it, and believes that State action should be used to cure the effects of “unbridled individualism and laissez-faire”. There is of course a semantic difficulty here, as liberal is also used, in particular in French speaking countries, in the first sense. But even in English language countries, opponents to State intervention and modern partisans of laissez-faire, such as Friedman and Hayek, considering themselves as authentic liberals, condemn as a kind of semantic kidnapping the use of liberal in what we could call the Keynesian sense. In the 1920s, Keynes used the expression of “new liberalism” to qualify his own brand of liberalism, opposed to laissez-faire. Of course, this new liberalism is completely opposed to what is often called today “neoliberalism”, being the resurgence of the classical liberalism, associated with laissez-faire.¹⁸ But even that association must be qualified in some ways. The liberalism of some of those whom Keynes qualified as “classical economists” in the *General Theory*, in particular Marshall and John Stuart Mill, is grounded on ethics, and very critical of traditional laissez-faire. Even the position of Adam Smith is much more subtle than what his modern neoliberal disciples pretend.¹⁹ One must thus be very careful with these words, in particular when they are heavily loaded with ideological content.

The Methods of Economics

Economics deals with human beings in history. It deals with volition, intention, pulsion. This is why, according to Keynes, it can be described as a moral science: “I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties” (Letter to Harrod, 16 July 1938, in *JMK*, vol. 14, 300). In his 1937 *Quarterly Journal of Economics* article, Keynes writes: “Actually, however, we have, as a rule, only the vaguest idea of any but the most direct consequences of our acts. . . . Thus the fact that our knowledge of the future is fluctuating, vague and uncertain, renders wealth a peculiarly unsuitable subject for the methods of the classical economy theory” (*JMK*, vol. 14, 113).

Again, this is a theme that is present right from the start in Keynes’s reflections. In his Burke paper, Keynes tells us that he agrees with the latter when he says that reform must not be violent, and more generally that we must not sacrifice present well-being for doubtful advantages in the future. One of the reasons is that “our powers of prediction are slight, our command over remote results infinitesimal”. This echoes Moore’s reflections in chapter five of *Principia Ethica*,

¹⁸ See Beaud and Dostaler (1995), chapter 7. Freedman (1986) questions Keynes’s “new liberalism”.

¹⁹ See the famous piece by Viner (1927). In the more recent literature, see Fitzgibbons (1995) and Ross (1995).

entitled “Ethics in Relation to Conduct”.²⁰ One of Keynes’s important Apostle paper (UA/19/2) is a comment of this chapter.²¹ But this stream of thought predates the reading of Moore by Keynes. It is to be found in Keynes’s first essays, concerning historical subjects, where rejection of determinism, of the existence of natural laws in history, is linked to “that uncertainty in events which baffles alike the historian, who studies the past, the politician who watches the present, and the statesman whose eyes are on the future” (PP/31/3).

Thus the methods that need to be applied to the study of society, and in particular to economics, cannot be of the same nature as those applied to the natural world. Keynes’s work on the logical foundation of probability, of which the first elements can be found in his Apostle papers dealing with Moore’s *Principia Ethica*, is closely linked to the elaboration of the methods that would later be used in his economic work. Written in 1907, the first version of his “Principles of Probability” contains the following passage:

The old hope, which sustained many investigators in the course of the nineteenth century, of gradually bringing the moral sciences under the sway of mathematical reasoning, steadily recedes -- if we mean, as they meant, by mathematics the introduction of precise numerical methods. The old assumptions, that all quantity is numerical and that all quantitative characteristics are additive, can no longer be sustained. Mathematical reasonings now appears as an aid in its symbolic rather than in its numerical character. (TP/A/1-2, 358-9)²²

In his controversy with the statistician Pearson, in 1910-11,²³ about the effects of parental alcoholism on children, Keynes writes that statistical methods “need applying with much more care and caution than is here exhibited before they are suited to the complex phenomena with which economists have to deal” (*JMK*, vol. 11, 205). Already in a 1905 Apostle paper, “Miscellanea Ethica” (UA/21), Keynes mentions the “difficulties in the pure theory of economics” linked to the question of “organic unities”. Utility belongs to that class of qualities

²⁰ “But it is quite certain that our causal knowledge is utterly insufficient to tell us what different effects will probably result from two different actions, except within a comparatively short space of time; we can certainly only pretend to calculate the effects of actions within what may be called an ‘immediate’ future” (Moore 1993, 202).

