Keynes on the relation between entrepreneurship, knowledge and employment

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In *The Economic Consequences of the Peace*, Keynes argued that the irrationality at work in the negotiations that ended in the Treaty of Versailles had produced provisions that would lead to economic consequences likely to provoke an eruption of forms of irrationality in the population of Central Europe at large that would “destroy … the civilisation and the progress of our generation”.[[1]](#endnote-2) (II 157)[[2]](#endnote-3) The argument relies on a conception of human nature that attributes to it what, in “My Early Beliefs”, Keynes calls “insane and irrational springs of wickedness”.

The particular thesis of this paper derives from the more general thesis that Keynes’s economics is also grounded in this conception of human nature. It is that his account of the relation between entrepreneurship, knowledge and employment gives an essential role to irrationality.[[3]](#endnote-4)

The thesis is interpretive; the argument defending it relies on the reproduction of texts. It begins with those in which Keynes elaborates what he takes to be the essential role played by irrationality in human nature. It then narrows the focus to those in which he makes a particular form of this irrationality the “essential characteristic of capitalism”. Finally, it narrows the focus still further to texts giving this capitalist form of irrationality an essential role in entrepreneurship and its relation to knowledge and employment.

**Irrationality and Human Nature**

The key texts elaborating Keynes’s understanding of the role of irrationality in human nature are the *Two Memoirs* he arranged in his will to have published after his death. In the second of these, “My Early Beliefs”, he points to what he claims was an early belief as “flimsily based … on an *a priori* view of what human nature is like, both other people's and our own, which was disastrously mistaken”. This was the belief that

“the human race already consists of reliable, rational, decent people, influenced by truth and objective standards, who can be safely released from the outward restraints of convention and traditional standards and inflexible rules of conduct, and left, from now onwards, to their own sensible devices, pure motives and reliable intuitions of the good.” (X 447)

Here, the word “already” needs emphasizing. Keynes continued to believe, as the rest of the memoir itself demonstrates, in this idea of “reliable, rational, decent people”. In fact, his imagined “ideal social republic of the future” (XXI 241) would be largely composed of such people. Numbering himself among them, he always remained an “immoralist” in the “strict sense” of a person who reasonably “repudiated entirely customary morals, conventions. and traditional wisdom”, *i.e.* a person who could “be safely released from the outward restraints of convention and traditional standards and inflexible rules of conduct”. (X 446-7)

The disastrous mistake involved was that, in believing this, they

“repudiated all versions of the doctrine of original sin, of there being insane and irrational springs of wickedness in most men. We were not aware that civilisation was a thin and precarious crust erected by the personality and the will of a very few, and only maintained by rules and conventions skilfully put cross and guilefully preserved.” (X 447)

Thinking “wrongly” about both “the rules and conventions” and the “very few” by whom they had been “skilfully put across and guilefully preserved”, Keynes and his friends, he now goes on to claim, had also felt “wrongly” about both.

“We had no respect for traditional wisdom or the restraints of custom. We lacked reverence, as Lawrence observed and as Ludwig with justice also used to say—for everything and everyone. It did not occur to us to respect the extraordinary accomplishment of our predecessors in the ordering of life (as it now seems to me to have been) or the elaborate framework which they had devised to protect this order. Plato said in his Laws that one of the best of a set of good laws would be a law forbidding any young man to enquire which of them are right or wrong, though an old man remarking any defect in the laws might communicate this observation to a ruler or to an equal in years when no young man was present. That was a dictum in which we should have been unable to discover any point or significance whatever.”[[4]](#endnote-5) (X 447-8)

At the end of the memoir Keynes draws out the following implication of this fact of “there being insane and irrational springs of wickedness in most men” for the realistic “discussion of practical affairs”, *e.g*.,for political economy.

“as the years wore on towards 1914, the thinness and superficiality, as well as the falsity, of our view of man's heart became, as it now seems to me, more obvious; … Our comments on life and affairs were bright and amusing, but brittle—as I said of the conversation of Russell and myself with Lawrence—because there was no solid diagnosis of human nature underlying them. Bertie in particular sustained simultaneously a pair of opinions ludicrously incompatible. He held that in fact human affairs were carried on after a most irrational fashion, but that the remedy was quite simple and easy, since all we had to do was to carry them on rationally. A discussion of practical affairs on these lines was really very boring. And a discussion of the human heart which ignored so many of its deeper and blinder passions, both good and bad, was scarcely more interesting.” (X 449)

The first memoir, “Dr Melchior: A Defeated Enemy”, illustrates this claimed necessity of taking account of the role of irrationality in realistic discussions of practical affairs by means of an examination of the role it played in the negotiations ending in the Treaty of Versailles. It is focused on the part of the negotiations in which Keynes and Melchior jointly participated. Melchior is represented throughout the memoir as a person aware of the significant role played by irrationality in human nature and of its implications. He was consequently able to think and feel rightly about the danger posed to the “thin and precarious crust” of “civilisation” by this irrationality and about the consequent need for “rules and conventions” (the “Tablets of the Law” as Keynes calls them here) to protect the crust from the “lava” of irrationality “boiling” underneath. The part of the negotiations with which Keynes and Melchior were chiefly occupied was focused on alleviating the semi-starvation in Germany brought about by the war and the allied blockade, a condition both perceived as the one most threatening, if not relieved, to produce an eruption of the lava.

The role of irrationality in the negotiations as a whole is personified in the memoir by the role of the French finance minister, Klotz, in this part of them. Keynes elsewhere says of him, “If any individual is to be picked out as chiefly responsible for prolonging the dreadful privations of Central Europe, it must certainly be the celebrated Monsieur Klotz.” (X 56) In particular, he is portrayed as representing both the “the grasping sterility of France; or of that part of France, which in spite of what Clive and Roger may say, *is* France” (X 403) and the expression of this in *auri sacra fames*. The main obstacle to re-supply Keynes and Melchior had to overcome was Klotz’s insistence that Germany not be allowed to use its gold and liquid resources to buy food. These were to be reserved for the payment of reparations to France. In no small part because of Keynes and Melchior’s combined skilful negotiating, this obstacle was eventually overcome.

Overall, however, the irrationality at work in the negotiations was to produce disastrous consequences. At the end of the memoir, Keynes reports Melchior’s being moved practically to tears (*i.e.* feeling rightly) by Keynes’s reading to him, at a subsequent meeting in Amsterdam after both had resigned from the negotiations, the chapter from *The Economic Consequences of the Peace* elaborating the role played by Woodrow Wilson’s irrationality[[5]](#endnote-6) in producing this outcome.

