

A Genius of a Different Kind

Kit Kat Essay
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John Maynard Keynes was one of the most brilliant economists and one of the most influential men of the 20th century. Today he is known in the U.S. primarily for “Keynesian Economics,” which are based on his book “The General Theory of Employment, Interest, and Money.” However, Keynesian Economics represent a development and extension of ideas and concepts by American economists and policy makers that go beyond what Keynes himself proposed. They cover huge and important topics in themselves, which are so large as to require a separate Kit Kat essay in themselves. Here I will concentrate on the astounding yet surprisingly little-known accomplishments of Keynes that he made in multiple areas from the beginning of World War I on into the era of the Great Depression.¹ They are great examples of why I call him a genius of a different kind.

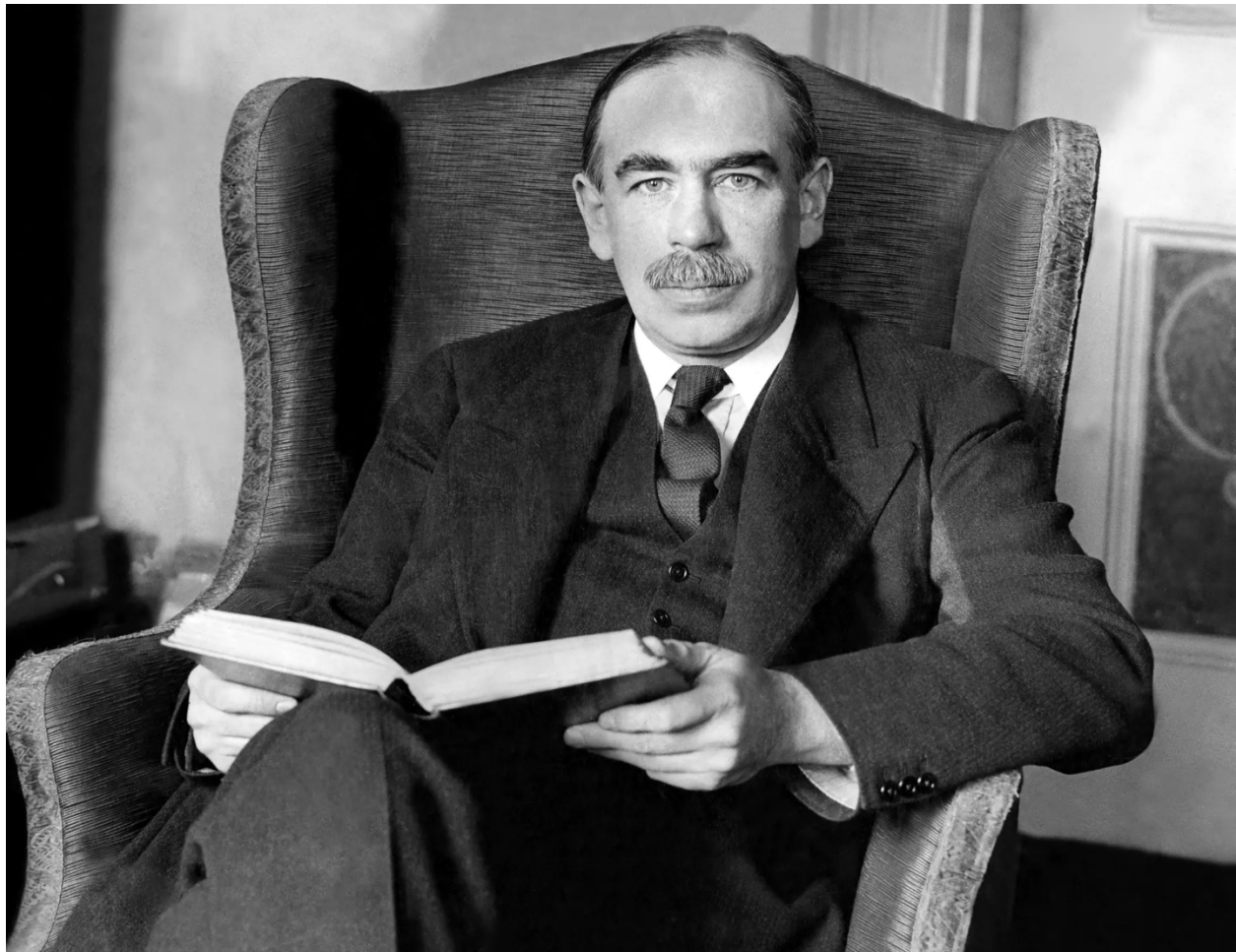
For the purposes of this essay, I will define genius as someone who makes a brilliant contribution to the world that is new and opens up an area or concept that has not been thought of before. People whom I consider to be geniuses include Mozart and Schubert for classical music, Picasso and Braque for cubism in art, Einstein for his theories of relativity, and Claude Shannon, the inventor and developer of information theory that underlies the entire digital world we now live in. I think Keynes qualifies as a genius for his General Theory alone, but the breadth of his brilliant insights in multiple areas puts him in a special category, thus the title I chose for this essay.

I will begin by describing some of the main points of his General Theory that are intended to bring out its essence and show how they can seem counter intuitive but be fundamental to the success of a well-functioning economy. Next I will present some biographical highlights from his life that bear on the work covered in this essay. Then I will give three examples that demonstrate vividly Keynes’s knowledge, creative mind, and practical approach to real-world economic, social and political crises:

¹ Keynes continued to make important contributions all the way through World War II until his death in 1946.

- The financial panic that nearly derailed the Allies entry into World War I
- Keynes's prescient analysis of how the Paris Peace process would fail and lead to what became World War II
- Churchill's blunder of reinstating the gold standard in 1925

Finally, I make some closing remarks and mention the main references I used for the essay.



