

## Lord Robbins, Monetary Reform and Keynesian Economics

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### Abstract

In my paper I would like to contrast Lionel Robbins's approach to monetary reform and to the ideas – public works, etc. – that henceforth would be *associated* with Keynes's name. Robbins' gradual acceptance of the latter, which is widely recognised, is seen against a doctrinaire opposition to the former, which is rarely discussed. The context of these manoeuvres included of course the Great Depression, the collapse of the gold standard and the increasing prominence of Keynes. His attacks on gold and his goal of money managed by *public* authority had been prominent since the publication of the *Tract on Monetary Reform*. But Keynes was moving quickly in a policy and theoretical direction that members of the economics profession were unwilling to endorse. Perhaps more than any other, Robbins's work exemplified the nature of the opposition.

Up until the mid-1930s, classical doctrine was re-asserted. And it was to this period that the *Essay* belonged. In practice Robbins opposed tariffs and public works policies (most famously in the LSE response to the 1932 initiative by Pigou). Equally he opposed any monetary palliatives and continued to support the gold standard.

But in the 1940s, Robbins emerged as a leading instigator of the 'Keynesian' approach in Britain. He led the Economic Section of the Cabinet Office, from where the celebrated *Employment White Paper* would emerge. But again, the *White Paper* remained lukewarm to monetary reform.

In the post-war era, with Robbins in a powerful position, an invigorated profession would define its subject as concerned with the ‘allocation of scarce resources’ and debate only the Classical *versus* ‘Keynesian’ perspectives over which it had shown such flexibility in practice. Monetary considerations remained relegated as of no significance and unworthy of study. The instruments of monetary reform that had been constructed under Keynes’s influence and guidance were quietly dismantled.

## 1. Introduction

Lionel Robbins was a central figure in economic and wider policy debate of the 1930s and 1940s, a time of the most profound change to global economic policy. The gold standard, established first in Britain in 1717, was under challenge. It had proven inadequate during WWI; and the post-war return to gold in Britain was strongly contested. For some, gold was the root cause of the high unemployment of Britain in the 1920s and then finally the global collapse of prosperity in the Great Depression. Britain came off gold in 1931 and the world-wide system gradually unravelled over the next four years. At the centre of these charges and subsequent policy developments was John Maynard Keynes. Following Keynes, I have attempted to characterise these events as the fourth grand monetary discussion.<sup>1</sup> In most general terms, the result was the transfer of the management of money from private authority – under the Gold Standard – to public authority.

LSE economists opposed each and every one of Keynes’s monetary initiatives; section two traces Keynes’s early skirmishes with Edwin Cannan. But Keynes’s policies began to prevail. Robbins wholeheartedly entered the fray on Cannan’s

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<sup>1</sup> Keynes set out this characterisation in his lectures as follows (dating is mine): first, the bullionist controversy, of 1790s-1820s, second, the Californian and Australian gold discoveries of the 1840s/50s and third, the bimetallic controversy of the 1880s/90s (see *CW XII*, pp. 772-3).

retirement; he and his colleagues began a relentless opposition to Keynes's programme for monetary reform and a defence of the monetary *status quo*, of the gold standard and dear money, that is detailed in section three. *The Essay on the Nature and Significance of Economic Science* was a public manifesto of his school.

With monetary reform taking hold across the world, Robbins, and a large part of the economics profession, began to change tack. Section four argues that, during the 1930s, the international community sought to develop an alternative theory that was first a rival to Keynes's and second would become identified with Keynes. In parallel there were calls for greatly increased planning of economic activity. Robbins engaged with the planning agenda on his own terms; he called for a new and planned, yet liberal, internationalism (including the creation of a European Federation) that he set against a monetary reform portrayed as a central feature of economic 'nationalism' (section five). But, with the coming of war, Robbins played a central role in redefining the role of the state in national economic activity in a manner that has become known as Keynesianism (section six).

But this redefinition did not go as far as endorsing the policies of monetary reform that were increasingly established. The *Employment White Paper* was lukewarm to monetary reform, and, after the war, Robbins joined in the great condemnation of the cheap money policy of the majority Labour Government (section seven). He remained a proponent of the gold standard and of dear money until the end (section eight).

Sadly, the economics profession has been unwilling to put monetary policy developments in this era at the front place of discussion. The Robbins story is therefore polarised as state intervention *versus* free market capitalism (exemplified by Richard Wright's (1989) response to O'Brien's (1988) obituary essay on Robbins). But the reality is much more subtle and sophisticated than that.

## **2. Keynes, monetary policy and the LSE before Robbins**

Keynes argued from very early on that the gold standard was an inappropriate mechanism for economies based on bank credit; as he later put it: "The confusion lay in the futile attempt to ignore the existence of bank money and consequently the inter-relationships of money and bank credit, and to make representative money behave exactly as though it were commodity money" (CW V, p. 15).

His own mentor, Alfred Marshall, had studied the nature of bank credit and had taken tentative steps towards bimetallic arguments. Keynes's own early arguments focused on monetary developments in India, and led up to his *Indian Currency and Finance*. India had moved from the classical-gold-standard mechanism, reliant on interest rate changes, to a system where exchange rates were preserved or *managed*, through the buying and selling of currency by its central bank. Even this early policy debate encapsulated his central pre-occupation: that exchange considerations should not inhibit the setting of appropriate interest rates for domestic policy.

Britain moved to similar arrangements during WWI, with Keynes a prime mover as a senior civil servant in HM Treasury. Britain (as well as other countries) modified its internal gold standard, and the foreign exchange policy became a form of exchange management. From 1915, J. P. Morgan was instructed to buy and sell sterling to preserve a exchange rate of \$4.76. The arrangements meant that the short-term rate of interest was freed from its role in preserving the exchange parity and could, in theory at least, be operated more in accord with the requirements of domestic/wartime policy.

The development of these policies brought Keynes into conflict with Professor Edwin Cannan of the LSE. Skidelsky (1992, p. 163) provides a helpful biographical sketch:

... Cannan had done his economics at Oxford, not Cambridge, and was equally suspicious of Marshall, mathematics and monetary reform. He was ... a 'Johnsonian debunker' of all new-fangled theories, who 'oversimplified and probably ridiculed too much'.<sup>2</sup> Cannan was both a socialist and an orthodox economist, a quite usual combination at the Fabian-inspired LSE of the 1920s ... Both his economics and his socialism made him suspicious of Keynes's monetary therapy. ...

The central point of his monetary theory was his denial that banks can create credit.

Skidelsky goes on to discuss their clashes. He characterises their WWI dispute as follows (with perhaps too much emphasis on the nature of inflation and too little on the underlying fundamental policy issue of the suspension of gold):

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<sup>2</sup> Skidelsky cites Robbins (1971), who recorded "the younger generation ... refer to him ... somewhat disparagingly. This is almost entirely due to an error in his theory of money and credit and to his advocacy of a mistaken policy, deflation to restore the old parity of sterling after the First World War ... At the time of which I am writing, however, at any rate at L.S.E. and within its sphere of contacts, his ascendancy was paramount. We revered him. We hung on his words. We coned over his every piece of writing. He represented for us archetypal mature wisdom in his subject" (p. 83).

Cannan had argued that it [inflation] was due to the oversupply of notes; Keynes that it was 'more scientific ... to attribute the inflation to the excessive expenditure by the Government and to hold that it can only be cured by the diminution of expenditure public and private'. ... [For] Cannan, ... the only way to control expenditure was by a 'stoppage of notes'. The virtue of a currency convertible into gold was that it automatically limited the issue of notes, which politics alone could not achieve. (*ibid.*)<sup>3</sup>

The more public clash came with the publication of Keynes's *Tract on Monetary Reform*. On the one hand, the work was a polemic against the gold standard. On the other, Keynes propounded a positive agenda for domestic and international monetary policy in the light of monetary developments before, during and after the war. The Preface set out his manifesto for monetary reform:

Nowhere do conservative notions consider themselves more in place than in currency; yet nowhere is the need of innovation more urgent. One is often warned that a scientific treatment of currency questions is impossible because the banking world is intellectually incapable of understanding its own problems. If this is true, the order of society, which they stand for, will decay. But I do not believe it. What we have lacked is a clear analysis of the real facts, rather than ability to understand an analysis already given. If the new ideas, now developing in many quarters, are sound and right, I do not doubt that sooner or later they will prevail. ... (CW IV, pp. xiv–xv)

Keynes dismissed the gold standard as a 'barbarous relic', inappropriate for preserving domestic stability. Rather than control cash, as the gold standard purported to do, he promoted the control of credit. For international policy, he promoted currency management, whereby all central banks would mimic India and British wartime actions, according to fixed buying and selling prices for gold and hence exchange rates. Cannan (1924) reviewed Keynes's book in the *Economic Journal*, under the title 'Limitation of Currency or Limitation of Credit?'. He rejected

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<sup>3</sup> This dialogue (from October 1917 and January 1918) is not published in the *Collected Writings*, but see Skidelsky (1995).

Keynes's central proposition: "I hold that while the control of prices by controlling currency and letting credit follow is perfectly real and effectual, the control of prices by controlling credit and letting currency follow is altogether chimerical" (p. 54).

Keynes responded in the same issue, summing up colourfully:

Professor Cannan is unsympathetic with nearly everything worth reading – as it seems to me – which has been written on monetary theory in the last ten years. Yet the almost revolutionary improvement in our understanding of the mechanism of money and credit and of the analysis of the trade cycle, recently effected by the united efforts of many thinkers, may prove to be one of the most important advances in economic thought ever made. The ideas are new. They are only just beginning to be capable of complete or clear expression. It is natural that middle-aged bankers should feel shy. But it is not natural that Professor Cannan should write as though none of all this existed, as though his own subject were incapable of development and progress, and as though the last word had been said years ago in elementary text-books. (*ibid.*, p. 68)

But Cannan's views prevailed. Around the world the gold standard was restored. In Britain, special emphasis has been accorded to the overvaluation of sterling and the consequent high unemployment of the 1920s, but this has served to detract from Keynes's view of the more fundamental inadequacy of the system as a method for regulating economic activity. Keynes retreated to write his *Treatise on Money*.