“My book was not then out, and I had with me the manuscript of my chapter on the President. After lunch I read it to them. We went upstairs for privacy, this time to my bedroom, not Melchior's. I noted its effect on the two Jews. Warburg[[6]](#endnote-7), for personal reasons, hated the President and felt a chuckling delight at his discomfiture; he laughed and giggled and thought it an awfully good hit. But Melchior, as I read, grew ever more solemn, until at the end he appeared almost to be in tears. This, then, was the other side of the curtain; neither profound causes, nor inevitable fate, nor magnificent wickedness. The Tablets of the Law, it was Melchior's thought at that moment, had perished meanly.” (X 429)

In *The Economic Consequences of the Peace* itself, Keynes represents the human “soul” as composed of a “universal element” – the element fully actualized in “reliable, rational, decent people” – in conflict with this irrational element, claiming of the condition of the former in 1919 that, “Never in the lifetime of men now living has the universal element in the soul of man burnt so dimly.” (II 189) Elsewhere he represents this as a conflict between reason and “blind instinct”. For the “ideal social republic of the future” to become practicable, individuals had “to substitute moral and rational motive as their spring of action in place of blind instinct.” (XVII 453) This required the full development and coming into dominance of the “universal element”.

Consistent with this idea of human nature, Keynes identifies “capitalism” with a particular form of irrationality, the domination of economic motivation by “the money-making and money-loving instincts”.

**Irrationality and Capitalism**

In the final section of “The End of Laissez Faire”, having described the essay to that point as “directed towards possible improvements in the technique of modern capitalism by the agency of collective action”, Keynes goes on to claim that,

“There is nothing in them which is seriously incompatible with what seems to me to be the essential characteristic of capitalism, namely the dependence upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine.” (IX 293)

In “Economic Possibilities for Our Grandchildren”, he elaborates these “instincts” as the irrational “love of money as a possession” and irrational “purposiveness”. The former, he claims, is “one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease.” (IX 329) The latter

“means that we are more concerned with the remote future results of our actions than with their own quality or their immediate effects on our own environment. The 'purposive' man is always trying to secure a spurious and delusive immortality for his acts by pushing his interest in them forward into time.” (IX 329)

In “A Short View of Russia” he claims the following about “the love of money” and “the habitual appeal to the money motive in nine-tenths of the activities of life” including “the social appeal to the hoarding instinct as the foundation of the necessary provision for the family and the future”.

“At any rate to me it seems clearer every day that the moral problem of our age is concerned with the love of money, with the habitual appeal to the money motive in nine-tenths of the activities of life, with the universal striving after individual economic security as the prime object of endeavour, with the social approbation of money as the measure of constructive success, and with the social appeal to the hoarding instinct as the foundation of the necessary provision for the family and for the future. … A revolution in our ways of thinking and feeling about money may become the growing purpose of contemporary embodiments of the ideal.”[[7]](#endnote-8) (IX 268-9)

In his review of H.G. Wells’s *The World of William Clissold*, he invokes this love to explain business men’s lack of a rational “creed” and consequent incapacity for participation in Wells’s “open conspiracy”. In doing so, he connects it to Freud’s idea of *libido*.

“Why do practical men find it more amusing to make money than to join the open conspiracy? I suggest that it is much the same reason as that which makes them find it more amusing to play bridge on Sundays than to go to church. They lack altogether the kind of motive, the possession of which, if they had it, could be expressed by saying that they had a creed. They have no creed, these potential open conspirators, no creed whatever. That is why, unless they have the luck to be scientists or artists, they fall back on the grand substitute motive, the perfect *ersatz,* the anodyne for those who, in fact, want nothing at all—money. Clissold charges the enthusiasts of labour that they have 'feelings in the place of ideas'. But he does not deny that they have feelings. Has not, perhaps, poor Mr Cook something which Clissold lacks? Clissold and his brother Dickon, the advertising expert, flutter about the world seeking for something to which they can attach their abundant *libido.* But they have not found it. They would so like to be apostles. But they cannot. They remain business men.” (IX 319-20)

Keynes makes capitalist irrationality the means of solving what he calls “the economic problem”. This is the problem of meeting the “absolute needs” (IX 326), the rational “economic” needs, of the “reliable, rational, decent people” who will populate the “ideal commonwealth”. (VII 374) These are people whose ultimate ends are, as rational, “non-economic”. (XXI 393) In “The End of Laissez Faire”, following the passage elaborating capitalism’s “essential characteristic”, he claims that, “wisely managed”, capitalism (defined as the dominance of motivation by the irrational “money-motives”) will be “more efficient” at solving this problem “than any alternative system yet in sight”. (IX 293) In “Economic Possibilities for Our Grandchildren”, the motivation is said to work (without conscious intent) to solve the problem by developing and objectifying science and technology in social productive forces accumulated as “capital”. “We have”, he claims, “been expressly evolved by nature—with all our impulses and deepest instincts—for the purpose of solving the economic problem.” (IX 323-7)

This conception of the economic problem is found throughout his writing. In a draft for his 1943 maiden House of Lords speech on the Beveridge Report, he writes:

“Moreover, to make a bogey of the economic problem is, in my judgement, grievously to misunderstand the nature of the tasks ahead of us. Looking beyond the immediate post-war period, when our economic difficulties will be genuine and must take precedence over all else—perhaps for the last time—the economic problems of the day [that] perplex us, will lie in solving the problems of an era of material abundance not those of an era of poverty. It is not any fear of a failure of physical productivity to provide an adequate material standard of life that fills me with foreboding. The real problems of the future are first the maintenance of peace, of international co-operation and amity, and beyond that the profound moral and social problems of how to organise material abundance to yield up the fruits of a good life. These are the heroic tasks of the future.” (XXVII 260-1)

The “profound moral and social problems” were “spiritual” as opposed to economic.

“There is no reason, therefore, why the inhabitants of Europe, if they have wisdom, need fear their material surroundings. They can still see a Golden Age in front of them and travel towards it. If Europe is to suffer a decline, it will be due, not to material, but to spiritual causes.” (XVII 449)

The main problem was the obstacle placed in the way of developing a population able “to substitute moral and rational motive as their spring of action in place of blind instinct” (XVII 453) by what Keynes assumed was an innate incapacity for such development. To the end of his life, he argued removal of this obstacle would require a eugenics policy.[[8]](#endnote-9)

"Galton's eccentric, sceptical, observing, flashing, cavalry-leader type of mind led him to become the founder of the most important, significant and, I would add, genuine branch of sociology which exists, namely eugenics.” (Keynes 1946, p. 40)

Keynes claimed in *Economic Possibilities* that it would take at least another hundred years to solve even the economic problem. For this reason,

“For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.” (IX 331)

It was only when it had been solved that we would

“be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues.” (IX 329)

and that,

“All kinds of social customs and economic practices, affecting the distribution of wealth and of economic rewards and penalties, which we now maintain at all costs, however distasteful and unjust they may be in themselves, because they are tremendously useful in promoting the accumulation of capital, we shall then be free, at last, to discard.” (IX 329)

Until then, however, we would not “be able to afford to dare to assess the money-motive at its true value.” In addition, though there would then “still be many people with intense, unsatisfied purposiveness who will blindly pursue wealth”,

“the rest of us will no longer be under any obligation to applaud and encourage them. For we shall inquire more curiously than is safe today into the true character of this 'purposiveness' with which in varying degrees Nature has endowed almost all of us.”[[9]](#endnote-10) (IX 329)

There is a text in *The General* Theory itself that restates and further elaborates the conception of “the essential characteristic of capitalism” set out in these texts. In the final chapter, he makes the following claim about “opportunities for money-making and private wealth” that capitalism provides for the irrational motivation, “the money-making passion”, whose dominance defines its essence.