John Maynard Keynes, 1883 – 1946

The General Theory of Employment, Interest, and Money

Keynes's magnum opus was "The General Theory of Employment, Interest, and Money," which was published in 1936. It brought together and presented the results of his work, discussions, and arguments with other economists over the previous two decades. In addition to being a new general theory of economics, it

was also his response to the standard model of economics of the day and its advocates.

While there are many components that are in his general theory, the outcome that is most widely known and perhaps the most revolutionary was his finding that the standard model was in fact not self-correcting for the levels of high unemployment such as occurred during the Great Depression. Rather, high unemployment could naturally occur in the standard model, and it would continue.

(One of his best quips came when a reporter asked him if the world had ever seen anything like the unfolding Great Depression. Keynes replied in perfect sincerity: “Yes. It was called the Dark Ages, and it lasted 400 years.”²)

He showed high unemployment happened because demand for the products of the economy could naturally lag behind production capacity and that the corrective reduction of prices and wages would not occur in the way predicted by the standard model. Instead, the result would be increased unemployment.

He said the problem had to be solved via fiscal policy – increased spending by the government to increase demand. This turned out to be correct, and it continues to this day as a main tool for managing the economy and high levels of unemployment.

There is much more to Keynes’s work than just the problem of unemployment. The title of *The General Theory* included the topics of interest and money because he realized they were fundamental parts of a functioning economy and had to be parts of any successful theory.

Money

The concept of money was developed historically to replace the ancient barter system and facilitate the growth of trade. Gold or pieces of paper are a lot easier to carry around for business transactions than the herd of cattle that might have

² Carter, Zachary D.. *The Price of Peace* (p. xviii). Random House Publishing Group. Kindle Edition.

been required in a barter system. It was also thought that the money itself held the fundamental value, independent of any king or government.

Keynes being Keynes, however, decided to look into the history of money to understand what it was really about and how it would fit into his theories about economics. And being who he was, he went all the way back to the time of the Babylonians in the third millennium B.C.

Two crucial properties of money that he uncovered in his studies were: 1) since the time of the Babylonians, states had always determined what their money, was, that is, what was the legal tender (gold, paper, somethings else) for use in transactions and credit and 2) states had always managed their monetary systems to further their own objectives.³ Neither of these had been considered in classical economics. Money was in fact a state-managed activity, not just a tool to replace bartering.

Keynes further realized that capitalism and its practices had been developed in Babylonia, and inflation had occurred throughout most of human history. Conversely, deflation had led to social unrest and national decline.

“There has never been in modern or ancient history a community that has been prepared to accept without immense struggle a reduction in the general level of money income.”

Keynes realized that there was another crucial aspect of money – that it offered a medium for savings. This was crucial because in the standard model of economics profits and wages would be immediately spent, that is, used for consumption. Once that was no longer the case, Keynes saw that savings could reduce the demand for consumption and have a slowing effect on the economy. He furthermore understood that people tended to save more as their incomes or wealth grew, and it was this behavior that he incorporated into his general theory, as mentioned above.

The above points about money represent some of the highlights from one of Keynes’s most important publications, the 1930 *A Treatise on Money*. The treatise contained findings and concepts that were fundamental to his General Theory.

³ Think about that in the context of today’s cryptocurrencies that have emerged, for example, from anonymous postings on the internet.

Interest

Keynes knew very well that that the banking system and the terms of credit and interest that it provided were fundamental components of an economy and its performance. Simply put, interest rates were crucial factors in people's and companies' decisions to save or invest and how their monies would be used.

Keynes further realized as he was developing his theory that there was no particular reason for the interest rates set by bankers to be optimal for the progress of the economy of the whole. Their motivation was to make profits and not make bad loans or investments.

A solution would be to have a central bank that would manage interest rates for the nation. That idea, of course, was anathema to the banking establishment of the time. It went against every principle they had. Today in the U.S. we have the Federal Reserve as our central bank, and we think nothing of it. But it was another of Keynes's radical ideas that went against conventional thinking of the day and was proved to be correct.

Macroeconomics

A defining feature of Keynes's work on everything I have looked at was that he always took a whole, system-wide approach to the problems he addressed. The problems had often occurred because conventional thinking and wisdom focused on narrower or shorter-term parts of the situation or may even have caused the problem itself. His General Theory was the first to look at the general situation of economics, identify the main factors in its functioning, and develop a theory that put them together in a self-consistent and integrated manner that led to a major improvement in understanding how real economies actually work.

It is for these efforts that he is called the founder of what today is named macroeconomics and what is one of his most important accomplishments.

Keynes's Early Life

John Maynard Keynes was born in 1883 in Cambridge to John Neville Keynes, economist and lecturer at Cambridge and Florence Ada Keynes, local social reformer. His brilliance was apparent at a young age, with special talent in mathematics. He won a scholarship to Eton College (educator of prime ministers, world leaders, actors, aristocracy). At Eton, he excelled in mathematics, classics, and history, which were fundamental foundations for his later pathbreaking work in economics. Subsequently he won a scholarship to the University of Cambridge, where he majored in mathematics and graduated in 1904.

He began his career as a Civil Service clerk in India Office – hardly an auspicious beginning – and he soon got bored. But the experience gave him ideas about money and the gold standard that were critically important to his later work, in particular, to the financial crisis of 1914.

He returned to Cambridge as lecturer in economics, funded by Alfred Marshall and Arthur Pigou, and became a fellow of King's College by 1909. He published his first book, *Indian Currency and Finance* in 1913 and then was appointed to a Royal Commission on the same topic, where he showed “considerable talent at applying economic theory to practical problems.”



