

Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

Britain's Post WW2 Economic Recovery Profiles in Leadership: John Maynard Keynes

John Maynard Keynes provided the thought-leadership in macroeconomics that enabled Britain's Labour government to implement the policies that produced the nation's post-WW2 economic recovery. Listed among Time magazine's "Most Important People of the Century" in 1999, John Maynard Keynes is widely acknowledged as one of the most influential and visionary economists of the 20th century. His novel economic theories changed the landscape of the British economy in the post-WW2 era and provided the analytical framework for evaluating economic policy choices.

Keynes's 1936 publication, *General Theory of Employment, Interest and Money*, became his magnum opus. *General Theory* built upon the ideas of his 1933 book, *The Means to Prosperity*, and his 1930 *Treatise on Money*, in which Keynes proposed counter-cyclical public spending policies, such as increased spending and reduced taxation during times of economic recessions. Keynes established the foundation of modern macroeconomics, rejecting the precepts of the neoclassical school of thought; neoclassic economic theory assumed that supply creates demand and that full employment would prevail in a free market environment, provided that workers would be flexible with their wage demands. Keynes, however, recognized demand rather than supply as the central factor in determining a nation's economic activity. Understanding that workers would reasonably refuse low wages during a recession, Keynes referred to "price stickiness" to describe the concept of price being resistant to change regardless of circumstances. Keynes reasoned that inadequate aggregate demand in the economy leads to high levels of sustained unemployment. *Treatise on Money* postulated that unemployment rises in uncertain times because workers are reluctant to spend a high proportion of what they are paid. *The Means to Prosperity* had little influence initially but it planted the seeds for widespread acceptance of Keynesian

economics after WW2. By the time of his death in 1946, many Western governments had adopted his policy recommendations.

Despite criticism that his economic policies put too much pressure on the government to regulate the business cycle, Keynesian economics served as the foundation for British Prime Minister Clement Attlee's successful economic policies in the post-war recovery period. Keynesian economics also provided the framework for US President Barack Obama and UK Prime Minister Gordon Brown to administer fiscal stimulus in response to the 2007-08 global financial crisis and recession. The empathetic Keynesian theory stresses the needs of the people and "provides a more realistic account of human behavior than the ideal-type of theorizing with classical economics" according to Keynes biographer Robert Skidelsky, who described Keynes as an Economist, Philosopher and Statesman. Keynes showed a quick wit and stubborn intellect in his career, favoring reasonable and rational policies for the good of the general public. Keynes's passionate attitude, his faith in the ability of government officials to do good, and his high moral standards created the image of a confident and visionary man who could bring clarity and solutions to virtually any economic problem.

Throughout his career, Keynes championed the idea that placing the burden of economic recovery on a nation's citizens would only perpetuate recessions. At the Versailles Peace Conference following World War One, Keynes warned that harsh reparations would damage Germany's ability to pay and would limit its participation in buying exports, affecting the global economy as a whole. Despite his best efforts, British, French and American politicians pushed for severe reparations from Germany. Keynes correctly predicted that due to the harsh conditions imposed on the German economy, the world would quickly see reaction in the form of the rise of extremism and violence.

His compassion toward the innocent people of Germany in his 1919 book *The Economic Consequences of Peace* gained him international infamy and slated him as anti-establishment at the time. However, his predictions of disaster were borne out when the German economy suffered hyperinflation in 1923, the collapse of the Weimar Republic and the subsequent outbreak of the Second World War.

Keynes was a strong advocate for international cooperation on financial and economic affairs. He served as the chairman of the World Bank Commission in the 1944 negotiations which established a new international financial order that was presented at the Bretton Woods Conference, including a system of monetary management that worked to prevent substantial trade deficits or surpluses by controlling exchange rates. Keynes played a key role in instituting the International Monetary Fund to foster global monetary cooperation, secure financial stability, and facilitate international trade. Today, the World Bank funds global economic development projects and poverty relief efforts. The Bretton Woods Conference also led to the General Agreement on Tariffs and Trade to promote international trade and reduce trade barriers.

Economists in today's world look to John Maynard Keynes for inspiration to validate bold ideas in the face of uncertainty and to assess potential policy approaches to stimulate economic recovery with the long shadow of recession spreading globally due to the covid-19 pandemic.

Summer R. Buffin, Assistant Editor

The Buffin Foundation

1629 K Street, NW
Suite 300
Washington, DC 20006

Email: info@buffinfoundation.org
www.buffinfoundation.org