The new book on Monetary Theory which I have in preparation will, I am hopeful, throw much new light on my fundamental arguments in favour of the dogmas to which I have rashly given utterance without sufficiently substantiating them.<sup>4</sup>

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<sup>4</sup> Skidelsky (1992, p. 164); he gives the reference: "KP: NS/1/1. JMK to Prof. Kurt Singer, 23 April 1925". The item is not included in the *Collected Writings*.

It was published on 31 October 1930, with the Great Depression beginning and the collapse of the gold standard a short way off. In parallel he was engaged with the Macmillan ‘Committee on Finance and Industry’ and the newly instituted Council of Economic Advisers and Committee of Economic Information as well as speaking around the world.

In the course of these deliberations he began to accord a fundamental role to the rate of interest. A memorandum to his fellow Macmillan Committee member Robert Brand led to an important response by Keynes (dated 7 April 1931) – perhaps offering his sharpest and most concise analysis of the Economic Problem to date:

This memorandum brings home to me what I was beginning to forget, namely that I have nowhere introduced into my draft chapters in any clear or emphatic form what I believe to be the fundamental explanation of the present position. I felt, I think, when I was drafting that this was rather a personal theory of my own and that some members of the Committee might be more inclined to agree with my practical conclusions than with my fundamental reasons. Hence, what has resulted is a semi-suppression of the latter. But Brand points out in effect how lame the result is. For unless my general explanation is more or less on the right lines, it is not clear that it is feasible for central banks to do what I am asking them to do ...

My fundamental explanation is, of course, that the rate of interest is too high, – meaning by the ‘rate of interest’ the complex of interest rates for all kinds of borrowing, long and short, safe and risky. A good many of Brand’s factors I should accept as part of the explanation why interest rates are high, e.g. effects of the War, post-war instability, reparations, return to gold, mal-distribution of gold, want of confidence in debtor countries etc., etc. ...

Next comes the question of how far central banks can remedy this. In ordinary times the equilibrium rate of interest does not change quickly, so long as slump and boom conditions can be prevented from developing; and I see no insuperable difficulty in central banks controlling the position ... The drastic reduction of the whole complex of market-rates of interest presents central banks with a problem which I do not expect them to solve unless they are prepared to employ drastic and even direct methods of influencing long-term investments which, I agree with Brand, they had better leave alone in more normal times. ... But I should not be surprised if five years were to pass by

before hard experience teaches us to get hold of the right end of the stick. (CW XX, pp. 272–3)

Published in July 1931, the Macmillan Report too offered a clear general direction, in spite of much inevitable compromise:

[In] the case of our financial, as in the case of our political and social, institutions we may well have reached the stage when an era of conscious and deliberate management must succeed the era of undirected natural evolution. (Cmd. 3897, p. 5, para. 9)

Matters turned rapidly in favour of Keynes. On 21 September 1931 Britain suspended membership of the gold standard.

Keynes and Cannan would clash one last time. In December 1931, an *Economic Journal* article by H. Somerville hailed Keynes's *Treatise* as "a vindication of the Canonist attitude to interest and usury!" and argued that "*interest is the villain of the economic piece*" (Somerville, 1931, p. 647, my emphasis). The piece prompted a symposium on 'Savings and Usury' in the next issue. Three of the four contributions, including Cannan's, rejected any condemnation of usury. Keynes's contribution, while agreeing some theoretical points, "on one main issue [came] to the support of Mr Somerville" (CW XXIX, p. 16). His concluding words foreshadowed his future work:

Personally I have come to believe that interest – or, rather, too high a rate of interest – is the 'villain of the piece' in a more far-reaching sense than appears from the above. But to justify this belief would lead me into a longer story than would be appropriate in this place. (CW XXIX, p. 16)

And Keynes's policies had already begun to prevail. His advice was sought as soon as Britain left gold. As a result of this advice and the associated deliberations, there were four major lines of policy change (see Annex 1):

- *exchange management policy* was introduced with the April 1932 implementation of the Exchange Equalisation Account (EEA), so that fixed exchange rates were maintained by the buying and selling of currency rather than through manipulations of the discount rate;
- *cheap money on short-term interest rates* was set by rapidly cutting the discount rate and then maintaining it at 2 per cent;
- *cheap money on long-term interest rates* was initiated with the conversion of the War Loan from 5 to 3 ½ per cent in July 1932; and
- capital control was implemented to ensure autonomy over the domestic interest rate environment.

The combined effect was a shift in the control of monetary policy from the Bank of England to HM Treasury and hence from private to public control.

### **3. Robbins and LSE oppose Monetary Reform**

After some to-ing and fro-ing between Oxford and London, Robbins took the Senior Professorship of Economics at LSE in 1930. He appears to have galvanised the institution and presided over a renaissance of a continental brand of classical economics just as economic activity across the world was collapsing in the Great

Depression. His early and most enduring contribution was of course the subject of this symposium, *An Essay on the Nature and Significance of Economic Science* (1932).<sup>5</sup>

The work was one of three significant contributions from LSE economists, with Friedrich von Hayek and John R. Hicks emerging into the public eye at about the same time. Robbins has “Fritz Hayek” “first appearing at L. S. E. in January 1931” when he delivered his lectures that were a “revelation of an aspect of classical monetary theory that had been forgotten” (Robbins, 1971, p. 127).<sup>6</sup> This theory, most fully articulated in his 1931 *Prices and Production*, allowed the LSE to challenge Keynes on his own – monetary – ground. Robbins celebrates Hicks’s role as a “leading agent in making us aware of the relevance of other schools of thought. If Hayek must be credited with bringing Austrian and Wicksellian thought to the School, the introduction of Walras and Pareto must be chiefly attributed to Hicks” (*ibid.*, p. 129). This was perhaps foreshadowed in his 1932 *Theory of Wages*, which was “bursting with ideas” according to Robbins (*ibid.*, p. 130).

Robbins’s *Essay* challenged those who sought to resolve the Economic Problem of the world by disregarding or rejecting the strictures of classical economics, which he presented simply as truth. “False ideas are prevalent with regard to the preoccupations of the economist and the nature and the extent of his competence” (Robbins, 1932, p. vii.). He re-asserted the general theory of value, and the famous statement that continues to define economics as “the science which studies human behaviour as a relationship between ends and scarce means which have

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<sup>5</sup> O’Brien’s (1989, p. 106) discussion of Robbins’s earlier contributions is of interest: “The first publication I have traced was a review which appeared in 1925 (Robbins, 1925) – and interestingly, in the light of subsequent events, it contained an attack (quite unprovoked it would seem) on Keynes for wishing to have monetary policy influenced by popular sentiment”.

<sup>6</sup> Corry (1987, p. 207) has Robbins bringing Hayek to LSE in 1928.

alterative uses” (*ibid.*, p. 15) seemingly sought to confine the competence of economics to a more abstract plane.

Towards the end of the book he reached some conclusions. “We have seen that it provides, within its own structure of generalisations, no norms which are binding in practice. It is incapable of deciding between the desirability of different ends” (*ibid.*, p. 135). But this did not make economics irrelevant to practical questions: “... it enables us to choose with full awareness of the implications of what we are choosing” (*ibid.*, pp. 135-6). To illustrate, he offered brief remarks on the two prominent policy issues of the moment: tariffs and monetary reform. In the case of the “protective tariff”, economics could see to the “further repercussions” (*ibid.*, p. 137) that went beyond the naïve benefit to any specific industry. In the case of monetary policy, Robbins offered an explicit challenge to Keynes’s *Tract*:

It is an inescapable deduction from the first principles of monetary theory that, in a world in which conditions are changing at different rates in different monetary areas, it is impossible to achieve at once stable prices and stable exchanges. [footnote:] See Keynes, *A Tract on Monetary Reform*, pp. 154-155; also an interesting paper by Mr. Dennis Robertson, *How do We Want Gold to Behave?* reprinted in the *International Gold Problem*, pp. 14-46 [end footnote]. The two ends – in this case the ‘ends’ are quite obviously subordinate to other major norms of economic policy – are logically incompatible. ... Yet without some analytical apparatus how few of us would perceive the incompatibility of the ends in question! (*ibid.*, 138)

In closing, he made his plea:

If irrationality, if the surrender to the blind force of external stimuli and uncoordinated impulse at every moment is a good to be preferred above all others, then it is true the *raison d’être* of Economics disappears. ... But for all those who still affirm more positive values, that branch of knowledge which, above all others, is the symbol and safeguard of rationality in social arrangements, must, in the anxious days which are to come, by very reason of

this menace to that for which it stands, possess a peculiar and a heightened significance. (*ibid.*, p. 141)

And this is the significance of economics: to protect against the hasty implementation of dangerous policies in the wake of the world crisis.

At the time, there were some who took a dim view of this retrenchment. In 1936, a review of the *General Theory* observed:

There has been of late years a general trend among economists, led by what might be described as the London School, away from the real world of economic affairs. A certain scorn even that economists should concern themselves with 'realistic economics' breathes in the whole tone of the manifesto of this school, Professor Robbins's *Nature and Significance of Economic Science*. (A. L. Rowse, September 1936, re-printed in Backhouse, 1999, p. 108)

Robbins rejected this charge. Indeed, with their foundations secure in classical theory, the LSE economists engaged themselves in a substantial and very public policy intervention, opposing those who sought to move away from the truths of classical policy.

Before the *Essay* had been published, and before Britain's departure from gold, the LSE economists came into the open against protectionism. Calls had come from city bankers (see Kynaston, 1999, p. 204) and the Rothermere and Beaverbrook media, but matters came to a head at the 1930 Committee of Economic Outlook, when Keynes and others advocated protective tariffs given ongoing adherence to the gold standard or devaluation. In spite of Keynes's furious opposition, Robbins insisted on

producing a dissenting minority report of one, which was included at the end of the main report.<sup>7</sup> The economists' report was initialled on 24 October 1930.