²¹ There is a controversy on the dating of this paper. According to Skidelsky, it has been read to the Apostles on 23 January 1904 (1983, 152). According to Moggridge, it was written about three year later (1992, 131-6). There is no date on Keynes’s manuscript.

²² This passage appears verbatim in the published version, except for the deletion of the word “old” before “hope” at the beginning, and the addition of the following sentence at the end: “I, at any rate, have not the same lively hope as Condorcet, or even as Edgeworth, ‘éclairer les Sciences morales et politiques par le flambeau de l’Algèbre” (*JMK*, vol. 8, 349; French in original)

²³ Which prefigures the controversy with Tinbergen, at the end of the 1930s, about the statistical measurement of business cycle theories (*JMK*, vol. 14, 285-320).

for which the “value of a whole” is independent from the value of the parts, contrary to what is the case for most physical measurements. Despite his appreciation of Jevons, quoted earlier, it is clear that Keynes is very far from Jevons’s methodological position. Jevons, who was convinced of the mathematical character of the new science of economics, was also convinced that the laws that we derive for individuals are also applicable to society, considered as the sum of individuals.

There has been an ongoing debate since the beginning of the 1980s on the nature and evolution of Keynes’s philosophy, and on its connection to his economics, which we have no space to enter here.²⁴ Some see in Keynes an idealist, others a realist; some an empiricist, others a rationalist; some an essentialist, others an existentialist. The truth is maybe that Keynes is, in philosophy as in politics, a man of the middle ground, a pragmatist, critical of all dogmatisms. Clearly, for him, there was not one infallible recipe that could be applied at all times to all kinds of problems. This is analogous to Marshall’s position, who speaks of himself in this way to Foxwell, while referring to John Neville’s *Scope and Method of Political Economy*: “As regards method I regard myself mid-way between Keynes + Sidgwick + Cairnes and Schmoller + Ashley” (Letter of 30 January 1897 quoted in Moggridge 1992, 17). Here is how Keynes describes his teacher in his obituary article, which resembles a methodological manifesto and a self-portrait:

The master-economist must possess a rare *combination* of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher -- in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man’s nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician. Much, but not all, of this ideal many-sidedness Marshall possessed. But chiefly his mixed training and divided nature furnished him with the most essential and fundamental of the economist’s necessary gifts -- he was conspicuously historian and mathematician, a dealer in the particular and the general, the temporal and the eternal, at the same time. (*JMK*, vol. 10, 173-4)

²⁴ Some of the main contributions are Bateman (1996), Carabelli (1988), Davis (1994), Fitzgibbons (1988), Mini (1994), O’Donnell (1989). Many of the important journal articles are collected in Wood (1994): see in particular the papers by Alvay, Bateman, Davis, De Finetti, Dow, Favereau, Felix, Foster, Hamouda, Mini, O’Donnell, Rotheim, Runde, Smithin and Winslow.

4. Keynes's Early Monetary Thought

Keynes's first series of lectures, in Lent term 1909, was entitled "Money, credit and prices". The opening sentence of his first lecture, given on January 19, was: "I propose to deal first of all with the pure theory of money", after which he went on to examine carefully the four functions of money as medium of exchange, common measure of value, standard of value and store of value (UA/6/1/2). His lecture notes from the years between 1909 and 1923 are still extant, and catalogued in 25 subsections as UA/6. Of these, UA/6/5-6, entitled "Notes for a series first given in Michaelmas term 1910 as 'Theory of money'" have been published in *JMK*, vol. 12, 722-83; and UA/6/7, first section of "Notes for a series first given in Michaelmas term 1911 as 'Principles of economics'", also in *JMK*, vol. 12, 690-722. It is not easy to document the evolution of Keynes's thought over the years. For example, in notes dated before 1914, there is an extract of Pigou's 1917 article, which meant that Keynes reused and reworked his notes, as do most teachers.²⁵ But some leitmotives can nevertheless be found in these notes, both published and unpublished.