King's College, Cambridge

Keynes's Intellect

Keynes's extraordinarily high intellect was recognized by everyone who interacted with him, including at the highest levels of the British Treasury. Bertrand Russell, the distinguished philosopher, who knew Keynes at Cambridge, later wrote:

“Keynes's intellect was the sharpest and clearest that I have ever known.”
“When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool.”

Keynes's Politics and Philosophy

Keynes was a liberal of his time. He was a high-ranking member of Britain's Liberal Party who chose to act as an adviser. He did not seek office but acted and worked closely with party leaders like David Lloyd George, who was Prime Minister of Britain from 1916 to 1922. The Liberal Party favored social reform, personal

liberty, reducing the power of the Crown and the Church of England, avoidance of war and foreign alliances (bad for business), and free trade.

Keynes himself was a strong believer in capitalism but consistently showed great empathy and support for fair treatment of the working classes. He vehemently opposed attempts to reduce worker's salaries, both for reasons of social justice and because they led to more unemployment.

Interestingly, Keynes originally was a believer in laissez faire – government should not interfere with the free market. But his study of history and the experience he gained from world events in WWI and the Great Depression drove him to realize that the government had to take an active role in fiscal and monetary policy – to save capitalism from itself.

Ultimately, Keynes believed that the overall goal of economics should be the betterment of humanity. In his book, Carter captures the essence of Keynes as -
“Keynes’s economic agenda was always deployed in service of a broader, more ambitious social project. Keynes was a philosopher of war and peace, the last of the Enlightenment intellectuals who pursued political theory, economics, and ethics as a unified design. He was a man whose chief project was not taxation or government spending but the survival of what he called “civilisation”.⁴

The Bloomsbury Group

Another important and very different dimension of Keynes's life came from his membership in the Bloomsbury Group of artists, writers, and poets. Today Virginia Woolf, the novelist and initiator of modern feminist literature, is probably the best-known member of the group, which also included Lytton Strachey (writer and critic), Saxon Sydney-Turner (poet), W. B. Yeats (poet), E. M. Forster (novelist, *A Passage to India*), and Woolf's sister Vanessa. The group pushed beyond the rigid Victorian boundaries into new directions for the arts, literature, criticism, feminism and sexuality.

⁴ Carter, Zachary D.. *The Price of Peace* (p. xix).



Virginia Woolf

Their activities had begun with Thursday evening parties at Woolf's house at 46 Gordon Square in Bloomsbury, London but soon expanded to parties, discussions, and events at almost any time and any topic. They also experimented with and practiced varied interpersonal and sexual arrangements of pretty much every imaginable type. Everything was all right as long as it was open and there was no dishonesty. Woolf was married but had affairs with women. Keynes was gay until he married a leading Russian ballerina.

As the American poet Dorothy Parker put it, "they lived in squares, painted in circles, and loved in triangles."



Gordon Square, London

Keynes was not an artist himself but had a great interest in and supported the arts throughout his life. Later, as he became a successful investor, he provided financial support for the group, who, not surprisingly were not doing well following WWI and the onset of the Great Depression.

The Financial Panic of August 1914

The timeline of how World War I began at the political and military level is a familiar part of history. Recall that the Archduke and heir to the Austro-Hungarian throne, Franz Ferdinand, and his wife were assassinated in Sarajevo on June 28, 1914. This precipitated a crisis between Austria-Hungary and Serbia that rapidly caused the network of treaties and agreements among the European empires to be invoked as Austria-Hungary threatened Serbia. By August 4, Austria-Hungary,

Belgium, France, Germany, Great Britain and Russia were all at war, a war whose consequences are still with us today.⁵

What is much less known is that there was a financial crisis that started with Austria-Hungary's ultimatum to Serbia on Thursday, July 23 that nearly derailed the entire financial system of the Allies and could have had a major impact on the outcome of the war. The July 23 ultimatum was the spark to the financial world that war was genuinely about to begin.

The immediate result was a tidal wave of panic selling on European stock markets. It was so severe that:

- The stock markets in Vienna and Budapest closed on Sunday, July 26
- Followed by Brussels, Oslo, and Paris on the 27th
- Portugal and Spain on the 28th
- Amsterdam, Berlin, St. Petersburg, Montreal, and Rome on the 29th
- Shanghai and Cairo on the 30th; and finally
- New York and London on Friday, July 31.

All major world stock markets were closed by July 31 and bank runs were beginning.

Even worse, a run on gold at the Bank of England had begun on Wednesday and by Friday the 31st it had lost two thirds of its reserves! The reason this was so crucial was that the Bank of England held the fundamental gold reserves for the entire financial system of the world. London was the financial capital of the world in 1914, and the British pound was the world's reserve currency.⁶

Furthermore, all the financing of the world's trade was transacted using notes issued by British banks, which, of course, were backed by the gold held by the Bank of England. For example, an American company purchasing silk from Japan paid via a note issued in London which, via a different London note, enabled the Japanese company to receive payment. This system began to freeze up in parallel

⁵ By the end of the war, 4 empires had collapsed – Austro-Hungarian, German, Ottoman, and Russian. The resulting political, economic, and social disruption in Europe led to the rise of dictatorships and totalitarian states in Europe and the outbreak of World War II. Today, for example, the origin of conflicts in the Middle East and between Russia and Ukraine can be traced back to the aftermath of World War I.

⁶ Roles that the U.S. and the dollar took on after World War II.

with the run on gold, thus threatening to paralyze all international commerce, literally just before the war began.

Keynes to the rescue

In addition to the closing of the London stock market on Friday the 31st, Britain declared a four-day bank holiday (a nice euphemism to sugarcoat the reality that the banks were collapsing) that would begin on Monday, August 3. Banks were to reopen on Friday August 7. The British banking and financial authorities together with the London banks of course recognized the seriousness of the problems facing the entire financial system of Great Britain. Indeed, there was panic among the leading bankers. The British prime minister, H. H. Asquith and the Chancellor of the Exchequer (head of British Treasury), David Lloyd George (who subsequently became Prime Minister) were directly involved in finding a solution to the problem, and the banks themselves were developing a rescue plan.