Robbins persevered. In his autobiography, he tells how he convinced William Beveridge, the Director of LSE, of the justness of his argument, and that, as a consequence, Beveridge "propos[ed] that we should form a committee with himself as chairman and draftsman to prepare a considered treatment of the whole subject" (Robbins, 1971, p. 157).<sup>8</sup> Beveridge appears to have marshalled all LSE economists to the cause. Their report, published in August 1931, *Tariffs, The Case Examined, by a committee of economists under the chairmanship of Sir William Beveridge*, featured contributions by F. C. Benham, W. H. Beveridge, A. L. Bowley, T. E. Gregory, J. R. Hicks, W. T. Layton, A. Plant, L. C. Robbins and G. L. Schwartz. The Preface summed up the context as "economic troubles of all kinds crowd[ing] thick and fast on the world and on Britain"; it concluded:

... we should all think it a disaster, if the policy of Free Trade which has served Britain so well materially, as through her it has served as an inspiration to all in any land have worked for good understanding among nations, were today to be sacrificed to ignorance or panic or jealousy or specious calculations of a moments gain. (Beveridge, 1932, p. vi).

A month after publication, sterling came off gold. Keynes's rationale for protectionism was gone. Nevertheless, in February 1933 the new (Conservative) Chancellor Neville Chamberlain announced a 10 per cent general tariff.

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<sup>7</sup> See for example, Skidelsky (1992, pp. 368-78) and Robbins (1971, p. 151).

<sup>8</sup> Though Robbins was deeply dissatisfied with the results, noting how "Dennis Robertson, who in a detached position, had sat with us at the beginning, found ways of disengaging himself gracefully ..." (*ibid.*, p. 158).

The spotlight then moved to public works expenditures. On 17 October 1932, A. C. Pigou and D. H. MacGregor – professors of political economy at Cambridge and Oxford respectively – wrote to *The Times* advocating public works expenditure (the other signatories included Arthur Salter, Walter Layton, Josiah Stamp and Keynes himself).<sup>9</sup> LSE economists, T. E. Gregory, Arnold Plant as well as Robbins and Hayek, responded, opposing the Oxford and Cambridge initiative.

But Robbins’s attention was fixed mainly on monetary reform. He later conceded the existence of genuine rivalry between LSE and Cambridge, on this “general policy of financial expansion to counter the depression” (Robbins, 1971, p. 133). Portraying himself as a “slave” of Mises’s and Hayek’s theory, “in which the coming into existence of this ‘real’ disproportionality was explained in terms of a failure of money rates of interest to reflect adequately the relation between the disposition to save and the disposition to invest” (*ibid.*, pp. 153-4), he saw the cause of the Great Depression in “excessive financial ease and mistaken real investment”, a diagnosis that led to a prescription for tighter money.

He set out his case in his next substantial work, *The Great Depression* (1934), a rival to Keynes’s *Treatise* and forthcoming *General Theory*. As Hubert Henderson (1935, p. 122) put it in his review, the “villain of Professor Robbins’ story” was “the monetary reformer”.

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<sup>9</sup> Salter and Layton would be important advocates of ‘planning’ (see section 5) and played leading roles in setting the agenda for the post-war world. Salter was variously a bureaucrat (in the British civil service and as a League of Nations official), academic (the Gladstone Professor of Political Theory and Institutions at Oxford and a fellow of All Souls) and a politician (Member of Parliament for Oxford University, 1937–50, and as a member of the Conservative Party, 1951–53). He became a Baron in 1951. Layton was an academic (economics at Cambridge University and then University College London) and then the editor of *The Economist* from 1922 to 1938; *The Dictionary of National Biography* adds that Layton ‘worked for Anglo-American understanding, European Unity, and the United Nations’. He became a Baron in 1947.

Robbins told a story of an ineptly-managed gold standard. The Great Depression in the US was the result of over-production, caused by a credit “‘reflation’ on the part of the Federal Reserve authorities, which produced the worst phase of this stupendous fluctuation” (Robbins, 1934, p. 54). The situation was exacerbated by “... the element of elasticity and uncertainty introduced by the existence of the various pools and restriction schemes, the rigidities of the labour market and cartel prices ....” (*ibid.*, p. 60).

In the case of Britain, Robbins pointed his finger at the early 1920s debate about whether to return to gold: “[f]rom the point of view of the historian of the recent crisis, nothing can be more important than the propaganda for a managed currency. ... It created an attitude of mind on the part of the educated public which in subsequent years made it more and more difficult to work the Gold Standard successfully” (*ibid.*, p. 77). Although he conceded that the return may have been effected at too high a sterling parity, he concluded: “[i]n so far as the disaster of this period is to be attributed to monetary causes, it was not conformity to the logic of the Gold Standard, but rather disregard of this logic, which was at the root of the trouble” (*ibid.*, p. 97).

Concerning immediate monetary policy matters, he judged:

... if recovery gets going at all – ... one of the main tasks of the monetary authorities will be to prevent it flaring up into a wild boom whose collapse might well be associated with consequences even more disastrous than anything which has happened in the present depression. (*ibid.*, p. 164)

And finally, despite its limitations, Robbins held that the Gold Standard was as “a worthy object of policy in our own life” (*ibid.*, p. 169).

A stabilisation of exchanges and an eventual restoration of an international monetary system, run on the lines indicated above, would probably afford the basis for a considerable recovery of business if political conditions were favourable... (*ibid.*, p. 182)

But Robbins also began to engage with the emerging debate on the necessity of ‘planning’ economic activity, which had gained political impetus, most notably through the future Conservative Prime Minister, Harold Macmillan (see next section). “But is this a tendency we wish to avoid? It is not clear that this is the attitude of the present leaders of opinion. Socialism is a term which is not universally popular. But ‘planning’ – ah! Magic word – who would not *plan*?” (*ibid.*, p. 145). The agenda was not rejected out of hand, but he raised practical as well as libertarian objections. For the time being he concluded: “A world of national planning is not a world which offers high hopes of political stability of economic progress” (*ibid.*, p. 159). But his conversion had begun.<sup>10</sup>

#### **4. Developments beyond the L. S. E. and Keynes’s Cambridge**

The fourth grand monetary discussion fostered a renaissance in academic economics. Across the world, new journals were published, the Econometric Society was

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<sup>10</sup> Robbins had not always been so enamoured of the free market cause; he was originally “greatly impressed by the literature of Guild Socialism; it was under that banner that I hoped to participate in what I believed to be the forthcoming transformation of society” (Robbins, 1971, p. 56).

founded, the scope of teaching was expanded and economists' views became increasingly prominent in public policy debate. The most important centres, from the perspective of the story here, were Cambridge, the LSE, Oxford, Harvard, Chicago and the Stockholm School of Economics. The League of Nations would also play a central role, with an explicit mandate to develop a consensus of emerging views. The resulting agenda was founded on loanable-funds theory. The specific notion of 'planning' was advocated in Britain, with, as noted, Macmillan in a leading role (though, plainly, variants of 'planning' were already in effect in the totalitarian economies).

Keynes by no means dominated academic economics in Cambridge. Pigou, in spite of his advocacy of fiscal initiatives (see above), would emerge as a vigorous critic of the *General Theory* and sought to develop his own mathematical statement of theory. But it was Robertson, again, in spite of their celebrated theoretical partnership, who was Keynes's most persistent and robust critic. Robertson may be regarded as a monetary economist, but as Fletcher has emphasised, his aim was always to "to deny the power of money to subvert established classical relationships" (Fletcher, 2007, p. 80) and hence was wholly opposed to Keynes's view. From his review of *Treatise of Money* onwards, Robertson came out in the open as at loggerheads with Keynes's economic theory and as a distinct sceptic about his policies. However, he tended to present his views in more moderate terms. He reviewed Robbins's *Great Depression*, summing it up as "an exhilarating convey of thunderbolts" (Robertson, 1935, p. 106).<sup>11</sup> But he promoted a slightly more moderate policy, willing to countenance a

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<sup>11</sup> Henderson's (1935) review was more sceptical, but still accorded to Robbins high praise.

degree of cheap money and fiscal policy but *only* to counter slump (see also footnote 19).

The advocates of energetic State action against developed depression have had in all countries a hard fight to wage against the forces of apathy and despair. Let us salute them everywhere, in their victories or in their honourable defeats: but let us beg them, whether flushed with success or saddened with failure, to think again before concluding that cheap money and Government deficits, still less trade restriction and exchange manipulation, are the right diet for all phases of the trade cycle or the right remedy for all the economic ills of the world. (September 1936, speech at Harvard University, reproduced in Robertson, 1966, p. 94)

As Keynes moved from his *Treatise* to the *General Theory*, Robertson, like Pigou, sought to develop his own theory of the economy (Robertson, 1934 & 1936); central to his interpretation was the loanable funds theory of interest. I have argued that this theory, not Keynes's theory, was the precursor to IS-LM (Tily, 2007, Chapter 4).

The League of Nations' major theoretical initiative would bring matters together. A resolution had been adopted in September 1930, with funding provided by the Rockefeller Foundation, according to the following mandate:

The key word was 'consensus,' since the Rockefeller Foundation expected as one of the results of its five-year grant to the League of Nations that 'the divergence of views among economists as to the nature and the means of controlling the business cycle will be appreciably lessened,' which would be an 'essential preliminary to the unification of national policies for dealing with the business cycle'. (Boianovsky and Trautwein, 2006, pp. 73-4, citing a memorandum by a Rockefeller Foundation employee)

The Director of the Financial Section of the League of Nations had originally wanted Robertson to take the lead, but Robertson declined. Instead Gottfried Haberler, an economist originally of the Austrian school, took the lead in developing the ‘consensus’.<sup>12</sup> But Robertson’s ‘framework’ would be adopted in the eventual synthesis (*ibid.*, p. 51).

The first milestone was reached in 1934, when Haberler produced the first of his coming two-part work under the title, *Systematic Analysis of the Theories of the Business Cycle*. He circulated the report to and entered into a number of correspondences with leading members of the economics profession from across the world (including Robbins).