“For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. … The task of transmuting human nature must not be confused with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion.” (VII 374)

The “social” justification is that elaborated, among other places, in “The End of Laissez Faire” and “Economic Possibilities for Our Grandchildren”, namely, capitalism (in Keynes’s sense) as “more efficient for attaining economic ends than any alternative system yet in sight”. The “valuable human activities” motivated in this way are “entrepreneurial” activities aimed at the “accumulation of capital”. The “psychological” justification derives from the idea of civilisation set out in “My Early Beliefs”. That idea represents it as a thin and precarious crust at threat from “the insane and irrational springs of wickedness in most men”. These appear in this passage as “the dangerous human proclivities” that “can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth”. This prevents them from being expressed in forms more dangerous to civilisation.

Entrepreneurship was the most positive of these canalised forms. Considered “more curiously”, however, its “true nature” was irrational*.*

**Irrationality and Entrepreneurship**

In “Economic Possibilities for Our Grandchildren”, Keynes explicitly associates entrepreneurs with the specific forms of capitalist irrationality he elaborates there. He characterizes them as “strenuous purposeful money-makers” and contrasts them with what, in “My Early Beliefs”, he calls “reliable, rational, decent people”.

““The strenuous purposeful money-makers may carry all of us along with them into the lap of economic abundance. But it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes.” (IX 328)

As “purposeful” the entrepreneur is “trying to secure a spurious and delusive immortality for his acts by pushing his interest in them forward into time”. His accumulation of capital is the means of doing this. It is also money-making as an end in itself, *i.e.* “the love of money as a possession” as opposed to “the love of money as a means to the enjoyments and realities of life”. (IX 329) “Enterprise” as “the activity of forecasting the prospective yield of assets over their whole life” (VII 158) is an essential aspect of this activity. It underpins the third of the “three fundamental psychological factors” of *The General Theory*, “the psychological expectation of future yield from capital-assets”. (VII 247)

Most clearly and explicitly in the 1937 *Quarterly Journal of Economics* article, Keynes claims the future of concern in enterprise is normally “uncertain” in the sense of unknowable (particularly when, as with the “’purposive’ man”, it is “the accumulation of

wealth for an indefinitely postponed future” (XIV 113)). There is not sufficient currently available relevant evidence on which to base *rational* “enterprise”. There is however sufficient relevant evidence on which to base certain rational belief in one’s future death. As conceived by Keynes, the accumulation of capital is a means of denying this certain fact, *i.e.* the certain fact that, “*In the long run* we are all dead.” (IV 65)

Associated with this, the uncertainty involved in the accumulation of capital must itself be denied. It arouses “the thought of ultimate loss”, *i.e.* in the case of this accumulation, the “ultimate loss” of accumulated money. For the purposive man, putting aside this thought is a means of avoiding fear of death by suppressing the thought of death unconsciously identified with it. In contrast, the “healthy”, i.e. “the reliable, rational, decent” man, self-consciously puts aside the thought of death itself. He is *not* purposive, *i.e.* “those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow” [[10]](#endnote-11) (IX 331), and he treats money instrumentally as a “means to the enjoyments and realities of life”. (IX 329)

Consequently, it is “purposesiveness” that explains the role Keynes gives to “animal spirits” in “enterprise”.

“It is safe to say the enterprise which depends on hopes stretching into the future benefits the community as a whole. But individual initiative will only be adequate when reasonable calculation is supplemented and supported by animal spirits, so that the thought of ultimate loss which often overtakes pioneers, as experience undoubtedly tells us and them, is put aside as a healthy man puts aside the expectation of death.” (VII 162)

The denial of uncertainty takes the form of the forecasting “conventions”. Their psychological function, like the purposive activity itself, is avoidance of fear of death, of “disquietude” (XIV 116). These connect entrepreneurship to “knowledge”; they are a “substitute for the knowledge that is unattainable”.

In a 1937 article in the *Eugenics Review*, “Some Economic Consequences of a Declining Population”, Keynes makes the following claims about how “we” in general deal with uncertainty in this sense.

“The future never resembles the past—as we well know. But, generally speaking, our imagination and our knowledge are too weak to tell us what particular changes to expect. We do not know what the future holds. Nevertheless, as living and moving beings, we are forced to act. Peace and comfort of mind require that we should hide from ourselves how little we foresee. Yet we must be guided by some hypothesis. We tend, therefore, to substitute for the knowledge which is unattainable certain conventions, the chief of which is to assume, contrary to all likelihood, that the future will resemble the past.” (XIV 124)

The use of “we” here is rhetorical. Keynes assumes most people deny that the “future never resembles the past”. In contrast to them, he does not hide from himself how little he foresees and does not substitute conventions for the knowledge that is unattainable. He treats the conventions as irrational and uses his knowledge of their role in determining behaviour in financial markets as the basis of his own approach to investment in them as rational speculation where by “speculation” is meant “the activity of forecasting the psychology of the market” (VII 158).

The “chief” convention pointed to in the passage from the 1937 *Eugenics Review* article is the first of the three conventions listed in the 1937 *QJE* article.

“We assume that the present is a much more serviceable guide to the future than a candid examination of past experience would show it to have been hitherto. In other words we largely ignore the prospect of future changes about the actual character of which we know nothing.” (XIV 114)

Keynes does not himself make the assumption elaborated in the first sentence. He has those who do also “ignore the prospect of future changes about the actual character of which” they could in fact know something.

It is, he also claims in the *Eugenics Review* article, a “convention by which we assume the future to be much more like the past than is reasonable—a convention of behaviour which none of us could possibly do without”. Again, the “we” and the “us” are evidently rhetorical. “Reliable, rational, decent people” do not make assumptions that are unreasonable, assumptions that are contradicted by experience and “contrary to all likelihood”.

In so far as remaining alive is concerned, the purposive man is consciously certain that “the future will resemble the past”. Doubting this arouses disabling anxiety. Consequently, where “we” are purposive, “Peace and comfort of mind require that we should hide from ourselves how little we foresee.”