On Saturday, August 1, the same day that Germany declared war on Russia, Basil Blackett, a senior Treasury official who had worked with Keynes on a commission on Indian finance, wrote a letter to Keynes in Cambridge saying “I wanted to pick your brains for your country’s benefit and thought you might enjoy the process.” ...If by chance you could spare time to see me on Monday I should be grateful, but I fear the decisions will all have been taken by then.” (The low key, British politeness of this letter, in the midst of the world falling apart, continues to amaze me)

Keynes, however, knew immediately the importance of the letter, not only for the country but for the opportunity being presented to him, to participate at the highest levels of the British government in developing a solution to the financial crisis.

Thus, he had to travel the 60 miles from Cambridge to London on Sunday, August 2, but he had no car, nor could he drive. So, Keynes, who was 6’ 7” tall, hitched a ride in the sidecar of his brother-in-law’s motorcycle.⁷

⁷ And it turned out that the fate of the western world’s financial system hinged on that ride to London.



Example of a 1914 motorcycle & sidecar

Keynes arrived in London to chaos and panic. Lloyd George said later that “These three [bank] holidays were some of the busiest and most anxious days I ever spent... Financiers in a fright do not make an heroic picture.” Keynes’s comment was “The bankers completely lost their heads and have been simply dazed and unable to think two consecutive thoughts.”

By the time of Keynes arrival, the major banks had drawn up a plan to “cut off all gold payments to foreign customers, banks, and governments”, keeping it all in England to rescue the major banks. And thus increase the financial power of England during the coming war.

Keynes thought the bankers’ plan was all wrong. It would preserve gold but destroy Britain’s credibility and thus its ability to be the world’s financial center, which he knew was its most valuable asset. On Monday, August 3, Keynes drew up his own plan while Parliament was deciding whether to declare war on Germany, as it was committed to do by a previously agreed treaty with France.

Keynes’s plan was diametrically opposed to the banker’s plan:

- All foreigners who wished to redeem notes for gold should be paid in full

- But all British domestic needs, including banks, would be met with a new paper currency, not redeemable in gold

His reasoning was devastatingly simple – by continuing to redeem gold to foreigners, Britain maintains and cements its reputation and trustworthiness as the world center for currencies and finances. He realized that

- The run on gold was primarily driven by Britain's own banks
- The banks didn't really need gold for domestic business. They were just panicked.

On Tuesday, August 4, Lloyd George agreed with Keynes's plan and the British Treasury rushed to print and make available the new currency. (And Germany attacked Belgium en route to France, Britain declared war on Germany, World War I began...)

On Thursday, August 6, Parliament approved legislation to legalize the new currency.

On Friday, August 7, the banks re-opened in Britain, people accepted the new currency, the run on the Bank of England ended, prices did not jump, and people even started to make deposits in their banks again.

England's reputation was saved. It was the only major country to continue to meet in full its commitments in gold during WWI.

Keynes's success launched him on a career path that took him to the very top of the British government and to the highest levels of governments around the world. In the U.S. he had a tremendous influence on the development of economic policy for the U.S. government as well as on the development of economics departments and thinking in its major universities.

His first and immediate task after the financial crisis was to advise, and de facto oversee, Britain's financing of WWI, specifically through analyzing the financial position of Britain's allies and helping negotiate the British support for other nations. As he put it,

“I was in the Treasury throughout the war and all the money we lent or borrowed passed through my hands.”

Furthermore, being Keynes, he got down in the weeds, so to speak, to see and understand the details of the loans and credits. At the same time, he understood the top-level implications of the agreements and was involved in the high-level negotiations and arguments of the allies as well as of the major banks that were involved. Of these, the American House of Morgan (as in J. P.) was one of the most prominent ones.

By the end of the war, Keynes was on close, indeed personal, terms with Prime Ministers and Chancellors of the Exchequer. He was also a celebrity in his own right, with the attendant public impact.

His renown only increased after WWI, and he oversaw British war financing of WWII.⁸ In the opinion of commentators of the time, his service in the two world wars alone put him in the top echelons of people who made a difference in winning both wars.

As he did so many times in his career, he was able to step back and up to look at a problem in its entirety, not just the short-term, narrow issues of the moment. Then he would devise a long-term approach to solving it.

European Civil Wars Carthaginian Peace

Once the war stopped with the November 1918 armistice, the 1919 Paris Peace was convened by the Allies – Britain, France, Italy, and the United States – to establish the peace terms for the defeated Central Powers.

Keynes attended the conference as Treasury’s chief delegate and the British Empire’s representative to the Supreme Economic Council. As the war was ending, Treasury had asked Keynes to estimate how much money Germany would be able to pay the Allies as reparations for the damage it had caused during the war. Keynes did so and, in keeping with his practice of taking the long, fundamental view of problems, developed concepts for rebuilding the European

⁸ And thus saw directly how through the two world wars, Britain went from being a major world power to a significant debtor nation (to the U.S)

economy as a whole and for a European free-trade union to help manage it. He realized that the enormous destruction caused by the war across Europe would require efforts far beyond reparations alone.



Destruction of Verdun, France 1916

However, the topic of reparations turned out to be the most important and contentious political issue for the conference. Britain and France demanded punitively high reparations that were far beyond the capability of Germany to pay. Keynes worked as hard as he could to convince the Allies to accept a more reasonable approach, but he did not succeed. Exhausted and embittered, he resigned from the Government and returned to England.