Meanwhile, momentum was building behind a British campaign for ‘planning’ economic activity. In 1933 Harold Macmillan had set himself up as figurehead for the campaign for what he referred to as ‘economic nationalism’. The preface of his book, *Reconstruction: A Plea for a National Plan*, explained cause, motive and means:

We must realise the essential contradictions of laissez-faire even while we may appreciate the energy and drive of a rugged individualism. The policy we are seeking will only be satisfactory if it goes deep enough to correct the maladjustments and reconcile the disharmonies from which our problems arise. But, if revolutionary violence is to be avoided, it must also make its appeal to a sufficiently broad strip of public opinion to secure the support for its adoption. It must be at once radical and popular. (Macmillan, 1933, pp. 6–7; his italics)

Macmillan then emerged alongside Clifford Allen as leaders of the ‘Next Five Years Group’ (NFYG) (Skidelsky, 1992, p. 438). Reflecting the cross-party nature of

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<sup>12</sup> He had favourably reviewed the LSE tariffs book (Haberler, 1932).

the initiative, Allen was a leading Fabian and member of the Labour Party (he took MacDonald's side when the Labour Party split in 1931). After issuing two pamphlets, a fuller manifesto was published as *The Next Five Years: An Essay in Political Agreement* (1935).<sup>13</sup> The manifesto foreshadowed much of what was to become the post-war agenda. Notably, monetary reform was rejected:

The importance of monetary policy, though great, can easily be exaggerated.

...

But money is not all-powerful. Many years ago Jevons wrote: "There are men who spend their time and fortunes in endeavouring to convince a dull world that poverty can be abolished by the issue of printed bits of paper. I know one gentleman who holds that exchequer bills are the panacea for the evils of humanity. Other philanthropists wish to make us all rich by coining the national debt, or coining the lands of the country, or coining everything." The forms of these beliefs have grown more subtle, and more plausible in the process, since Jevons' day. But the root-belief is still the same: that by a few simple book-keeping transactions a flood of wealth hitherto pent up by an imperfect monetary system can be released to sweep poverty from the face of the earth. We do not share these beliefs. (NFYG, 1935, pp. 97–9)

The most promising suggestion is that currencies should be re-linked to gold, but at parities which could be changed from time to time. (*ibid.*, p. 111)

In February 1936, as the planning and fiscal agendas and associated theories were emerging, the *General Theory* was published to instant and almost unanimous opposition from the academic community (see Backhouse, 1999, p. 12). Its fortunes would contrast sharply with the papers that would come to define the 'Keynesian' approach. A critical moment seems to have been the 26 September 1936 Econometric Society symposium on the *General Theory* held at Oxford University. As Young (1987) has emphasised, Hicks, Roy Harrod, James Meade and Brian Reddaway each prepared algebraic formulations of macroeconomic theory with a good deal of

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<sup>13</sup> The 'Foreword' includes a list of 152 signatories drawn from across the British Establishment ('drawn from different parties and schools of thought'). The list also indicated those signatories that were members of the 'drafting Committee': Allen, W. Arnold-Forster, A. Barratt Brown (the Principal of Ruskin College, Oxford), Geoffrey Crowther (soon to succeed Layton as editor of *The Economist*), Macmillan and Salter.

common ground. All of the papers were published, but Hicks, of course, carried the day; his IS-LM model would become the textbook Keynesian model even to the present day. IS-LM was a loanable funds theory, with a good deal of overlap with Robertson's preceding contributions and with no role for bank money or uncertainty. Monetary policy was confined to determining the quantity of money.

The Oxford Keynesians now included Hubert Henderson, who in 1934 had left his HM Treasury post as assistant and later joint secretary to the Economic Advisory Council for All Souls. In 1937 he was joined by Beveridge, who resigned as director of LSE to become Master of University College. In 1935 Hicks left LSE for Manchester; he arrived at All Souls in 1946.

The League of Nations initiative reached its next milestone in March 1936, when a group of leading economists were invited to participate in discussions of the second part of Haberler's work in Geneva.<sup>14</sup> Robbins and Robertson were present alongside many who would become leading lights of the profession in the post-war era (Boianovsky and Trautwein, 2006, pp. 62-3):

- Dennis Robertson (Cambridge),
- Otto Anderson (Economic Research Institute, Sofia),
- John Maurice Clark (Columbia University),
- Leon Dupriez (Catholic University of Leuven),
- Alvin Hansen (Department of State, Washington DC),
- Oskar Morgenstern (Austrian Business Cycle Institute),

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<sup>14</sup> Robbins does not mention his participation in this work in his autobiography.

- Bertil Ohlin (Stockholm School of Economics),
- Charles Rist (University of Paris),
- Lionel Robbins (London School of Economics),
- Wilhelm Röpke (University of Istanbul) and
- Jan Tinbergen (Dutch Institute of Economics).

The verbatim note of the meetings reflects the desire for coherence with Robertson's contributions, as well as an interest in public works:

Ohlin suggested that a more detailed discussion of the saving–investment mechanism should be provided, one that takes into account Robertson's 'Industrial Fluctuations' paper (1934). According to Ohlin, this could show how a higher level of expenditure in public works brings about 'unintentional savings' able to finance the public deficit (pp. 30–1). There was general agreement that "we must have period analysis in the way indicated by Mr. Robertson," ... (*ibid.*, p. 64)

Moreover, a memorandum by a Rockefeller Foundation employee (John Van Sickle) reported the success of the conference:

A number of those in attendance told me privately that they had come with considerable scepticism as to the usefulness of such a conference. At the end there was not a single one who did not feel that the meeting had been definitely worthwhile. (*ibid.*, p. 73).

The work was published in June 1937 under the title *Prosperity and Depression: A Theoretical Analysis of Cyclical Movements*. The first of the two parts set out summary categorisations of existing theories of the cycle.<sup>15</sup> In the second part,

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<sup>15</sup> Keynes's work was included as a 'psychological' theory, with elaboration only in a footnote: "In recent years, it has become fashionable to lay stress on the element of expectation. Keynes' "General Theory of Employment, Interest and Money" is conceived in terms of expectation; and, at an earlier date, the conception of economic expectation was interpreted and developed by the Swedish school ..." (Haberler, 1937, p. 135).

Haberler set out his ‘synthesis’. There is perhaps an implicit message that Keynes’s work presented no great challenge to academic economic theory.

In the course of this analysis of existing theories, it became apparent that many of the seeming differences of doctrine were due rather to the use of different terminologies than to any more fundamental causes. The measure of agreement which appeared to exist between those who have devoted special attention to the problem of the trade cycle seemed to justify an attempt to make from their theories even at this early stage of the work the general synthesis which constitutes the second part of this volume. This synthesis, however, is more than a simple patching together of the theorems of others: it is an attempt to create a living and coherent, if incomplete, theory on the basis of the knowledge at present available. (Haberler, 1937, pp. iv–v)

In specific theoretical terms, the book set out a loanable-funds theory. *Prosperity and Depression* was reviewed in the main economic journals “with largely positive reactions to its synthetic approach” (Boianovsky and Trautwein, 2006, p. 77). Earlier correspondence with Haberler indicated that Keynes was not impressed with the initiative.<sup>16</sup> On publication, he got Kahn to review it. The review was highly critical and the subsequent dialogue was acrimonious (Kahn, 1937 & 1938, Haberler, 1938).<sup>17</sup>

Haberler then moved to Harvard, where he had been appointed professor in 1936, and from where United States Keynesianism would emerge. He joined Paul Samuelson, who had arrived on a fellowship from Chicago in 1935 (staying until

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<sup>16</sup> Boianovsky and Trautwein (2006, p. 49) illustrate: “Keynes (30 August 1934) reacted negatively to the project, writing [to] Haberler that ‘I cannot think that you have gone the right way to work. The method of taking various propositions in isolation is to bring authors into the same pigeon-hole who are really leagues apart and have very little in common’”.

<sup>17</sup> Keynes himself was involved in a number of controversies; with matters coming to a head – to some extent at least – in the ‘alternative theories of interest’ debate, when he challenged directly those who adhered to the loanable-funds theory (explicitly identifying Hicks and Robertson; however, Ohlin presented the rival case (Ohlin, 1937a&b)). He also openly challenged the League of Nations’ subsequent empirical initiative in the famous dialogue that followed the publication of Tinbergen’s *Statistical Testing of Business-Cycle Theories* (1938).

1940), and Alvin Hansen, who in 1936 was appointed the first Lucius S. Littauer Professor of Political Economy.

Hansen's review of the *General Theory* advocated Robertson's loanable-funds approach. In 1941 he set out the 'Keynesian' policy agenda in his *Fiscal Policy and the Business Cycle*:

It is at this point that depression policy emerges in a new role as a important element in a positive governmental program. But an economic minimum cannot be insured by reliance exclusively upon monetary policy. (Hansen, 1941, p. 74)

There is thus emerging a new aim of fiscal policy, vigorously assailed by some and staunchly defended by others – the aim of ensuring full employment of the factors of production. This policy involves greatly enlarged governmental expenditures. (*ibid.*, p. 117)

The public debt is an instrument of public policy. It is a means to control the national income and, in conjunction with the tax structure, to regulate the distribution of income. (*ibid.*, p. 185)

A planning agenda and theory had been constructed. Despite the extent of the shift from classical economics, little or no controversy followed the publication of the various contributions. On board were a good number of the big names of the future of the profession.

## **5. International planning *versus* monetary nationalism**

In the years between the publication of the *General Theory* and the start of the war, Robbins began to take a new approach to Keynes's work, but one that remained underpinned by his doctrinaire rejection of monetary reform.

In 1937 Robbins responded to Keynes's pronouncements on 'How to avoid a slump', published between 12 and 14 January in *The Times*. Keynes re-iterated his view that the authorities had control over the spectrum of interest rates, and he warned:

Unquestionably in past experience dear money has accompanied recovery; and has also heralded a slump. 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. (CW XXI, p. 389)<sup>18</sup>

In May, Robbins published a short article, 'How to Mitigate the Next Slump', in the *Lloyds Bank Limited Monthly Review*. He argued: "It has long been a maxim of prudence that, to avert a slump, it is necessary to avert the boom" (Robbins, 1937a, p. 234). Foreshadowing today's policies, he saw a need for the "expansive process to be restrained" at the point "at which prices begin to rise rapidly" (*ibid.*, p. 235).