In chapter 12 of *The General Theory*, Keynes moves from the psychology of entrepreneurship to the psychology dominant in the stock market. He claims that, with the separation of management from ownership and the development of organized investment markets,

“the daily revaluations of the Stock Exchange, though they are primarily made to facilitate transfers of old investments between one individual and another, inevitably exert a decisive influence on the rate of current investment. For there is no sense in building up a new enterprise at a cost greater than that at which a similar existing enterprise can be purchased; whilst there is an inducement to spend on a new project what may seem an extravagant sum, if it can be floated off on the Stock Exchange at an immediate profit. Thus certain classes of investment are governed by the average expectation of those who deal on the Stock Exchange as revealed in the price of shares, rather than by the genuine expectations of the professional entrepreneur. How then are these highly significant daily, even hourly, revaluations of existing investments carried out in practice?” (VII 151)

Again, the “professional entrepreneur” cannot form “genuine expectations” if by this is meant rational expectations of “the prospective yield of assets over their whole life”.

In *A Treatise on Money* Keynes claims of financial markets in general that,

"The vast majority of those who are concerned with the buying and selling of securities know almost nothing whatever about what they are doing. They do not possess even the rudiments of what is required for a valid judgment, and are the prey of hopes and fears easily aroused by transient events and as easily dispelled. This is one of the odd characteristics of the capitalist system under which we live, which, when we are dealing with the real world, is not to be overlooked." (VI, 323)

In answer to the question posed in the preceding passage from *The General Theory*, he points again to the first convention.

“In practice we have tacitly agreed, as a rule, to fall back on what is, in truth, a *convention.* The essence of this convention—though it does not, of course, work out quite so simply—lies in assuming that the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change.” (VII 152)

Again, Keynes is not among this “we”, and he explicitly claims that those who are ignore changes there are “specific reasons to expect”. The convention is satirized in the following passage from chapter 12.

“Day-to-day fluctuations in the profits of existing investments, which are obviously of an ephemeral and non-significant character, tend to have an altogether excessive, and even an absurd, influence on the market. It is said, for example, that the shares of American companies which manufacture ice tend to sell at a higher price in summer when their profits are seasonally high than in winter when no one wants ice. The recurrence of a bank-holiday may raise the market valuation of the British railway system by several million pounds.” (VII 153-4)

His own approach to investing in the American stock market assumes “very few” American investors “buy any stock for the sake of something which is going to happen more than six months hence, even though its probability is exceedingly high.” This is explicitly claimed in a 10 April 1940 letter he wrote to F.C. Scott. (XII 76-8) It elaborates his reasons for continuing to hold shares in Electric Power & Light and United Gas.

He begins by documenting the respectable returns already attained from these investments, pointing out that this is “in spite of the fact that the main event for which I have been waiting all this time has not yet happened”. He then adds the following about his own understanding of a “fundamentally sound” approach to stock market investment.

“I am still convinced that one is doing a fundamentally sound thing, that is to say, backing intrinsic values, enormously in excess of the market price, which at some utterly unpredictable date will in due course bring the ship home.”

“Intrinsic values” in this context cannot mean present values calculated on the basis of rational enterprise. Keynes claims this is normally impossible. It must mean, given, as the letter goes on to claim, the approach’s reliance on an assumed knowable and predictable “psychological peculiarity” of the “vast majority” of “American investors”, the price (in this case of shares in United Gas) as determined by the response of these investors to the actual future occurrence of the “main event” for which Keynes has been waiting. It is an event (in this case a “funding scheme for the arrears of United Gas First Preferred”) that will. either directly or indirectly, through its effect on the things that do act directly, lead to an investor response that will increase the market price of the shares “enormously” above their current price. That it will do this must also be knowable and known.

“My latest information is that this rise [in the price of United Gas First Preferred] is probably due to a change for the better in the prospects of the funding scheme for the arrears of United Gas First Preferred. There is now said to be a much better chance of this. But I am not backing this in the very near future. I am only saying that it is bound to happen sooner or later. Very few American investors buy any stock for the sake of something which is going to happen more than six months hence, even though its probability is exceedingly high; and it is out of taking advantage of this psychological peculiarity of theirs that most money is made.”

The switch reported elsewhere from a “credit cycling” to this “intrinsic value” approach, remained, therefore, an approach of rational “speculation”. It continued to be based on the rational prediction of “impending changes, in the news or in the atmosphere, of the kind by which experience shows that the mass psychology of the market [*i.e.* ‘the mass psychology of a large number of ignorant individuals’ (VII 154)] is most influenced” (VII 155), and then buying and holding shares with current prices much below this “intrinsic value” until the rationally forecast impending changes occurred. This approach had also been described in *A Treatise on Money*. There he had claimed that the object of "speculators" ("the wisest" of investors) was "to anticipate mob psychology, rather than the real trend of events, and to ape unreason proleptically". (VI 323)

In this letter to Scott, Keynes also claims that a corollary of this approach is that it is by buying “big units of the small number of securities about which one feels absolutely happy that all one's profits are made”. Feeling “absolutely happy” about such securities requires that the known “probability” of profits from holding them be “exceedingly high”. This requires a degree of knowledge of the future that is only feasible for a small number of securities. A 7 March 1938 Memorandum for the Provincial Insurance Company, makes this point by way of a comparison with conventional ideas about diversification, “To carry one's eggs in a great number of baskets, without having time or opportunity to discover how many have holes in the bottom, is the surest way of increasing risk and loss.” (XII 99)

Keynes’s 8 May 1938 Memorandum *for the Estates Committee* ofKing's College, “Post Mortem on Investment Policy”, reports his move from a “credit cycling” to an “*intrinsic* value” approach. (XII 106-7) It explicitly characterizes the latter as still the approach of a rational “speculator” as distinguished from that of an “investor”, the category to which Keynes assigns the “vast majority” of stock market participants.

"Yet it is safer to be a speculator than an investor in the sense of the definition which I once gave the Committee that a speculator is one who runs risks of which he is aware and an investor is one who runs risks of which he is unaware." (XII 109)

The *Memorandum* adds to the idea of

“a careful selection of a few investments (or a few types of investment) having regard to their cheapness in relation to their probable actual and potential intrinsic value over a period of years ahead and in relation to alternative investments at the time”

a rational idea of diversification. This again, as opposed to the idea of diversification set out in the “baskets of eggs” metaphor, identifies rationality with basing the policy on knowledge, again on knowledge of the irrational psychology dominant in financial markets (an irrationality implicitly suggested here by the connection of the prices of “gold shares” to “general fluctuations”). The “*intrinsic* value” approach, requires

“a balanced investment position, i.e. a variety of risks in spite of individual holdings being large, and if possible opposed risks (e.g. a holding of gold shares amongst other equities, since they are likely to move in opposite directions when there are general fluctuations).” (XII 107)

The third convention can also be interpreted in terms consistent with the idea of irrationality that informs Keynes’s understanding of both enterprise and the psychology of financial markets.