The Economic Consequences of the Peace

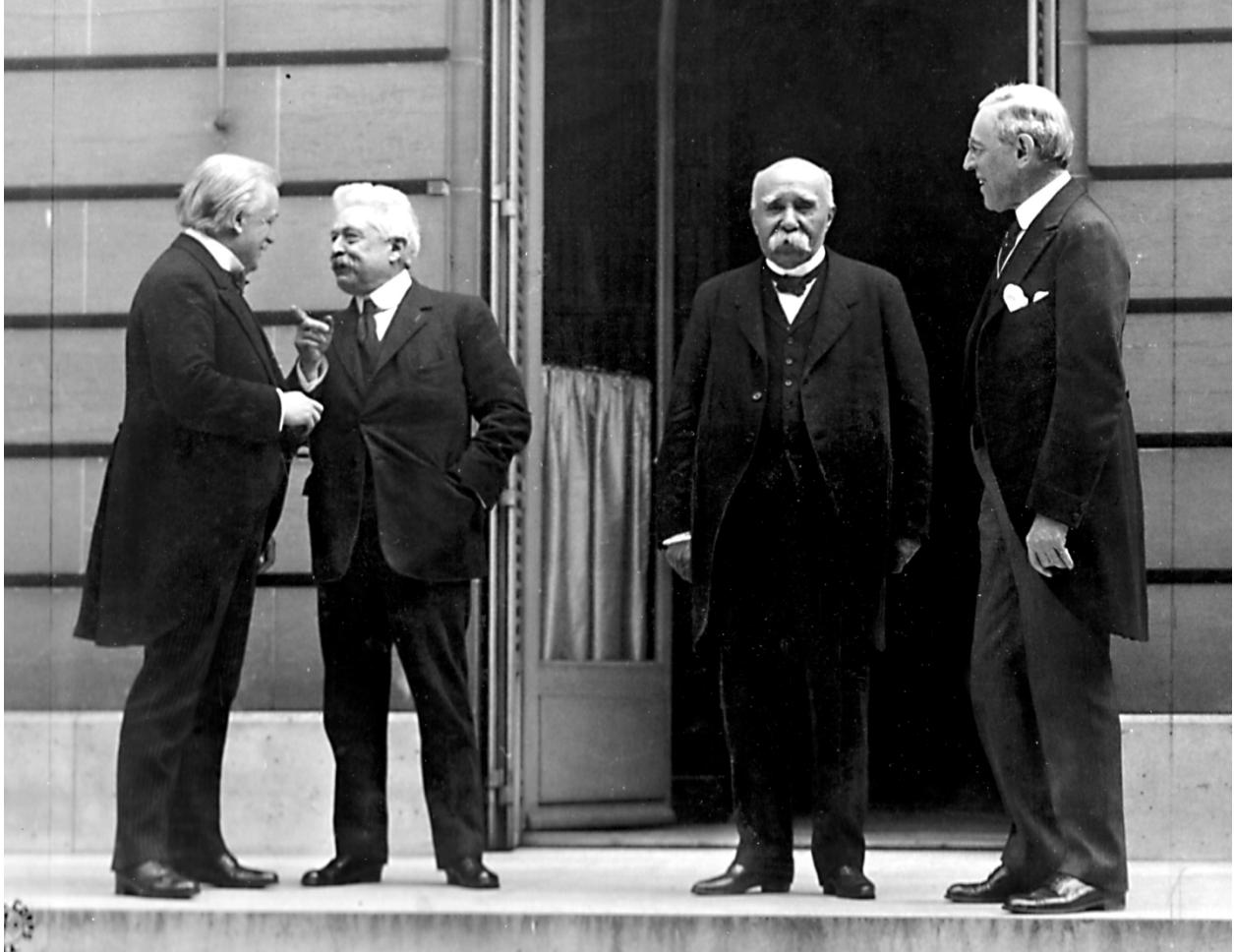
After spending some time with his Bloomsbury friends, Keynes began to write what would become his best-selling and high-impact criticism of the peace treaties that emerged from Paris – *The Economic Consequences of the Peace*. The book contains some of the most dramatic, vivid, and impassioned writing I have come across.

The book was published in 1919 and caused a sensation. Its headline thesis was that the *Carthaginian Peace* being imposed on Germany was so harsh and would cause so much suffering (and possible starvation) that the population would rise up in revolt, populist dictators could emerge, and another major war, far worse than the *European Civil War* just concluded, would occur. Unfortunately for the world, as we now know, this insight turned out to be too prescient.

An immediate reaction in Europe to the book was the undermining of support for the Treaty of Versailles while in the U.S., the book was used by opponents of American involvement in Europe to buttress their case against the U.S. joining the League of Nations.

In addition, the critical, highly detailed, human portraits of that Keynes developed of Clemenceau, Lloyd George, and Wilson (The Big Three of the Conference⁹) and their roles in the conference were avidly read and used by critics of the war effort itself.

⁹ The Fourth was Vittorio Orlando former Prime Minister of Italy. Italy was an Ally during the war, but it had a lesser role in the peace conference.



Lloyd George, Orlando, Clemenceau, Wilson 1919

Here I will mention some of the main points I learned from reading and looking through the book:

- The book opens with a very pleasant account of the highly globalized and developed state of European nations in 1914, just prior to the war. It has a charming anecdote about how a British gentleman in London, while having his morning tea, could phone up to order products from all over the world and have them readily delivered to his home. At least the upper middle classes had access to a lifestyle that exceeded kings of earlier times. That was the baseline for what all came crashing down with the outbreak of war.
- By European civil wars he was describing what he had learned from his studies of history – wars among European countries had been happening regularly for centuries and in essence were regarded as a normal state of affairs.