In the first place, Keynes regularly repeats that the quantity theory of money is obvious and true, as he will later repeat as well in his *Tract on Monetary Reform*. This is often a basis for the oft-repeated statement that Keynes was an enthusiastic proponent of the quantity theory before the War and until sometime after the publication of the *Tract*: "The doctrine that a value of a unit of currency tends to vary inversely with the volume of currency, subject to proper qualifications, as it will be enunciated in this lecture, is surely obvious and certain. . . . The theory is true in just the same way as it is true that the day's temperature varies with the length of the day, other things being equal" (UA/6/22).²⁶

The example quoted above, which often appears in Keynes's notes, is borrowed from Marshall's evidence before the Royal Commission on Indian Currency, where the latter said: "I hold that prices vary directly with the volume of currency, if other things are equal; but other things are constantly changing. This so-called 'quantity theory of the value of money' is true in just the same way as it is true that the day's temperature varies with the length of the day, other things being equal; but other things are seldom equal" (Marshall 1926, 267).

The qualification at the end of Marshall's quotation is of course very important, as Keynes himself reiterates in numerous places in his notes: "But other things seldom are equal; and these

²⁵ Skidelsky writes of the lecture notes published in the *Collected Writings* that "they have been stitched together by the editor from different years, ranging from 1910 to 1914, making it difficult to pinpoint changes in presentation over period" (1983, 217). But an examination of the notes seem to show that it is Keynes himself who arranged them in this way.

²⁶ See also UA/6/1 and UA/6/12.

other things are very often, perhaps generally, more important than the changes in the volume of the currency. . . . That is to say, the level of prices depends upon a number of independent factors, and will vary if any of these factors change. The quantity of money is only one of them” (UA/6/22).

Of these other factors, one of the most important is the proportion of their wealth that individuals wish to keep in the form of ready purchasing power. This is already developed in Marshall’s 1871 manuscript on money, which Keynes knew. One can see there the origins of a behavioural analysis of the demand for money that is considered as an asset, alternative to others: the so-called portfolio approach to money. This is of course the Cambridge cash-balance approach that found one of its first explicit statements in Pigou’s 1917 article.

This article was published after Fisher’s *Purchasing Power of Money*, the first edition of which appeared in 1911. There Fisher developed the alternative transactions approach, stressing the role of the velocity of money. Keynes wrote a review of Fisher’s book, mentioning, as Pigou did in his later article, the equivalence of Fisher’s and Marshall’s presentations, but criticizing the absence of an analysis of a transmission mechanism of money to prices via the interest rate, which was being developed in the Cambridge tradition: “the most serious defect in Professor Fisher’s doctrine is to be found in his account of the mode by which through transitional stages an influx of new money affects prices” (*JMK*, vol. 11, 376).²⁷ But Keynes would use Fisher as much as Marshall, and later Pigou, in his lecture notes. Fisher also stresses the variability of the velocity of money, as well as of the volume of trade: “We must distinctly recognize that the quantity of money is only one of three factors, all equally important in determining the price level” (Fisher 1922, 21). A careful reading of Fisher’s book shows that one cannot identify the quantity theory with the equation of exchange, and that Fisher is often more concerned with the short-run real effects of money than with the long-run neutrality.

Thus the numerous qualifications to what we could call a naïve conception of the quantity theory of money that we find in Keynes’s lecture notes follow those already stressed by Marshall and Fisher. But Keynes goes further, and there are other qualifications. One is inspired by his prize-winning paper on index numbers in 1909, itself clearly stemming from his work on probability, which has its origins in his reflections on Moore and in the question of organic unities. It concerns methodological problems related to the nature of economic quantities and the problems of measurement. Of the problems of measurement, to which a chapter of the *General Theory* will be devoted, Keynes writes in his paper on index numbers: “The quantities in economics in connection with which difficulties of measurement arise, either from the nature of

²⁷ The transmission mechanism was in fact already discussed by Henry Thornton and many other nineteenth century English economists.

the subject or from the lack of statistics, are very numerous” (*JMK*, vol. 11, 55). This is particularly the case with prices: “The contradiction arises out of the very fundamental characteristic of the price relation, not always recognised, that it is not, in the fullest and strictest sense, numerically measurable” (*ibid.*, 57); and even more so with the general price level: “After first arguing that general exchange value, defined as an *ensemble* of particular exchange values, is generally incapable of measurement . . .” (*ibid.*, 95). This idea is already present in Keynes’s 1909 article on India, the writing of which precedes the writing of his essay on index numbers, an article which is often presented as a vindication of the naïve quantity theory. Of course, we read there that in India “the available statistics appear to show that, whether the phenomena are connected or not, the rise of prices has been nearly proportional to the increase of currency”, but Keynes adds that “too much reliance must not be placed upon their remarkable agreement” (*JMK*, vol. 11, 8).²⁸