“Knowing that our own individual judgment is worthless, we endeavour to fall back on the judgment of the rest of the world which is perhaps better informed. That is, we endeavour to conform with the behaviour of the majority or the average. The psychology of a society of individuals each of whom is endeavouring to copy the others leads to what we may strictly

term a conventional judgment.” (XIV 114)

This connects the irrational psychology to market volatility. As he put it in the 1937 *QJE* article.

“a practical theory of the future based on these three principles has certain marked characteristics. In particular, being based on so flimsy a foundation, it is subject to sudden and violent changes. The practice of calmness and immobility, of certainty and security, suddenly breaks down. New fears and hopes will, without warning, take charge of human conduct. The

forces of disillusion may suddenly impose a new conventional basis of valuation. All these pretty, polite techniques, made for a well-panelled board room and a nicely regulated market, are

liable to collapse. At all times the vague panic fears and equally vague and unreasoned hopes are not really lulled, and lie but a little way below the surface.” (XIV 114-5)

In *The General Theory* he had described this volatility as “waves of optimistic and pessimistic sentiment”.

“A conventional valuation which is established as the outcome of the mass psychology of a large number of ignorant individuals is liable to change violently as the result of a sudden fluctuation of opinion due to factors which do not really make much difference to the prospective yield; since there will be no strong roots of conviction to hold it steady. In abnormal times in particular, when the hypothesis of an indefinite continuance of the existing state of affairs is less plausible than usual even though there are no express grounds to anticipate a definite change, the market will be subject to waves of optimistic and pessimistic sentiment, which are unreasoning and yet in a sense legitimate where no solid basis exists for a reasonable calculation.” (VII 154)

These waves are described subsequently as not in fact “legitimate” in the sense of rational. They are “waves of irrational psychology”. (VII 162) Moreover, they provide, as we shall see, opportunities for certain “speculative” profit in the sense of “the activity of predicting the psychology of the market”. These opportunities are implicit in Keynes’s explicit elaboration of his theory of the irrational psychology involved.

In describing the waves as “waves of irrational psychology” Keynes also claims that not everything depends on them.

“We should not conclude from this that everything depends on waves of irrational psychology. On the contrary, the state of long-term expectation is often steady, and, even when it is not, the other factors exert their compensating effects.” (VII 162)

As demonstrated by the passages above, however, this does not mean that, when steady, “the state of long-term expectation” is rational. The irrational psychology at issue is characterized by periods of stability interrupted by such waves. This is elaborated in Keynes’s account of the irrational psychology of the trade cycle.[[11]](#endnote-12)

The boom phase of the cycle is characterized by mass psychology initiated movement into unjustified optimism (“illusions”) about the future profitability of present investment. (VII 321) The optimism cannot be unjustified in relation to rational enterprise since, again, the latter is impossible where the relevant future is “uncertain”. The actual “prospective yield” in relation to which Keynes claims they are over-optimistic is the one already or soon to be current.

“It is an essential characteristic of the boom that investments which will in fact yield, say, 2 percent in conditions of full employment are made in the expectation of a yield of, say, 6 per cent, and are valued accordingly  ... a boom is a situation in which over-optimism triumphs over a rate of interest which, in a cooler light, would be seen to be excessive.” (VII 321-2)

The over-optimism becomes particularly excessive in the boom’s later stages. These

“are characterised by optimistic expectations as to the future yield of capital-goods sufficiently strong to offset their growing abundance and their rising costs of production and, probably, a rise in the rate of interest also.” (VII 315)

The rise in the rate of interest occurs in spite of the dropping off of the desire to hold money as a store of wealth associated with the over-optimism characteristic of the boom. He connects this to what he elsewhere claims is a mistaken and irrational monetary policy view that booms should be brought to an end by raising interest rates. (V 246 and XIII 238) Warning against this policy, he writes:

“If we play with dear money on the ground that it is ‘healthy’ or ‘natural’, then, I have no doubt, the inevitable slump will ensue. We must avoid it, therefore, as we would hell-fire. … A low enough long-term rate of interest cannot be achieved if we allow it to be believed that better terms will be obtainable from time to time by those who keep their resources liquid. The long-term rate of interest must be kept *continuously* as near as possible to what we believe to be the long-term optimum. It is not suitable to be used as a short-period weapon.” (XXI 389)

The boom phase ends in a “crisis”.

“There is, however, another characteristic of what we call the trade cycle which our explanation must cover if it is to be adequate; namely, the phenomenon of *crisis*—the fact that the substitution of a downward for an upward tendency often takes place suddenly and violently, whereas there is, as a rule, no such sharp turning-point when an upward is substituted for a downward tendency.”  (VII 314)

Illusion is transformed into “disillusion”

“because doubts suddenly arise concerning the reliability of the prospective yield, perhaps because the current yield shows signs of falling off, as the stock of newly produced durable goods steadily increases.  If current costs of production are thought to be higher than they will be later on, that will be a further reason for a fall in the marginal efficiency of capital.”  (VII 317)

Also, speculators, acting proleptically, anticipate a crisis and collapse and begin to sell off, precipitating a decrease in the rate of increase of stock prices or perhaps even a fall.

The conformity in thinking and behaving induced by the mass psychology characteristic of the boom spreads the doubt and disillusion. This will eventually cause the market to be seized by panic leading to a sudden collapse of prices.

“It is of the nature of organised investment markets, under the influence of purchasers largely ignorant of what they are buying and of speculators who are more concerned with forecasting the next shift of market sentiment than with a reasonable estimate of the future yield of capital-assets, that, when disillusion falls upon an over-optimistic and over-bought market, it should fall with sudden and even catastrophic force.”  (VII 315-6)

The collapse into slump replaces the over-optimistic expectations of the boom with a “‘contrary error of pessimism’”.

“When the disillusion comes, this expectation [the over-optimistic expectation of the boom] is replaced by a contrary `error of pessimism', with the result that investments, which would in fact yield 2 per cent in conditions of full employment, are expected to yield less than nothing.  We reach a condition where there is a shortage of houses, but where nevertheless no one can afford to live in the houses that there are.”  (VII 321-2)

This “precipitates a sharp increase in liquidity-preference”.

"The dismay and uncertainty as to the future which accompanies a collapse in the marginal efficiency of capital naturally precipitates a sharp increase in liquidity-preference—and hence a rise in the rate of interest. Thus the fact that a collapse in the marginal efficiency of capital tends to be associated with a rise in the rate of interest may seriously aggravate the decline in investment." (VII 316)

The irrational psychology at work is elaborated in Keynes’s 1937 *QJE* summary of his liquidity preference theory of interest.[[12]](#endnote-13) This links the collapse in the conventionally determined over-optimistic expectations of the boom to a sudden sharp increase in liquidity preference.