Now this means quite definitely that, once this point has been reached, a continuance of the régime of cheap money which has accompanied the previous depression is dangerous. If money is kept cheap by deliberate manipulation in the face of a rising investment demand and rising costs and money incomes, then mal-investment of the kind which sooner or later leads to a bad crash is deliberately encouraged. ... If such a collapse is to be avoided, the régime of cheap money must not be artificially prolonged.

...

I hope that what I have just said will make it quite clear that I am no friend of the view which holds that we can dispense with the use of the discount rate as an instrument of stabilisation. (*ibid.*)<sup>19</sup>

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<sup>18</sup> Moggridge (1992, p. 605) notes that the recommendations in this article then went on to 'serve as the basis for the Committee of Economic Information's 22nd report of February 1937, "Employment policy and the maintenance of trade activity"'.  
<sup>19</sup> Robertson's comments on this paper are of interest: "There is nothing in Professor Robbins's pages about the rate of interest with which in practice I disagree – neither in his defence of low money rates in the early phases of the present recovery, nor in his contention that the normal tendency of rates, both

In the meantime, Robbins had begun to engage constructively with the planning agenda. As he put it, “Reflecting ... on current developments in the world of reality, I decided upon an entirely new approach to the problem” (Robbins, 1971, p. 158). His consequent major work *Economic Planning and International Order* originated in lectures at the *Institut des Hautes Etudes Internationales* at Geneva in the summer of 1935.<sup>20</sup> The Preface indicated how far he had already come: “It has not been seriously suggested that there should be no plan, no order in society. The issue is not between *a* plan and *no* plan, it is between different kinds of plan” (Robbins, 1937b, p. 6). The title of the book indicates the scale of his vision.

Robbins characterised ongoing political and economic developments as nationalistic, in particular monetary reform and tariff policies. Keynes’s monetary nationalism was a particular case in point; an internationalist gold standard had been replaced by autonomous national policies: “of all forms of economic nationalism, monetary nationalism is the worst” (*ibid.*, p. \*\*). In a chapter entitled ‘International Money’, he was only partly inconclusive:

... [I]t is clear ... that control of *local* policy should be removed as far as possible from the influence of *local* governments; that, whatever their ultimate

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short and long, to harden as expansion proceeds should not now be resisted and may have to be actively reinforced. All the same, I am conscious of a certain difference of emphasis in my mind, both from Professor Robbins and from those [unnamed!] who, diagnosing differently from himself, have reached precisely the opposite conclusion that an increase in interest rates should be avoided like hell-fire. For both these parties are convinced that the rate of interest is supremely important ... The one party finds the ultimate villain of the piece in the extravagance of the human race, the other in its passion for keeping money safe; and their recipes for monetary policy diverge accordingly. ‘Let rates rise now,’ says Professor Robbins, ‘to prevent unwise planning; for the desire to spend is sure to make them rise later.’ ‘Keep rates down now,’ say his opponents, ‘lest if once you let them rise the desire to hoard prevent you from ever getting them down again.’ My judgement is, on the whole, with Professor Robbins; yet, even if he has his way, I hope for no great things” (Robertson, 1937, reproduced in 1966, p. 98).

<sup>20</sup> He was invited by William Rappard, “one of the truly great men of the inter-war period” (Robbins, 1937b, p. 159).

destiny, the different reserve systems should cease to be the instruments of monetary nationalism. The banking policy of the twenties, which sought to remove the central banks from the interferences of governments, was right. The banking policy of the thirties, which has been to bring them once more under government control, is wrong. The immediate objective of policy, therefore, must be to reverse this tendency. In a world free from monetary nationalism, the solution of the remaining problems of banking policy should not present insurmountable difficulties. (*ibid.*, pp. 304-5)

According to Opie, he pleaded only for return to some kind of Gold Standard:

Events since the war have convinced Professor Robbins that efforts to construct an international monetary federation *via* monetary nationalism are doomed to failure, and therefore he pleads for a return to some kind of gold standard. He is not dogmatic: indeed, with admirable frankness he says that “if we are honest, we must confess that ... our knowledge both of the desiderata and of the possible instruments of general monetary policy is so imperfect that, even within the context of the general liberal idea, it is not possible to speak with any certainty concerning the most desirable ultimate form of international banking institutions” (p. 304). (Opie, 1937, pp. 515-16)<sup>21</sup>

This ‘nationalism’ was set against his own vision for an international plan. He advocated the deconstruction of nations and the development of the necessary structures, institutions and frameworks that would permit international liberalism. The same plan:

... proceeded to exhibit economic liberalism as essentially involving a plan, a plan of a framework of law and order canalizing the spontaneous activities of producers into patterns conducive to the satisfaction of members of the community in their capacities as spenders, both private and public – a policy, however, which tended to be frustrated in the international sphere by the absence of any such framework and the dangers of inter-group conflict. (Robbins, 1971, p. 160)

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<sup>21</sup> The review singled out this discussion as “the best chapter in the book” (Opie, 1937, p. 515); Knox (1938, p. 597) saw it as “a particularly valuable part of the book”.

However, the following types of ‘interference’ or ‘planning’ *within* nations were rejected: protectionism, control of investment, monetary policy, restriction of migration, cartels and agreements affecting labour, wages and hours.

It has been argued that communism on an international scale must develop internal weaknesses which frustrate the achievements of its aims. But it has been argued, too, that liberalism exhibits none of these weaknesses and that an international liberal plan is conceivable which is technically workable and which is free from the manifest contradictions of other forms of planning. (Robbins, 1937b, p. 309)

In the final pages, Robbins warned that the nationalist vision, attributed explicitly to Keynes from his expressed desire to “... let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national”,<sup>22</sup> would lead to war.

In 1939 he published two major works that built on these themes.<sup>23</sup> The first, *The Economic Basis of Class Conflict*, had chapters that attacked protection, restriction, monopoly, agricultural planning and state planning of trade. He also reprinted ‘How to Mitigate the Next Slump’. But, the detailed point of most interest was his reproduction of a lecture delivered to the Stockholm Economics Society in *March 1936*. Perhaps for the first time, he indicated a more open-minded approach to public expenditure.

He conceded that

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<sup>22</sup> Published in the June 1933 (Vol. 22, no. 4) edition of *The Yale Review* under the title ‘National Self-Sufficiency’ (CW XXI, pp. 233-46).

<sup>23</sup> Curiously, his autobiography does not mention the title of the second work; but refers to the first as “the first part of a collection” (Robbins, 1971, p. 162).

[i]n the real world, however, this assumption of continuous and full employment does not hold, and there is reason to suppose that, even in a system much less hampered by friction than our own, things would still not work out that way. ... The question therefore arises whether variations of government expenditure may not be made to have, as it were, a damping effect on the variations of activity elsewhere. (Robbins, 1939a, pp. 214-15)

He proceeded to analyse the different effects of government expenditure on the 'income account' and the 'capital account'. On the former he remained "not altogether convinced" (*ibid.*, p. 217), but it could be resorted to "only as an emergency measure" (*ibid.*, p. 218). But on the latter: "... if we are dealing with a period of slack employment ... the borrowing is intended to have monetary repercussions favourable to the increase of general economic activity; and it may indeed have this effect" (*ibid.*, p. 219). However, in his closing summary he urged caution:

But I do not believe that there is usually a large place for obviously extraordinary expenditure. Of course, cases may arise where, in order to prevent complete deterioration of the position, in order to prevent complete cumulative deflation, measures of this sort may have to be adopted. ... But in general I believe that the scope for this sort of thing is much smaller than usually supposed. (*ibid.*, p. 235)

Robbins's discussion of the broader matter indicated by the title of the work, primarily in the opening essay, involved an implicit rejection of Marxist notions and his taking tentative steps to seeing class conflict arising from nationalistic struggles for economic ascendancy between nations.<sup>24</sup> Workers in one nation were seen as pitted against workers in another:

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<sup>24</sup> "The paper was first presented as part of a symposium on *Class Conflict and Social Stratification*, held under the auspices of the Institute of Sociology in the autumn of 1937" (*ibid.*, p. 3)

In the present organization of the world into different national groups, with its almost total prohibition of international migration, the interests of labourers in different parts of the world are often violently opposed to each other” (*ibid.*, pp. 17-18).

In a later chapter, he was more specific:

A world in which the movement of goods, of money and of people is restrained and impeded by international organization, a world in which the national states separately organize economic processes which are essentially anational, is a world in which the achievement of the international ideal, whether on socialist or liberal lines, is more distant even than it is at present. (*ibid.*, pp. 208-9)

In *The Economic Causes of War*, these struggles were found to be at the root of not just the class conflict but of war. Again the book was based on lectures delivered in Geneva (in Spring 1939); he motivated the discussion using E. M. Forester:

“Bourgeois born in my fifties”, writes Mr. E. M. Forester, “I feel that communism will submerge all the things I have learnt to love. But I am deeply impressed by the communist argument which ascribes war to the capitalist system and I feel the hysteria which prevents people from examining this argument ... is most discreditable” (*Time and Tide*, November 23<sup>rd</sup>, 1935). [REF]

In the final chapter, ‘the ultimate cause of international conflict’ was first identified as restrictive trade. But he moved on: “The Ultimate condition giving rise to those clashes of national economic interest which lead to international war is the existence of independent national sovereignties” (Robbins, 1939b, p. 99). The final section of the chapter looked to “The United States of Europe” as providing an appropriate institutional structure for the international planning that could bring an end to war. “There must be an international framework of law and order, supported by

solid sanctions which prevent the emergence of those policies which are eventually responsible for conflict” (*ibid.*, pp. 104-5).<sup>25</sup>

## 6. The emergence of ‘Keynesian economics’ in W.W. II Britain

In war, Robbins would help adjudicate over the extent of the implementation of *domestic* planning and fiscal policy in Britain. According to Harrod (1972, p. 592), Robbins was recruited onto the Economic Section of the Cabinet Office by Mr Francis Hemming, assistant secretary to Arthur Greenwood, Minister without Portfolio and previously an official on the Economic Advisory Council.<sup>26</sup> In Autumn 1941 Robbins succeeded John Jewkes as the head of the Economic Section.