- The term Carthaginian Peace comes from the peace terms imposed on the Carthaginian Empire by the Roman Republic following the Punic Wars. A Carthaginian peace is the imposition of a very brutal "peace" intended to permanently cripple the losing side.¹⁰ Keynes evidently knew of this from his studies of history and used it to great effect in his book to depict the effect he believed the Treaty of Versailles would have on Germany.

The description in Chapter III of the Big Three as individuals, how they presented themselves and interacted with each other, and how the conference proceeded provides unsurpassed insights about humanity and human nature. The portraits that Keynes drew in words of Clemenceau and of Wilson were worthy of what Rembrandt and Vermeer did in paintings. For example, Keynes wrote about Clemenceau

“He felt about France what Pericles felt of Athens – unique value in her, nothing else mattering; but his theory of politics was Bismarck’s. He had one illusion – France; and one disillusion – mankind.”¹¹

Clemenceau viewed Bismarck (who built up the German Empire) as one of his most bitter enemies. Clemenceau wanted to weaken Germany as much as possible and thereby prevent her from threatening France again.

Keynes likewise captured the essence of the meeting dynamics and Lloyd George’s special qualities for reading people and maneuvering in the meeting to achieve his objectives. Furthermore, Keynes provided the historical and (then) present-day background and interests of Britain, France, and the U.S. After reading that I could see why there was no chance of the just peace that Keynes worked so hard to achieve. The political situations in both Britain and France demanded that the peace be Carthaginian, and unfortunately Wilson did not have the knowledge, experience, and temperament to prevent it.

¹⁰ From the Wikipedia entry on Carthaginian Peace.

¹¹ *Economic Consequences of the Peace*, p. 18.

Thus, Keynes's assessment that the peace agreement would lead to another world war was correct. As he put it in an outburst:

“If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilization and progress of our generation.¹²”

Although beyond the time frame of this essay, Keynes also proposed the formation of a European free trade union after WWI to provide a basis for rebuilding Europe's economies and helping it politically to overcome the political hatreds and divisions. He identified the major problem, of course, and the right solution, but it took another several decades, the rise of fascism and dictatorships, and a second catastrophic world war before that happened. He was instrumental in 1944, near the end of his life, in the Bretton Woods agreement.

Churchill's Gravest Blunder

In 1924 Churchill switched to the Conservative Party and became Chancellor of the Exchequer under Prime Minister Baldwin. By 1925 Britain had entered the sixth year of economic depression, with unemployment 10% or more and exports 25% below prewar levels. The Bank of England followed a deflationary policy, using high interest rates to lower domestic prices and weaken the British pound to make exports more competitive.

¹² *Economic Consequences of the Peace*, p. 168



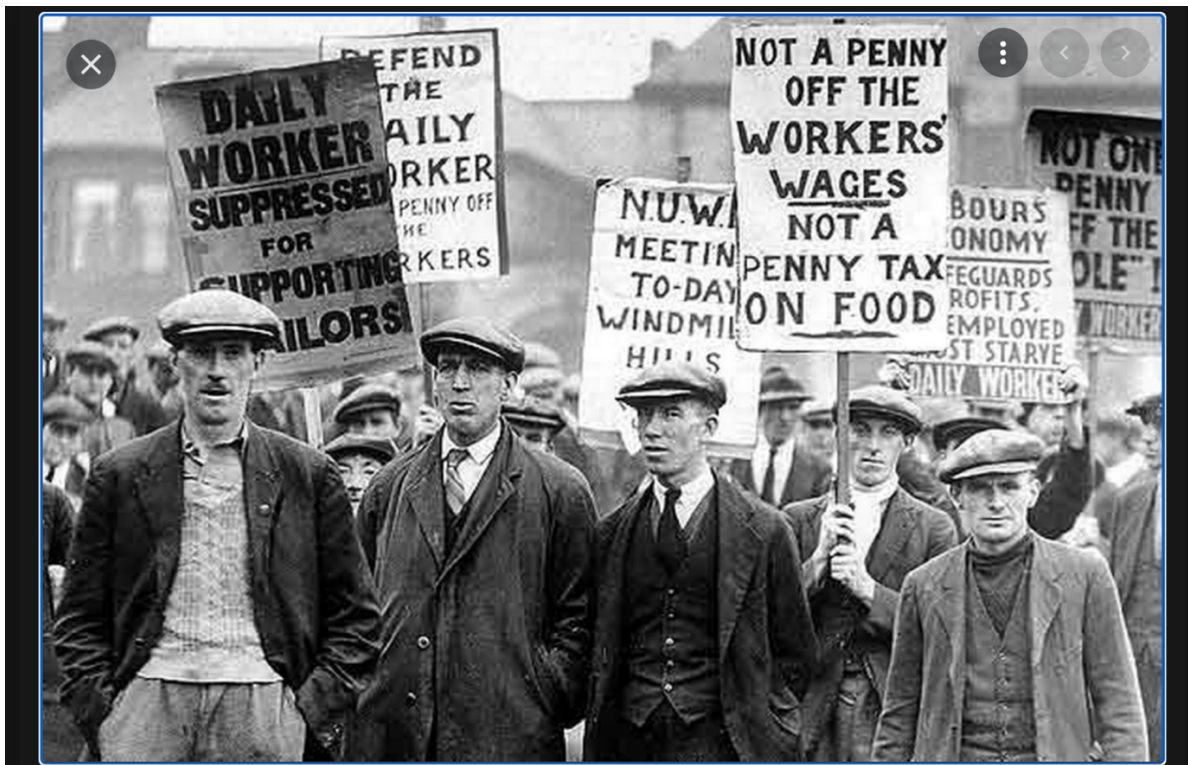
Churchill, Time Magazine, 1925

Pressure grew to decrease wages, otherwise there would have to be layoffs. Furthermore, the financial community and political leaders went on to argue for a return to the gold standard at \$4.86 to the pound as a way to restore the economy. Churchill tells Parliament all the experts are in favor.