“partly on reasonable and partly on instinctive grounds, our desire to hold money as a store of wealth is a barometer of the degree of our distrust of our own calculations and conventions concerning the future. Even though this feeling about money is itself conventional or instinctive, it operates, so to speak, at a deeper level of our motivation. It takes charge at the moments when the higher, more precarious conventions have weakened. The possession of actual money lulls our disquietude; and the premium which we require to make us part with money is the measure of the degree of our disquietude.” (IV 116)

One set of “calculations … concerning the future” relevant here are those of rational speculators anticipating future changes in interest rates. Keynes claims knowledge of the irrational psychology at work in the initial sharp increase in liquidity preference following the collapse of expectations grounds a rational “calculation” of a practically certain future fall in interest rates, *i.e.* a calculation in which a very high degree of trust is rationally justified. In contrast, the change in liquidity preference that creates a basis for this rational “calculation” accompanies the collapse of trust in the irrational “conventions” that had endowed the boom’s over-optimistic expectations of future yield with a “spurious and delusive” “certainty and security”.

Given the psychological role the conventions play, their collapse precipitates the re-emergence into consciousness of “the thought of ultimate loss”—and hence of the “disquietude”, the “fear”, such consciousness provokes. Keynes explains the sudden sharp increase in the desire to hold money as a store of wealth as a response to this fear. He does this in the passage from the 1937 *QJE* article just quoted. This reiterates the preceding claim from *The General Theory*. The hoarding of money in these circumstances plays the same role in lulling the disquietude as had the “higher and more precarious” forecasting conventions before they collapsed. As “lower” the behaviour is more irrational; it is based on a “feeling’ about money that, though itself “conventional or instinctive”, “operates at a deeper level of our motivation”.

This irrational feeling enables the “possession of actual money” to “lull” the re-aroused fear of ultimate loss. The greater the degree of this fear, the greater is the desire for such possession; and, the greater is the increase in this desire, the greater will be the increase in interest rates. Moreover, this increase will be relatively unresponsive to increases in the quantity of money; it will tend initially to create a liquidity trap at the higher level of rates.

In listing the "several reasons, which taken in combination are of compelling force, why in an economy of the type to which we are accustomed it is very probable that the money-rate of interest will often prove reluctant to decline adequately” (VII 233), Keynes points to the factors leading to an increased propensity to hoard in a slump as "the most fundamental consideration in this context."

“We come to what is the most fundamental consideration in this context, namely, the characteristics of money which satisfy liquidity-preference.  For, in certain circumstances as will often occur, these will cause the rate of interest to be insensitive, particularly below a certain figure, even to a substantial increase in the quantity of money in proportion to others forms of wealth.”  (VII 233)

Eventually, however, the degree of anxiety will diminish and with this the desire to hoard and the level of rates will fall.

Keynes analyzed the 1932 crises in the United States bond market in these terms. In *The General Theory* he claims that, “in the United States at certain dates in 1932”, there was “a financial crisis or crisis of liquidation, when scarcely anyone could be induced to part with holdings of money on any reasonable terms.” (VII 207-8) In a 7 July 1932 letter to C.L. Baillieu, he claimed the crisis in the New York bond market at that date had created an opportunity for practically certain speculative profit. In particular, he claimed the intense fear then dominating market psychology had increased interest rates to a level from which they were certain to significantly fall in the rationally foreseeable future as the degree of fear diminished. It had also, he claimed, disabled those subject to it from taking advantage of this certainty.

"the most striking feature of the immediate situation is the extraordinary disparity between yields in London and yields in New York of comparable securities. It seems to me quite impossible that the present situation can long persist. And I should have supposed it to be probable that the readjustment would be brought about by a substantial rise in the prices of prime fixed-interest securities in New York. The present may be the chance of a lifetime for the purchase of the latter. Obviously everyone in New York is scared so stiff as to be unable to move. But that may be the opportunity of others away from any unsettling influence of the local atmosphere. No serious risk can arise unless the existing financial system in America is going to peg out altogether. I suppose that that is just possible, but I cannot believe that it is probable." (XXI 113)

This has parallels with Keynes’s explanation, in a 5 May 1938 letter to Richard Kahn concerning the draft of the *Memorandum to the Estates Committee*, of why, from the perspective of an intrinsic value approach to stock market investment, the slump is that period in “general fluctuations” in which it is easiest to find shares “which have, on the average, prospects of rising enormously more than an index of market leaders”.

“My alternative [intrinsic value] policy undoubtedly assumes the ability to pick specialities which have, on the average, prospects of rising enormously more than an index of market leaders. The discovery which I consider that I have made in the course of experience is that it is altogether unexpectedly easy to do this, and that the proportion of stunners amongst one's ultra favourites is quite small. Moreover, this practice does, in my opinion, in fact enable one to take at least as good an advantage of fluctuations as credit cycling, though in a rather different way. It is largely the fluctuations which throw up the bargains and the uncertainty due to fluctuations which prevents other people from taking advantage of them.” (XII 100-1)

The collapse of the conventions that brings about the crisis point in “the waves”, the “fluctuations”, of “optimistic and pessimistic sentiment” that characterize financial markets transforms over-optimism into depressive pessimism. This causes a linked sharp fall off of both share values and investment in new production facilities. It is the sharp declines in share prices “which throw up the bargains”. As just explained, the pessimism is linked to an increase in “disquietude” because consciousness of the fact of “uncertainty” is no longer suppressed by the conventions. This “prevents other people from taking advantage” of these bargains. The “disquietude” is the second aspect of the irrational psychology of the slump as a situation in which a rational “speculator” finds it “easy” to find shares “which have, on the average, prospects of rising enormously more than an index of market leaders”. As spelled out in the letter to Baillieu, it is the main source of the speculative opportunity that arises in the bond market in the immediate aftermath of the crisis where the anxiety is most intense and its effect on liquidity preference greatest.

Keynes also associates the overly pessimistic psychology generated by the collapse with a reduction in the propensity to consume. In contrast, the overly optimistic psychology of the boom is associated with an increase in the propensity. In *A Treatise on Money* he claims that,

“The pessimism and the atmosphere of disappointment which the stock-market collapse engendered reduced enterprise and lowered the natural-rate of interest; whilst the ‘psychological’ poverty which the collapse of paper values brought with it probably increased saving.” (VI 176)

He then claims this “may suggest a generalisation of permanent value”.