The precise genesis of the Employment White Paper is not wholly clear. Robbins (1971, p. 186) had Jewkes as instigator, with James Meade making the early running (though Robbins adds that Meade had thought about the subject “at an earlier stage”).<sup>27</sup> He portrayed his own role as follows: “... my part was a very modest one. I can claim no credit in the initiation of the Meade paper, which was due to Jewkes; nor did I contribute to the basic ideas as they evolved” (*ibid.*, p. 188). Howson shows that Robbins re-drafted Meade’s early efforts (“after all that he has had to put up with [by

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<sup>25</sup> It should be emphasised that the lectures were presented in spring 1939. Robbins acknowledged that “We are fighting Germans” and that “The Nazis must be Extirpated” (*ibid.*, p. 109). He closed the book: “What more appropriate outcome of our present agonies, therefore, what more fitting consecration of the blood which is being shed, than a peace into which this great people [the Germans], purged of its devils, shall be coerced into free and equal citizenship of the United States of Europe” (*ibid.*).

<sup>26</sup> Robbins was not impressed by Hemming; see Robbins (1971, pp. 171-2).

<sup>27</sup> Meade (1907-1995) was originally based in Oxford, but had worked quite closely with Keynes’s Cambridge colleagues over the 1930s (and made contributions to discussions as the *General Theory* was being developed). Before he moved to Whitehall, from 1937 to 1940, he worked at the League of Nations.

way of criticism] from us, it would have been a last indignity to ask J.E.M. to do this”, Howson, 2000, p. F129). The *Employment White Paper (EWP)* was published in 1944.

Robbins had become a ‘Keynesian’; he explained the extent of his conversion in his autobiography as follows:

... if all that is involved by that description is a conviction that, in a free society, the fluctuations of aggregate demand must not be left to look after themselves and that it is an important function of government, national or international, to pay attention to such matters, that indeed was my position. (Robbins, 1971, p. 188)

He may have become a ‘Keynesian’, but he continued to oppose Keynes’s monetary policy. This was in spite of the further official consolidation of his interest rate policies. With the end of the ‘phoney war’, Keynes had returned to HM Treasury and became directly involved in the implementation of the policies that he had long advocated. Over the next years the authorities developed the specific instruments and mechanisms that permitted the full control of interest that Keynes had long seen as possible, in particular (and see Annex 2):

- the ‘tap issue’ policy for government debt sales and extending the range of securities on offer; and
- the extension of floating debt facilities through the introduction of Treasury Deposit Receipts (TDRs).

Along with the ongoing freezing of the discount rate, capital control and full exchange control, these facilities enabled the authorities to manage the ‘three per cent

war' with ease. Keynes's theory had been vindicated: it had been proven that the rate of interest could be controlled; moreover, that control had been achieved under the most severe financial conditions imaginable.

But the (Cabinet Office) *Employment White Paper* was decidedly lukewarm to these (HM Treasury) developments. In particular, cheap money was portrayed as a transitory policy. Keynes's (mainly private) comments on these policy deliberations reveal some disagreement.<sup>28</sup>

The 1945 National Debt Enquiry (NDE) appears to have been set up to reconcile the views of the authors of the White Paper and HM Treasury economists and civil servants. Comprised of senior civil servants and Keynes, Robbins and Meade from the economic side, it met in April and May 1945. Sir Richard Hopkins, the war-time Permanent Secretary to HM Treasury, drafted the Report.<sup>29</sup> The remit of the Enquiry was presented as follows: "We were asked to define more closely an appropriate Treasury policy in regard to cheap money with particular reference to statements in the White Paper on Employment Policy" (NDE Report, para. 2). The relevant statements from the *EWP* were cited as follows:

3. *Employment White Paper references.* The principal reference in the White Paper is as follows:

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<sup>28</sup> In May 1943, on receiving Meade's preliminary work, Keynes was perceptive: "I think you lay too much stress on cure and too little on prevention" (CW XXVII, p. 326). But when the paper was published, observations in his briefing for the Chancellor indicate that he did not appreciate the underlying rejection of monetary reform, though they do reveal a degree of bafflement: *Criticism*. Reference to interest rates in Paragraph 59 has been subject to criticism in some quarters of the Press. It is said that whilst we are promised a continuance of the cheap money policy for the time being, we are threatened with a reversal of it at some later date. *Answer*. I have never myself been able to make much sense of that paragraph ... (CW XXVII, p. 375).

<sup>29</sup> The National Archives, Public Record Office, Treasury file T230/95; minutes are on T230/94.

“58. In ordinary times the volume of capital expenditure is influenced by movement in the rate of interest. If the cost of borrowing money is high, some projects which are not profitable at that rate will be held back. When it falls again, those projects will be brought forward and others will also be taken in hand.

59. For some time after the end of the war it will be necessary, as explained in paragraph 16, to maintain a policy of cheap money. Thereafter, the possibility of influencing capital expenditure by the variation of interest rates will be kept in view. The experience gained since 1931 of co-operation in this field between the Treasury and the Bank of England and the Joint Stock Banks will make it possible to operate a concerted and effective monetary policy designed to promote stable employment.

60. Monetary policy alone, however, will not be sufficient to defeat the inherent instability of capital expenditure. High interest rates are more effective in preventing excessive investment in periods of prosperity than are low interest rates in encouraging investment in periods of depression.”

4. Paragraph 16, referred to in paragraph 59, includes the following:

“(d) The use of capital will have to be controlled to the extent necessary to regulate the flow and direction of investment. Heavy arrears of capital expenditure on buildings, plant and equipment have to be overtaken, and construction on new development must begin. Without control, therefore, there would be a scramble to borrow, leading to a steep rise in rates of interest. The Government are determined to avoid dear money for these urgent reconstruction needs. In this period, therefore, access to the capital market will have to be controlled in order to ensure the proper priorities.”

The conclusions of the enquiry were summarised in the report as follows:

6. *General desirability of low rates.* There is a wide measure of agreement, though not complete unanimity, in the present Committee in the view that on the whole, subject to the qualification dealt with in paragraphs 11 to 15 below, the desirable ideal for this country for a long time to come is not merely the continuance but even the reduction of the existing relatively low levels of interest rates both for long term and for short.

25. *General Conclusion.* We have been led to form a series of views not completely consistent with the brief references to the matter in the Employment White Paper. Rather we say that the White Paper ought to mean that, subject to uncertainties as to the extent to which and the conditions in which moderate fluctuations should be admitted, (which uncertainties need not

be brought too much into the open), the object of Government should be to maintain low interest rates, long and short, for as far ahead as can reasonably be the subject of discussion – certainly far beyond the transitional period. ...

The actual debate at the Enquiry (recorded in the minutes) brought the different views into sharper relief. On the one hand, most Enquiry members purported to agree with the theory and policy that Keynes had articulated:

Prof. Robbins ... confirmed that the doctrinal analysis was one with which he (in common with most other professional economists at the present time) agreed. (PRO File T230/94, p. 220)

Mr Meade concluded by saying that he entirely agreed with the practical suggestions put forward by Lord Keynes. (*ibid.*, p. 121)

On the other hand, a divergence of views about the implications for future policy remained apparent:

Mr. Meade, while agreeing with Lord Keynes in his general analysis, preferred to lay more emphasis on the importance of keeping interest rates down when we are entering a period of possible stagnation, with a view to lowering the cost of socially desirable public and semi-public investment. (PRO file T160/1408, p. 119)

But he [Prof. Robbins] felt that there should be a certain flexibility. ... During the transitional period, if the physical controls were to crumble, there might be a case for a slight upward movement of rates; ... [and] expressed some uncertainty about his proposals regarding short term rates ... It might well happen that, if the leading nations were for political reasons to put the Trade Unions in a strong position, this would lead to a rise in wage-rates and in the general level of prices, resulting in an upward pressure on interest rates. (PRO File T230/94, p. 220)

While conceding non-unanimity, the *Report* was in line with Keynes's views. And with the post-war general election victory of the Labour Government, the policy was brought into practical effect. On 7 November 1946 the *Financial Times* reported:

Cheap money policy, born of a depression, having survived a world war, is now regarded, not as a short lived device to overcome a temporary decline in prosperity, but as a permanent weapon for state regulation ... So long as the government remains determined to push its cheap money policy to the limit, long-term prospects for the rentier are anything but cheerful.

## 7. Post-War Domestic Policy

Robbins never abandoned his opposition to cheap money policy and his support for an active discount rate policy. Immediately after the war, he (alongside other key members of the academic economics profession) vigorously opposed Dalton's cheap money policy. But he proclaimed his conversion to the necessity of managing demand through government expenditure (as well as interest rate manipulation).

The literature has tended to concentrate on the 'failure' of the Labour Government to go beyond the immediate conclusions of the NDE and to establish a long-term rate of interest of 2½ per cent.<sup>30</sup> But, as noted, the opposition was more fundamental. It seemingly began with Robbins's 'Marshall Lecture', delivered in May 1947, that has become more notorious for his "announc[ing] his conversion to full employment policies via the control of aggregate demand, although it is not clear that he became a Keynesian" (Corry, 1987, p. 207).

But, in the lecture, he raised inflation and monetary policy considerations. Seeing "the threat of inflation" (Robbins, 1947, p. 59) following from capacity constraints and the prevailing full employment, he argued "the first requirement of policy is that we should get this dropsy out of our system" (*ibid.*, p. 61). He later

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<sup>30</sup> E.g. Howson (1993), which rightly absolved Keynes from blame for this policy (p. 152).

regretted his slightly moderate stance,<sup>31</sup> but listeners can have been in little doubt about the general direction in which he thought monetary policy should take:

How is this to be done? Contrary, perhaps, to your expectations, I am not prepared here and now to recommend a rise in interest rates. I say this, not because I believe that the interest structure, properly manipulated, cannot be a most potent instrument for regulating the rate of investment and for allocating supplies of capital, but because I fear the effect on the budget of a rise which, in present circumstances, would be sufficiently great to be effective.