This is linked to the problem of inductive inference. For Keynes, it is not possible to prove or disprove empirically the quantity theory of money: “*The inductive verification* of such a theory is evidently difficult. We cannot isolate the various contributory causes, or prepare experiments. It is, therefore, always difficult to refute a controversialist who points to one of the possible causes as the *sole* cause of what has occurred” (UA/6/22; emphasis in original).²⁹ This goes quite contrary to the current idea according to which the controversies in economics could be settled by empirical tests: “The inductive verifications of the adherent of the [quantity] theory have been, I think, nearly as fallacious as those of its opponents” (*JMK*, vol. 12, 765). This is why the great debates, beginning with the Bullionist controversy up to this day (in fact, it started some centuries ago with the debate between Bodin and Malestroit, and later Hume and Montesquieu), are so inconclusive. They are also closely linked to political considerations. Keynes was well aware of these debates, and they are present in his notes. For example, the allusion to Montesquieu is not an unimportant and passing remark added to please the French readers of *The General Theory*. He was then already studying and explaining Montesquieu’s ideas.

There remains other significant problems. It is in these lectures, and not in 1923, that Keynes says for the first time that the quantity theory of money is only valid in the long run, and thus not very useful to treat many pressing economic and political problems: “It is true, of course, that we must nearly always add the qualification ‘in the long run’; but when the long run is a *very* long run, so long that the ultimate event cannot be *foreseen*, the doctrine loses most of its

²⁸ Keynes reviewed Mises’s *Theorie des Geldes und der Umlaufsmittel* (1912) in 1914 (*JMK*, vol. 11, 400-3), but did not seem to notice that some of Mises’s ideas on measurement had some similarity with his own views.

²⁹ See also *JMK*, vol. 12, 701.

importance” (*JMK*, vol. 12, 752).³⁰ He also says that the theory is only perfectly valid for the world considered as a whole, which still restricts its utility: “The Quantity Theory is only useful for determining the level of prices for the world as a whole” (UA/6/11). Finally, Keynes develops the idea that the quantity theory must be considerably qualified by the introduction of credit. His second set of notes dealt with credit, of which he wrote: “When the subject of money was new to me, the nature of credit seemed extremely mysterious. Command of credit seemed to constitute wealth and yet to be created out of nothing” (UA/6/2).

Thus it was already apparent that for Keynes the quantity theory was not a very useful engine of analysis. Keynes was already thinking about the explanation of depressions and booms along different lines of investigation, appearing for example in his paper presented to the London Political Economy Club’s meeting of 3 December 1913, “How Far are Bankers Responsible for the Alternations of Crisis and Depression?” (*JMK*, vol. 13, 2-14). The role of speculation is stressed, in one of his very first lectures, as are its links with uncertainty and ignorance (UA/6/4).

5. Conclusion

This paper has focused on one aspect of Keynes’s life and work, within a limited span of time: his formation as an economist before the First World War and some of his first reflections on economics. We challenged the view according to which Keynes came to economics by chance, and that until the beginning of his career in this profession, economics was essentially a foreign territory. But we also stressed that, paradoxically, even when he was a confirmed economist, economics remained, for Keynes, a secondary concern, subject to the more fundamental dimensions of human existence, of ethics and politics. We showed that some of his most important positions on economics, like his views on *laissez-faire*, were already clearly present at the beginning of the century. We also indicated that the methods that Keynes applied to economics, as late as in the *General Theory* and after, are elaborated in his philosophical reflections of the first decade of the century. Although it remains open to debate, this conclusion emerges from much of the recent work by scholars of Keynes. We ended by considering one aspect of theoretical economics, which became, from the start, an important topic in Keynes’s lectures and writings, the quantity theory of money. We showed that Keynes had already developed a critical attitude towards this theory -- or at least towards the more naïve interpretations of it -- before the War, when he is usually considered to have been an orthodox economist. In the period surveyed, Keynes’s position, of course, was far from his later

³⁰ Commenting on the same passage, O’Donnell writes: “It will also not escape attention that Keynes’s concerns in his early lectures uncover some vital seeds for the revolutionary analysis of *The General Theory* and the 1937 *Quarterly Journal of Economics* article” (O’Donnell 1992, 773).

explanation of unemployment. The experience of the first World War would modify his vision. Persistent unemployment in England in the 1920s, followed by the world depression of the 1930s, would stimulate the development of the theory of effective demand. But this is another story, which has already been the subject of numerous studies.

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