“The last point is important, and we may pause upon it for a moment. It may suggest a generalisation of permanent value. A country is no richer when, for purposes of swopping titles to prospective gain between one of its citizens and another, people choose to value the prospects at twenty years' purchase, than when these are valued at ten years' purchase; but the citizens, beyond question, feel richer. Who can doubt that a man is more likely to buy a new motor-car if his investments have doubled in money value during the past year than if they have been halved? He feels far less necessity or obligation to save out of his normal income, and his whole standard of expenditure is raised. For their paper profits and their savings out of current income are not kept by most men (as perhaps they should be) in entirely separate compartments of the mind. (VI 175-6)

This relation is also pointed to in *The General Theory*.

“Unfortunately a serious fall in the marginal efficiency of capital also tends to affect adversely the propensity to consume.  For it involves a severe decline in the market value of stock exchange equities.  Now, on the class who take an active interest in their stock exchange investments, especially if they are employing borrowed funds, this naturally exerts a very depressing influence.  These people are, perhaps, even more influenced in their readiness to spend by rises and falls in their investments than by the state of their incomes.” (VII 319)

He claims this "should be classified amongst the major factors capable of causing short-period changes in the propensity to consume.” (VII 93)

According to Keynes, recovery from the slump will take considerable time – typically three to five years.  The main requirement is restoration of optimistic expectations of prospective yield. This will then be followed by a fairly long period in which expectations, though relatively stable, may still be insufficiently optimistic to raise investment to the level required for full employment.  Waves of boom, crisis and slump will be interrupted by fairly long periods of relative stability.  As Keynes claims, everything does not depend on "*waves* of irrational psychology." (VII 162)

The second convention is not treated by Keynes as a significant determinant of actual behavior in financial markets. He has it primarily characterizing the orthodox theory of such behavior.

“We assume that the existing state of opinion as expressed in prices and the character of existing output is based on a correct summing up of future prospects, so that we can accept it as such unless and until something new and relevant comes into the picture.” (XIV 114)

In *The General Theory* he characterizes the first convention as itself

“assuming, in effect, that the existing market valuation, however arrived at, is uniquely correct in relation to our existing knowledge of the facts which will influence the yield of the investment, and that it will only change in proportion to changes in this knowledge; though, philosophically speaking, it cannot be uniquely correct, since our existing knowledge does not provide a sufficient basis for a calculated mathematical expectation. In point of fact, all sorts of considerations enter into the market valuation which are in no way relevant to the prospective yield.” (VII 152)

The sense in which this is true “in effect” is that the first convention allows us to behavewith the same “confidence and security” we would have if we were “to behave exactly as we should if we had behind us a good Benthamite calculation of a series of prospective advantages and disadvantages, each multiplied by its appropriate probability, waiting to be summed”. (XIV 114) As elaborated above, the first convention works psychologically by denying the possibility of change not by acknowledging it.

In *The Economic Consequences of the Peace*, Keynes claims aversion to the possibility of change is “a marked characteristic of mankind”.

“The power to become habituated to his surroundings is a marked characteristic of mankind. Very few of us realise with conviction the intensely unusual, unstable, complicated, un- reliable, temporary nature of the economic organisation by which Western Europe has lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly.” (II 1)

Conventional financial market theory, then as now, is a “false rationalization” that “follows the lines of the Benthamite calculus”.

“The orthodox theory assumes that we have a knowledge of the future of a kind quite different from that which we actually possess. This false rationalisation follows the lines of the Benthamite calculus. The hypothesis of a calculable future leads to a wrong interpretation of the principles of behaviour which the need for action compels us to adopt, and to an underestimation of the concealed factors of utter doubt, precariousness, hope and fear.” (XIV 122)

Keynes also claims that, “No one has ever acted on this theory.”

“it was, I think, an ingredient in the complacency of the nineteenth century that, in their philosophical reflections on human behaviour, they accepted an extraordinary contraption of the Benthamite School, by which all possible consequences of alternative courses of action were supposed to have attached to them, first a number expressing their comparative advantage, and secondly another number expressing the probability of their following from the course of action in question; so that multiplying together the numbers attached to all the possible consequences of a given action and adding the results, we could discover what to do. In this way a mythical system of probable knowledge was employed to reduce the future to the same calculable status as the present. No one has ever acted on this theory. But even today I believe that our thought is sometimes influenced by some such pseudo-rationalistic notions.” (XIV 124)

The conventions link entrepreneurship to employment through their effect on investment. They make the expectations of prospective yield determined by them subject to “waves of optimistic and pessimistic sentiment”. Even when the expectations to which they lead are relatively stable, they may not be sufficiently optimistic to produce full employment. For this reason, the accumulation of capital”, *i.e.* investment in new production facilities, is itself unstable. The waves of optimistic and pessimistic expectations to which the conventions give rise produce corresponding waves in investment. These are translated into waves in output and employment magnified to some degree by the multiplier. The waves characteristic of expectations are psychologically linked to changes in “the psychological attitude to liquidity” and “the psychological propensity to consume” that tend to reinforce rather than counteract this effect on output and employment.

**Conclusion**

In “My Early Beliefs” Keynes points to another key implication of the fact of irrationality, one he admits to still tending to overlook.

“I still suffer incurably from attributing an unreal rationality to other people's feelings and behaviour (and doubtless to my own, too). There is one small but extraordinarily silly manifestation of this absurd idea of what is 'normal', namely the impulse to *protest*—to write a letter to *The Times*, call a meeting in the Guildhall, subscribe to some fund when my presuppositions as to what is 'normal' are not fulfilled. I behave as if there really existed some authority or standard to which I can successfully appeal if I shout loud enough—perhaps it is some hereditary vestige of a belief in the efficacy of prayer.” (X 448)

[[13]](#endnote-14)

1. In the *Economic Consequences* Keynes had pointed to the following likely disastrous political consequences.

   “I have paid little heed in this book to Russia, Hungary, or Austria. There the miseries of life and the disintegration of society are too notorious to require analysis; and these countries are already experiencing the actuality of what for the rest of Europe is still in the realm of prediction. Yet they comprehend a vast territory and a great population, and are an extant example of how much man can suffer and how far society can decay. Above all, they are the signal to us of how in the final catastrophe the malady of the body passes over into malady of the mind. Economic privation proceeds by easy stages, and so long as men suffer it patiently the outside world cares little. Physical efficiency and resistance to disease slowly diminish, but life proceeds somehow, until the limit of human endurance is reached at last and counsels of despair and madness stir the sufferers from the lethargy which precedes the crisis. Then man shakes himself, and the bonds of custom are loosed. The power of ideas is sovereign, and he listens to whatever instruction of hope, illusion, or revenge is carried to him on the air.” (II 157-9)

   On this basis he pointed to the possibility of the following outcome of the economic consequences of the Treaty for “the civilisation and the progress of our generation”.