Keynes of course argued otherwise, saying that deflation doesn't reduce wages, it causes unemployment. But he's in the minority. Churchill invited Keynes to dinner to discuss the issue and present his thinking, but it became clear by the end of the dinner that the political situation required the return to the gold standard at \$4.86.

The decision was made and announced on April 28, 1925. It was a disaster – the pound was overvalued by 10% and exports, especially coal, collapsed immediately.

Mine owners demanded wage cuts by the miners, who refused. The owners locked out the miners. Labor unions supported the miners and called a general strike. Tensions ran very high, but the workers gained nothing and eventually had to accept wage cuts. Keynes denounced the policy by writing *The Economic Consequences of Mr. Churchill*.



British General Strike 1926

Note the sign in the figure above “Not a penny off the workers’ wages, not a penny tax on food. It provides a real-life validation of Keynes’s finding from history that people will very strongly resist attempts to reduce their wages.¹³

Churchill eventually realized his grave mistake and said in 1930:

“Everybody said that I was the worst Chancellor of the Exchequer that ever was... And now I’m inclined to agree with them. So now the world’s unanimous.”

So much for the gold standard. Keynes was right again.

The Great Degas/Cezanne Auction Caper

In March 1918 Duncan Grant (of the Bloomsbury Group) learned of the upcoming auction in Paris of Degas’ extensive Post-Impressionist art collection. Degas had died some months earlier. Grant asked Keynes if the Treasury could provide money for the National Gallery to buy some of the paintings.

Keynes happened to be concerned at that time about the weakness of the French franc and the huge war debt that France had built up. How would France ever be able to repay the debt? He liked the idea and came up with a “Keynesian” argument to justify the expenditure – a debt for equity swap – Britain buys some paintings; France’s debt is reduced, and its economy gets a cash infusion.

Keynes stayed up late drafting a letter to the Chancellor of the Exchequer, persuaded Charles Holmes, Director of the National Gallery, to add his signature, and submitted it. In actuality, the argument was rather nonsensical, but the Chancellor was amused because it was the first time Keynes had ever wanted to spend some money – he had spent the war cutting expenditures and arranging for loans. The Chancellor approved the request and the expenditure of £20,000.¹⁴

Keynes and Holmes traveled to Paris for the auction on March 26 with £20,000 in cash, plus £500 of Keynes’s own money. Holmes shaved off his mustache to avoid being recognized by the French.

¹³ This phenomenon became known in economics terminology as “downward rigidity of wages,” a pretty insipid wording in my opinion for actions that have severe impacts on people’s lives.

¹⁴ Keynes likely was feeling better and somewhat relaxed. The U.S. had finally committed financial support for the war effort, just a week before Britain was about to run out of money, according to Keynes’s projection.

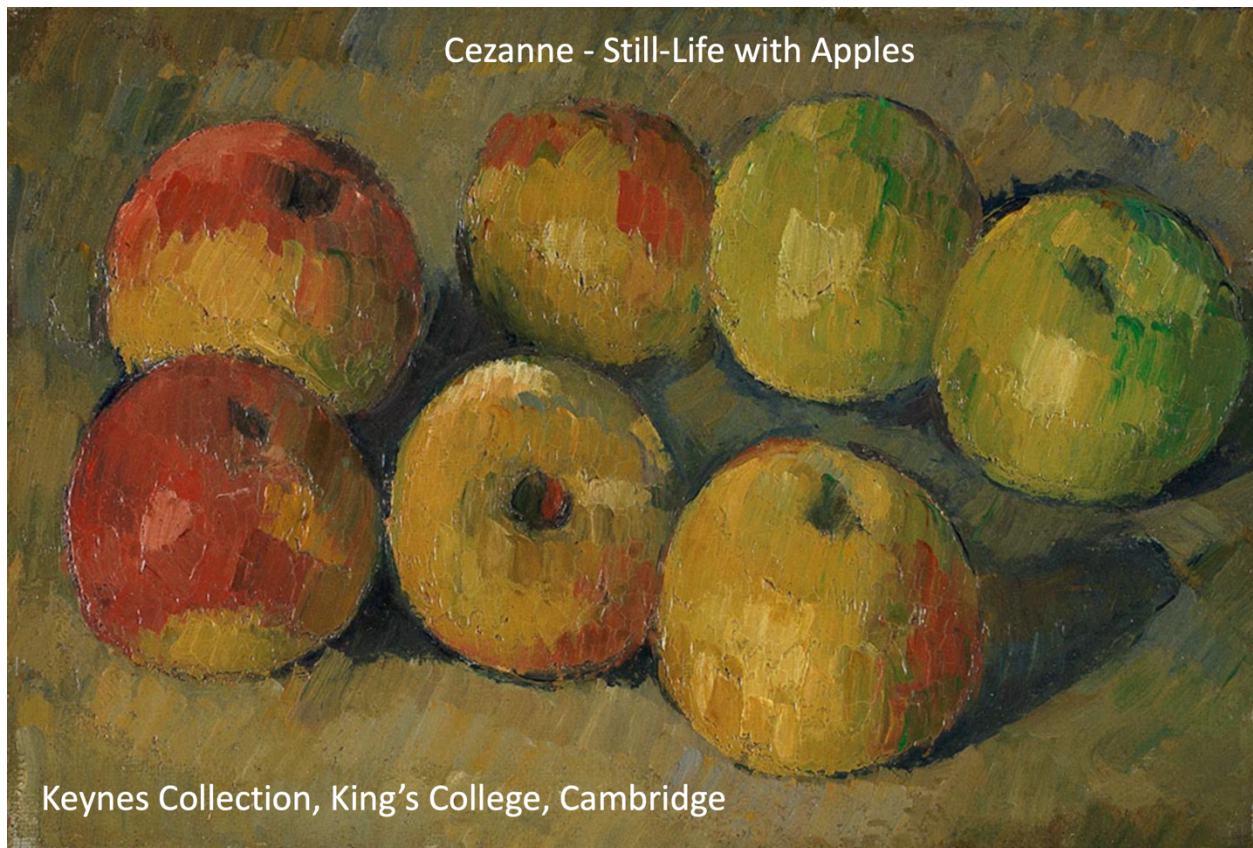


The German Paris Gun. It had the longest range ever.