...  
... I would like to observe *en passant* that I do not think the situation has been made any easier by the policy of trying to force the rate of interest down – a policy which, I am clear, does not flow from Keynesian prescriptions. (*ibid.*, pp. 61-2)

Instead he looked to the removal of some controls, the tightening of public expenditure, budgeting for surplus and an increase in purchase tax. His celebrated conversion to ‘Keynesianism’ was announced as follows:

Whatever we may think of the virtues of the price system as a mechanism of allocation, ... I am quite clear that as an instrument for maintaining reasonable constancy of *aggregate demand* it has most profound limitations (*ibid.*, p. 67).

... I favour something which, if you like, you can call over-all financial planning. At the beginning of each appropriate period the government should make estimates of both the amount of expenditure (consumption plus investment) which is needed to maintain aggregate demand on a more or less even keel and of the amount of expenditure which is likely to be forthcoming. Then if there is a discrepancy between the two ... it should seek, by whatever measures seem appropriate in that particular situation, to cause it to disappear. In the sector of public investment (which is henceforward likely to be large) it will have to plan in the current sense of the term ... The sector of public consumption ... is likewise susceptible to direct control. At the same time in the private sectors, both of investment and consumption, there are available a considerable number of indirect controls, chiefly of a fiscal nature, which can be used, at discretion, to supplement these more direct measures. (*ibid.*, p. 68-9)

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<sup>31</sup> “I did not urge they should go up. I now think that this was wrong and I missed an opportunity of recommending what, at that time, would have been a better policy” (Robbins, 1971, p. 225).

He claimed indebtedness to “Cambridge economists, particularly to Lord Keynes and Professor Robertson, for having awakened me from dogmatic slumbers” (*ibid.*, p. 68).

Other economists quickly backed him, dwelling on monetary policy and moving towards a harder line. With confidence paramount to cheap money, their stance must have greatly undermined what the government was seeking to achieve – be it cheap or cheaper money.

In the June 1947 *Economic Journal* Hicks raised the spectre of inflation and looked to arguments for the re-assertion of interest-rate policy as a stabilisation tool. Henderson followed up with an alarmist piece in the next issue. In ‘Cheap Money and the Budget’, he maintained that the pressure of aggregate demand could not “be allowed to persist indefinitely without disaster” (Henderson, 1947, p. 265). He sought to undermine both the feasibility and the purpose of Dalton’s cheap-money policy:

A few months ago there was a disposition among financial experts to lay much if not most of the blame for this over-strong aggregate demand upon the cheap money policy of the Chancellor of the Exchequer. ... Well, my personal opinion is that the cheap money policy has only been a very minor factor in the inflationary complex, so unimportant relatively to other factors as to be scarcely worth considering; and yet I am convinced that Mr. Dalton has carried this policy much too far. I do not believe that it will be possible to keep interest rates down over the next few years at anywhere near the low level of a few months ago; and I fear that it will prove that in trying to establish a long-term rate of 2½ %, or even less, Mr. Dalton may have missed the opportunity of turning a large part of what is now either floating or comparatively short-term debt into really long-dated securities on a 3% basis.

I see no good reason to suppose that the strength of demand in the general economic system would be materially reduced by somewhat tighter conditions in the money market, or by somewhat higher interest rates, whether short or long. I do not believe that a single industrialist or trader would be deterred thereby from a single act of real investment, whether this be the purchase of additional stocks of materials or the renewal or extension of his plant. (*ibid.*, pp. 265–6)

Then in December 1948 Robertson delivered a lecture at *the Institut de Science Economique Appliquée* in Paris that attempted to give – indeed, gave? – the *coup de grace* to Keynes’s theory of interest. Under the title ‘What has Happened to the Rate of Interest?’, he re-asserted his own position with regard to the practical and theoretical importance of the rate of interest and to the appropriate theory of interest.

In the nineteen-thirties, under the first impulse of Keynes’s work, the rate of interest was elevated to a position of commanding theoretical importance. ... it became, as never before, the keystone of the whole theoretical arch. But it also became the villain of the piece, and a very powerful villain. It was the dragon guarding the cave of “liquidity preference” – of the ineradicable urge of capitalist society to run for cover and to play for safety; it became the rock against which the waves of social improvement beat in vain. Nowadays – I am still talking about high-brow opinion – things seem to have altered in two ways. The rate of interest has come to be regarded as of less importance in the causal nexus, its high reclame of the nineteen-thirties savouring too much, to the modern taste, of an obsolescent economics of price. And at the same time it has come to be regarded as less powerful in practice and more vulnerable to attack ...

...  
I think the rate of interest, in what Marshall once called its “strict sense”, is the price of the use of loanable or investable funds, and is governed like other prices by the interaction of schedules of supply and demand. (reprinted in Robertson, 1966, pp. 188–9)

In parallel, the mechanisms that Keynes put in place were gradually dismantled. Treasury Deposit Receipts were withdrawn, the tap issue mechanism was discontinued and in 1951 Bank rate was reactivated as an instrument of demand management.

Robbins remained a steadfast opponent of cheap money for the rest of his life. His autobiography gave an extreme characterisation of Dalton’s policy, portraying the “ultra-cheap money policy” as “disastrous” (Robbins, 1971, p. 211). In his 1981

Richard Ely Lecture to the American Economic Association, perhaps echoing his *Essay*, he reminded the economics profession of his long-held stance:

I should have thought that one of the main practical functions of economic science was to enable us to detect inconsistencies in plans, such as, for instance, simultaneous demands for low interest rates brought about by increases in the size of the credit base and a diminution of inflation. (Robbins, 1981, p. 2)

## **8. The international monetary environment**

Robbins's views of international financial architecture bring matters full circle. In his autobiography, he celebrated Keynes's plan for an International Clearing Union (ICU):

For those of us who cherished the belief that the outcome of war might eventually permit an innovation of benevolent international institutions, it became as it were a banner of hope, an inspiration to the daily grind of war-time duties" (Robbins, 1971, p. 196).

But his other contributions suggest that he remained supportive of currency mechanisms that restricted the amount of international credit. O'Brien observed:

When this [the ICU] was rejected by the conference, he was disappointed, but he later became a strong supporter of the IMF system and accepted that Keynes's plan would have been inflationary (*Hansard*, 29 March 1961, vols. 79–82). (O'Brien, 1988, p. 117)

Indeed, even in his 1947 Marshall Lecture, Robbins was looking back to a world of commodity standards:

And if I may admit to what may prove to be the pursuit of an entirely false scent, I will confess that at times I have felt very interested in the suggestions, thrown out by Messrs. Frank and Benjamin Graham, for stabilizing the price level of certain storable commodities by a device which is essentially an extension of Marshall's symmetallism. If such a scheme were in fact administratively practicable on an international scale, I can see the possibilities of mitigating world booms and slumps which certainly would be very attractive. (Robbins, 1947, p. 73)

In Summer 1954, he presented a series of lectures on international financial policy at the Instituto Brasileiro de Economia in Rio de Janeiro, published as *The Economist in the Twentieth Century*. He re-asserted classical themes: any dollar shortage followed from

... disequilibrium in the balance of payments of non-dollar powers, the persistence of these influences is to be attributed in a very substantial measure to monetary influences operating on the same side – to the unwillingness of the deficit countries to curb their local inflations. (Robbins, 1954, p. 55)

For the control of inflation (which “ha[d] not been kept within desirable limits”, *ibid.*, p. 74), he was an early advocate of monetarist policies supporting fiscal policies. “*The important thing is the control of the credit base – in other words, direct control of the quantity of money in the sense in which it is convenient to define it*” (*ibid.*, p. 76, Robbins's emphasis). And ultimately he did not abandon the Gold Standard:

The history of the Classical Gold Standard is punctuated by episodes of local breakdown; ...

Nevertheless, I venture to suggest that it is possible to exaggerate the difficulties and disadvantages. (*ibid.*, p. 89)

He remained an opponent of free exchange rates as “the antithesis of a liberal economic arrangement” (O’Brien, 1988, p. 118).

## **9. Conclusion**

There can be little doubt that Robbins’s position – or the position he lent support to – prevailed. Today, a sentence from his *Essay* defines economics and policy aims the discount rate at inflation. The European Union is a reality, with a monetarist stance and fiscal austerity. The Euro was forged in a shape similar to the gold standard; as Chick (1997) has pointed out, the ills of Britain’s flirtation with the Exchange Rate Mechanism were entirely predictable from the experience of the 1920s. All of these policies are based on theories presented as fact and not open to substantial challenge. All of them entirely discard what Keynes was trying to achieve and his theoretical conclusions about the operation of a free market economy. The intensity of the monetary policy debate through the 1920s-40s has been air-brushed out of economic and social history.

Paramount in this state of affairs has been the re-invention of Keynes as the great advocate of fiscal not monetary policies, even as rejecting any effectiveness of monetary policy. The conventional wisdom on Robbins is coherent with this fiction. Monetary policy is scarcely mentioned and the substance of the discussion concerns only his approach to state intervention given his generally undimmed support for liberalism.

My own pre-occupation is the recovery of Keynes as a monetary economist who was concerned primarily with monetary reform. The reconstruction of the nature of his relations with Robbins is very instructive. Robbins joined a long tradition of opposition to monetary reform. He asserted classical economics as fact, yet in practice, as with virtually the whole of the inter-war and post-war economics profession, he proved flexible over state intervention. He did not engage with Keynes on a theoretical level. Like Hayek, he did not rise to the technical challenge of the *General Theory*, but instead attacked it using political economy of a crude and surely highly contentious nature.

The *General Theory* led to certain practical conclusions, most fundamentally that nation states should aim monetary policy at low interest rates across the spectrum. Other policies should be subservient to this basic principle. Dear money was the cause of high unemployment and the economic cycle. If Keynes's policy amounted to economic nationalism, then, so long as high and stable employment is the goal, so be it. If the theory too leads to a more restrictive trade policy, then likewise.