   “If we take the view that for at least a generation to come Germany cannot be trusted with even a modicum of prosperity, that while all our recent allies are angels of light, all our recent enemies, Germans, Austrians, Hungarians, and the rest, are children of the devil, that year by year Germany must be kept impoverished and her children starved and crippled, and that she must be ringed round by enemies; then we shall reject all the proposals of this chapter [chap. 7], and particularly those which may assist Germany to regain a part of her former material prosperity and find a means of livelihood for the industrial population of her towns. But if this view of nations and of their relation to one another is adopted by the democracies of Western Europe, and is financed by the United States, heaven help us all. 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 civilisation and the progress of our generation. Even though the result disappoint us, must we not base our actions on better expectations, and believe that the prosperity and happiness of one country promotes that of others, that the solidarity of man is not a fiction, and that nations can still afford to treat other nations as fellow-creatures?” (II 169-70) [↑](#endnote-ref-2)
2. References to Keynes’s *Collected Writings* take the form of the volume number followed by the page number[s]. [↑](#endnote-ref-3)
3. The role of Freud’s theory of the love of money in Keynes’s economics has been treated extensively by Gilles Dostaler and Bernard Maris. (see Dosteler (2007); Dosteler and Maris (2000 and 2009); and Maris (1999)). Their 2009 book, *Capitalisme and le pulsion morte* is particularly relevant to an examination of the consistency of Keynes’s idea of “purposiveness” with Freud’s idea of the “death instinct”. This paper is concerned almost entirely with demonstrating the role Keynes assigns to irrationality in the relation that is its focus without paying much attention to its consistency with Freud. At points, where I have published papers of my own elaborating this connection in the case of the particular aspects of Keynes’s economics that are at issue, I make reference to these papers in the notes. Gilles Dostaler died on February 26th, 2011. Bernard Maris was murdered in the terrorist attack on the offices of *Charlie Hebdo* magazine on January 7th, 2015. [↑](#endnote-ref-4)
4. In Keynes’s own case there is more continuity between his early and mature beliefs than “My Early Beliefs” suggests. In his 1904 essay on Burke, he accepts Burke's defense of "customary morals, conventions and conventional wisdom”, a defense based on the ground that "the part that reason plays in motive is slight”. He stresses Burke's "disbelief in men's acting rightly, except on the rarest occasions because they have judged that it is right so to act”. It is "just prejudices" rather than reason that must be the guide of life. Moreover, given the role such prejudices play in defending civilisation from barbarism, they have to be defended from critical attack (*i.e.* in 1904 he sets out “a *dictum* in which”, according to “My Early Beliefs”, “we should have been unable to discover any point or significance whatever”. (X 448) Keynes attributes to Burke the view that, since reason plays such a small role in motivation,

   “those who would govern men must consequently, rely upon other aids; they must foster and preserve just prejudices; they must discountenance the exposure even of those prejudices which are based upon misapprehension but are beneficial in their immediate results.” (Keynes 1904, p. 82) [↑](#endnote-ref-5)
5. An irrationality the chapter roots in a “Freudian complex”. (II 34) [↑](#endnote-ref-6)
6. Portrayed, like the early Keynes and his friends in “My Early Beliefs”, as feeling “wrongly”. [↑](#endnote-ref-7)
7. Keynes wanted state spending to be based on more rational criteria that those expressed by the money-motives. In “National Self-Sufficiency” of 1933, in some “reflections on the proper purposes of the state” (XXI 241-3), he says the following about the money-motives he claims were particularly dominant in the 19th century.

   “The nineteenth century carried to extravagant lengths the criterion of what one can call for short the financial results, as a test of the advisability of any course of action sponsored by private or by collective action. The whole conduct of life was made into a sort of parody of an accountant's nightmare. Instead of using their vastly increased material and technical resources to build a wonder-city, they built slums; and they thought it right and advisable to build slums because slums, on the test of private enterprise,' paid', whereas the wonder-city would, they thought, have been an act of foolish extravagance, which would, in the imbecile idiom of the financial fashion, have 'mortgaged the future'; though how the construction today of great and glorious works can impoverish the future no man can see until his mind is beset by false analogies from an irrelevant accountancy. Even today we spend our time—half vainly, but also, I must admit, half successfully—in trying to persuade our countrymen that the nation as a whole will assuredly be richer if unemployed men and machines are used to build much needed houses than if they are supported in idleness. For the minds of this generation are still so beclouded by bogus calculations that they distrust conclusions which should be obvious, out of a reliance on a system of financial accounting which casts doubt on whether such an operation will 'pay'. We have to remain poor because it does not 'pay' to be rich. We have to live in hovels, not because we cannot build palaces, but because we cannot 'afford' them.” (XXI 241-2)

   These ideas were repeated in a 2 April 1942 article in *The Listener*, “How Much Does Finance Matter”, as pointing to one of the important ways we could, through more rational state planning and spending, build “our New Jerusalem out of the labour which in our former vain folly we were keeping unused and unhappy in enforced idleness.” (XXVII 270)

   “Where we are using up resources, do not let us submit to the vile doctrine of the nineteenth century that every enterprise must justify itself in pounds, shillings and pence of cash income, with no other denominator of values but this. I should like to see the war memorials of this tragic struggle take the shape of an enrichment of the civic life of every great centre of population. Why should we not set aside, let us say, £50 millions a year for the next twenty years to add in every substantial city of the realm the dignity of an ancient university or a European capital to our local schools and their surroundings, to our local government and its offices, and above all perhaps, to provide a local centre of refreshment and entertainment with an ample theatre, a concert hall, a dance hall, a gallery, a British restaurant, canteens, cafés and so forth. Assuredly we can afford this and much more. Anything we can actually *do* we can afford. Once done, it is *there*. Nothing can take it from us.” (XXVII 270) [↑](#endnote-ref-8)
8. For detailed treatments of Keynes on eugenics see Fishburn (1983) and Toye (2000). [↑](#endnote-ref-9)
9. There are grounds for concluding that Keynes employs a particular idea of rhetoric in his economics. This essay is in fact one of the places where he does “dare to assess the money-motive at its true value” and does “enquire more curiously” into “’purposiveness’”. Elsewhere, particularly in works intended primarily for economists, he writes in a way that deliberately allows the reader likely to be highly resistant to what is being argued to take away a meaning that is not too upsetting. The consistency of Keynes’s idea and practice of rhetoric with Freud’s idea of “poetical economy” is examined in Winslow (1995). [↑](#endnote-ref-10)
10. This does not mean they take *no* “thought for the morrow”. They take the amount of thought that is reasonable. This is the “least” amount because it is instrumental to the end in itself activity that defines the “good life”. [↑](#endnote-ref-11)
11. For a more detailed treatment of Keynes’s account of the psychology of the trade cycle, one focused on examining the consistency of this psychology with psychoanalysis, see Winslow (1992). [↑](#endnote-ref-12)
12. For a detailed examination of this theory also focused on its consistency with psychoanalysis see Winslow (1995). [↑](#endnote-ref-13)
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