On March 26 at 3:00PM, as the auction is in progress, an artillery shell from Germany's super long-range Paris gun explodes nearby. Paris is being bombarded from 75 miles away. Some people leave the auction. At 3:15PM, another shell comes in, just as bidding is about to start on the best paintings. More potential bidders flee, making the auction a literal fire (war) sale. Holmes gets a couple of dozen paintings, including several masterpieces, for £15,000 but refuses to buy a Cezanne, who was too radical in his opinion to purchase with public money. Consequently, Keynes buys it for himself for £370, along with 3 works by Delacroix and Ingres.

Holmes and Keynes get their purchases wrapped in waterproof paper and hustle to leave the auction. Keynes boards a train crowded with people fleeing the bombardment for safety in England. They cross the English Channel on a boat, looking out for German mines and submarines. Keynes eventually arrives exhausted at the farmhouse of Bloomsbury friends. He was too tired to carry the

suitcase with the Cezanne to the front door and leaves it under a hedgerow. Fortunately, his friends were able to retrieve it the same evening.



The Cezanne turned out to be one of his most celebrated paintings, and today likely has a value of many tens of millions of dollars. The paintings acquired for the National Gallery were the first for its collection of Post-Impressionist art, which went on to become one its most popular. Keynes mounted his Cezanne in his bedroom at Cambridge and bequeathed it upon his death to the University, where it can be seen in the Fitzwilliam Museum.

On the personal side, Keynes's caper catalyzed his reconciliation with his Bloomsbury friends, who had strongly opposed Britain's participation in the war and Keynes's efforts to finance it.¹⁵

¹⁵ Keynes himself opposed the war and was a registered conscientious objector, but he considered it to be his duty to assist the country and thus made his enormous contributions to the war effort, for which he was named "companion of the Order of the Bath, a high honor in the British bureaucracy close to knighthood, for his general contributions to the war effort at the Treasury." Carter, Zachary D.. *The Price of Peace* (p. 54).

Closing remarks

I thought the rather madcap, so wonderfully British, episode of the Cezanne would be a good place to end the essay after all the quite heavy topics that Keynes worked on during his life. I continue to be amazed at how Keynes could maintain his positive outlook on civilization throughout the war and its aftermath and all the criticism he endured and all the conflicts he was in. Art and culture genuinely were a major part of his life. How can one not smile upon reading a comment like “We were just in a position to afford Shakespeare at the moment when he presented himself?”¹⁶ He really was a product of the Enlightenment.

I could only touch on a small fraction of Keynes’s accomplishments in this essay. Keynesian economics, for example, became very important in the U.S., where they continued to be developed, and debated, and attacked. Nonetheless they are part of our American society today. They would be a good topic for another *Kit Kat* essay.

In the end, I think Keynes’s statement:

“The political problem of mankind is to combine three things: economic efficiency, social justice, and individual liberty.”¹⁷

says it all for what economics should be. And his approach of stepping back to see what the real nature of economic problems is and developing long-term, comprehensive solutions to them provides the best pathway for all of us to make society better.

Connection with Current Topics

Keynes’s findings and lessons he learned from history together with the theories and economic principles he developed continue to have great relevance to our world today. Here are some topics for further discussion that occurred to me as I prepared this essay:

¹⁶ Carter, p. 190. The quote came from *A Treatise on Money*, in which Keynes was recounting how the arrival of silver from the conquistadors of South America sparked economic boom, inflation, and cultural advances in Europe.

¹⁷ Carter, p.160.

- Cryptocurrencies. How do they stack up against Keynes's findings from history that states have always established their currencies and states have always managed their currencies? What backing do cryptocurrencies have? How are their values in dollars, for example, determined?
- Deficit financing and stimulus funding? What would Keynes say about the current plans in the U.S.?
- The Russia/Ukraine war – does it mark a return to the European Civil War mentality that Clemenceau considered to be an intrinsic part of human nature?

These are questions for another day, but I would say that Keynes's ideas and approach to such questions remain as important as ever

References

The book that inspired me to write this essay is *The Price of Peace – Money, Democracy, and the Life of John Maynard Keynes* by Zachary D. Carter. It is the best book I have read in many years for two main reasons: it provides a thorough, readable, and insightful account of the manifold accomplishments of Keynes, and it is also a unique (to me at least) history of Britain and the U.S. since WWI from the combined and integrated perspectives of economics, politics, and society.

Carter's book is the main source of information for this essay. I have used footnotes in the text to provide references to specific topics and quotes. I have tried to note the most important items and quotes, but I haven't been as rigorous as one would be for publishing in a scholarly journal.

I also read parts of Keynes's *The Economic Consequences of the Peace* and *The General Theory of Employment, Interest, and Money*. The former was aimed at a more general audience and is very readable. As I mentioned in the essay, I think it contains some of his most vivid and impassioned writing. It is a marvel in itself for writing in the English language. The *General Theory* is aimed at economists and is something of the proverbial mixed bag, that is, there are some wonderful, clear passages and there are some rather impenetrable parts, at least for me. One overall value, however, is that it gives a good sense of how a new and

revolutionary theory was being developed, development that was still in progress as the book was being written.