Robbins's stance exemplifies the approach of the economics profession to Keynes's theory: first to reject it out of hand and later to transform it into something they had the gall to call Keynesianism. In this way Keynes's theory was simply set aside. Robbins was one of many that built the alternative theory; and, despite his denials, seems highly likely to have been instrumental in its practical implementation in Britain through his wartime role. He then stood by as Keynes became identified with that 'Keynesian' theory and policy.

The post-war era, however, did have the virtue of relatively low interest rates. Policymakers may have quickly dismantled the recommendations of the NDE, but capital controls, permitted under the Bretton Woods agreement, did facilitate fairly cheap money and the golden age of economic activity. With financial liberalisation, effected between 1970 and 1980 (roughly), the world returned entirely to the doctrines of the gold standard world – to Robbins’s world. If my interpretation of economics is correct, this return has not been costless. Economic activity has been artificially restrained yet is increasingly exposed to the consequences of the waves of exuberance that are presently being described by Alan Greenspan.

I am grateful to the organisers of this conference for this opportunity to revive interest in these debates over monetary reform. I believe that the debt and capital-market inflations that characterise the world economy today are an indication of the highly dangerous course of not avoiding dear money “as we would hell-fire”. In the wake of recent credit market crises, tentative steps are being taken toward what I believe will become a fifth grand monetary discussion.

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## Annex 1    The start of Monetary Reform

Keynes's memorandum of 16 November 1931, 'Notes on the Currency Question', constituted a detailed discussion of exchange policy and formed the basis for the discussions of the sub-Committee on Financial Questions, which he joined on 26 November 1931. There were four lines of policy change, all shifting control of monetary policy to the Treasury from the Bank of England.

- i.     The Exchange Equalisation Account (EEA), which put into effect the currency management policies that Keynes had long advocated, was announced in the April 1932 Budget. Under its arrangements, the sterling exchange rate was to be managed by intervention in the foreign exchange markets rather than by manipulation of Bank rate. The arrangements involved a supplementary fund of £150,000,000.<sup>32</sup>

Over the next months the 'Sterling Area' came into existence, as country after country left the gold standard, adopted currency management arrangements and pegged their exchange rates to sterling. Even as early as June 1932, Richard Hopkins<sup>33</sup> was observing how the 'greater part of the world' had 'managed exchange currencies'.<sup>34</sup>

- ii.    Bank rate was increased sharply when Britain left gold, an operation perceived as necessary in the absence of the assurance of gold (Figure 1). The sub-committee took the opposite view and promoted a reduction in rates. On 18 February 1932, a cut of Bank rate to 5 from 6 per cent marked the start of the cheap-money policy and the start of Keynes's material impact on economic policy. With the freedom of domestic monetary action permitted by the EEA, further Bank rate cuts followed rapidly. As Figure A1 shows, economic activity in the 1930s and 1940s was subsequently conducted at a Bank rate of 2 per cent.

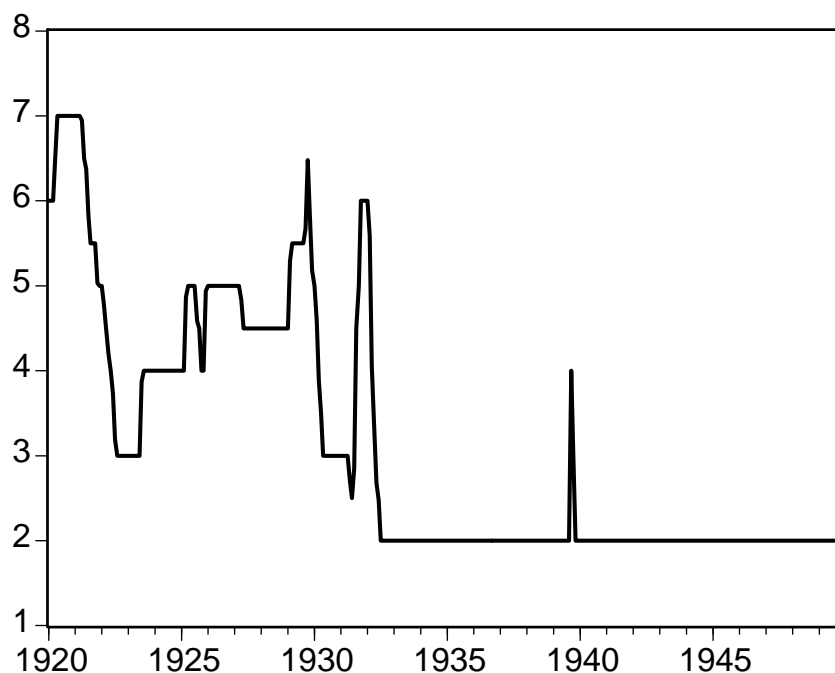
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<sup>32</sup> Four per cent of 1931 GDP.

<sup>33</sup> Richard V. N. Hopkins; at the time the Second Secretary to HM Treasury; Permanent Secretary to HM Treasury from 1942–45.

<sup>34</sup> Source: The National Archives: Public Record Office (PRO) file T 175/157.

Figure A1: British Bank rate, 1920-50

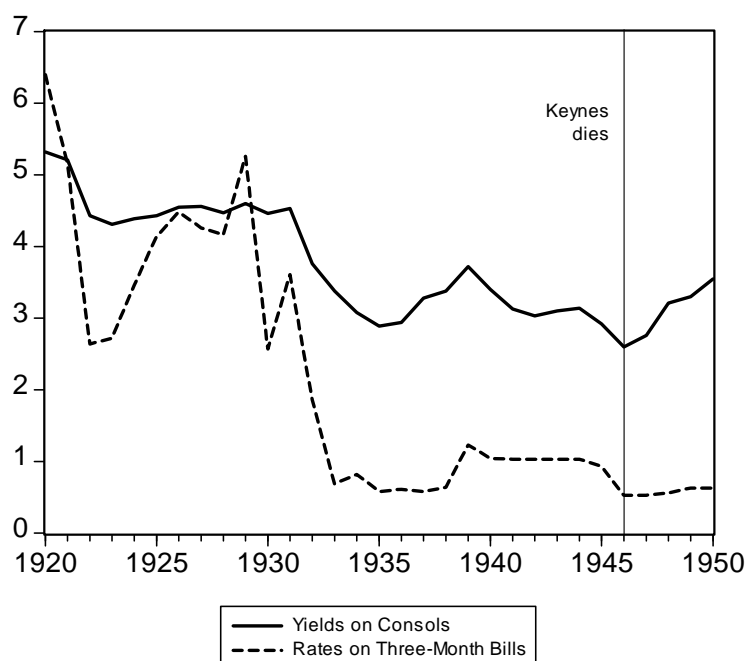


- iii. As seen, Keynes's developing theoretical perspective gave the greatest importance to the long-term rate of interest. In July 1932, the authorities' faith in this notion was indicated by the conversion of the War Loan from 5 to 3½ per cent. The operation was announced in the House of Commons on 30 June and was accompanied by the final cut of Bank rate to 2 per cent and by the introduction of an embargo on overseas loans (see below). Keynes published an analysis of the operation in the September 1932 *Economic Journal*.

A reduction of the long-term rate of interest to a low level is probably the most necessary of all measures if we are to escape from the slump and secure a lasting revival of enterprise. The successful conversion of the War Loan to a 3½ per cent basis is, therefore, a constructive measure of the very first rate importance. For it represents a direct attack upon the long-term rate, much more effective in present circumstances than the indirect attack of cheap short-term money, useful and necessary though the latter is. (CW XXI, p. 114)

He went on to recommend other measures aimed at ensuring that the effect of the conversion was not just a 'flash in the pan'. In particular, he argued for the extension of the range of securities that the Government issued: 'It is important that the market should be supplied with securities of different types and maturities in the proportions in which it prefers them' (CW XXI, p. 115); specifically he advocated the issue of '... a shortdated bond at a lower rate of interest than 3½ per cent some time in the autumn or winter' (CW XXI, p. 116).

Figure A2: Interest rates on British Government bonds and bills, 1920-50



Source: Friedman and Schwartz (1982, Table 4.9)

- iv. Lastly, the manoeuvres on long-term rates of interest were supported by what was known at the time as the ‘embargo on overseas loans’. This capital control policy remained in force for roughly the next 50 years. The issue of a low interest rate long-term bond in Britain was aided by preventing British investors purchasing higher-rate instruments issued by other countries.

Over the next years much of the world was taking a similar approach to monetary policy: cheap money, supported by exchange management and capital control. In October 1936, Britain, the United States and France signed a ‘Tripartite Agreement’, committing mutual exchange support if necessary. The main exceptions to this approach were the totalitarian economies.

## **Annex 2 Debt management policy in W.W.II**

The following monetary and debt management mechanisms operated during W.W.II:

- the ‘tap issue’ policy for government debt sales and an extension of the range of securities on offer. Rates of interest and maturities were announced but no limits were set to the cash amount of any issue. The ‘tap’ of any bond was held open so that individuals and institutions could purchase when and whatever quantities they desired (a notice read ‘subscriptions will be received on Tuesday, 25th June, 1940, and thereafter until further notice ...’). The technique was first introduced for the June 1940 wartime issue of 2½ per cent medium-term bonds (known as National War Bonds) and then for the subsequent issue of 3 per cent long-term bonds (known as Savings Bonds);
- a change in the approach to the floating debt, including an extension of the instruments on offer. Setting long-term rates of interest meant accepting a large increase in the volume of floating debt (see Tily, 2006). Treasury Deposit Receipts (TDRs) were introduced, which had a six-month maturity and slightly higher interest rate than Treasury bills. These were not reservable against cash at the central bank, to help ensure that the increase in floating debt did not lead to excessive credit creation;
- Bank rate remaining unused as an instrument of day-to-day monetary policy; and
- from the perspective of the international environment, domestic monetary policy was supported by the ongoing embargo on overseas loans and full exchange control.